Dey Eric
Form 4
September 06, 2012

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
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Dey Eric

(Last) (First) (Middle)

5445 TRIANGLE PARKWAY, SUITE 400

(Street)

NORCROSS, GA 30092

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FLEETCOR TECHNOLOGIES INC [FLT]

3. Date of Earliest Transaction (Month/Day/Year)
09/04/2012

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

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
CFO & Secretary

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 (1)	09/04/2012		S		20,000	D	$ 43.02	51,739	D	

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

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

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 Security	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 (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Dey Eric 5445 TRIANGLE PARKWAY SUITE 400 NORCROSS, GA 30092			CFO & Secretary	

Signatures

/s/ Sean Bowen, under power of attorney	09/06/2012
** 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) Pursuant to 10b5-1 Sales Plan

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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%

5.0

%

Hilltop

1,680,364

12.53

%

4.0

%

4.0

%

N/A

Common equity Tier 1 capital (to risk-weighted assets):

PlainsCapital

1,183,447

13.90

%

6.375

%

7.0

%

6.5

%

Hilltop

1,634,978

16.58

%

6.375

%

7.0

%

N/A

Tier 1 capital (to risk-weighted assets):

PlainsCapital

1,183,447

13.90

%

7.875

%

8.5

%

8.0

%

Hilltop

1,680,364

17.04

%

7.875

%

8.5

%

N/A

Total capital (to risk-weighted assets):

PlainsCapital

1,245,177

14.63

%

9.875

%

10.5

%

10.0

%

Hilltop

1,722,602

17.47

%

9.875

%

10.5

%

N/A

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Broker-Dealer

Pursuant to the net capital requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Hilltop Securities has elected to determine its net capital requirements using the alternative method. Accordingly, Hilltop Securities is 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 March 31, 2019, the net capital position of each of the Hilltop Broker-Dealers was as follows (in thousands).

	Hilltop Securities	HTS Independent Network
Net capital	$ 221,082	$ 3,028
Less: required net capital	9,722	250
Excess net capital	$ 211,360	$ 2,778
Net capital as a percentage of aggregate debit items	45.5 %	
Net capital in excess of 5% aggregate debit items	$ 196,777	

Under certain conditions, Hilltop Securities 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 March 31, 2019 and December 31, 2018, the Hilltop Broker-Dealers held cash of $156.9 million and $134.0 million, respectively, segregated in special reserve bank accounts for the benefit of customers. The Hilltop Broker-Dealers were not required to segregate cash and securities in special reserve accounts for the benefit of proprietary accounts of introducing broker-dealers at March 31, 2019 or December 31, 2018.

Mortgage Origination

As a mortgage originator, PrimeLending and its subsidiaries are subject to minimum net worth and liquidity requirements established by HUD and GNMA, as applicable. On an annual basis, PrimeLending and its subsidiaries submit audited financial statements to HUD and GNMA, as applicable, documenting their respective compliance with minimum net worth and liquidity requirements. As of March 31, 2019, PrimeLending and its subsidiaries' net worth and liquidity exceeded the amounts required by both HUD and GNMA, as applicable.

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.

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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

	March 31, 2019	December 31, 2018
Statutory capital and surplus:		
National Lloyds Insurance Company	$ 62,106	$ 78,637
American Summit Insurance Company	18,641	17,908

	Three Months Ended March 31,	
	2019	2018
Statutory net income:		
National Lloyds Insurance Company	$ 3,417	$ 3,767
American Summit Insurance Company	417	889

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 March 31, 2019, 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 March 31, 2019, the Company's insurance subsidiaries' RBC ratio exceeded the level at which regulatory action would be required.

17. Stockholders’ Equity

Dividends

During the three months ended March 31, 2019 and 2018, the Company declared and paid cash dividends of $0.08 and $0.07 per common share, or $7.5 million and $6.7 million, respectively.

On April 25, 2019, the Company announced that its board of directors declared a quarterly cash dividend of $0.08 per common share, payable on May 31, 2019, to all common stockholders of record as of the close of business on May 15, 2019.

Stock Repurchase Program

In January 2019, the Hilltop board of directors authorized a new stock repurchase program through January 2020, pursuant to which the Company is authorized to repurchase, in the aggregate, up to $50.0 million of its outstanding common stock, inclusive of repurchases to offset dilution related to grants of stock-based compensation. The Company's stock repurchase program and related accounting policy are discussed in detail in Note 1 and Note 22 to the consolidated financial statements included in the Company's 2018 Form 10-K.

18. 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 Bank's net interest margin. PrimeLending has interest rate risk relative to interest rate lock commitments ("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") and Eurodollar futures. Additionally, PrimeLending has interest rate risk relative to its MSR asset and uses derivative instruments, including interest rate swaps and U.S. Treasury bond futures and options 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. Additionally,

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Hilltop Securities uses both U.S. Treasury bond and Eurodollar futures to hedge changes in the fair value of their securities.

Non-Hedging Derivative Instruments and the Fair Value Option

As discussed in Note 4 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 and forward commitments 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 $18.2 million and $10.0 million during the three months ended March 31, 2019 and 2018, respectively. These changes in fair value are attributable to changes in the volume of IRLCs, mortgage loans held for sale, commitments to purchase 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 4 to the consolidated financial statements. The fair values of the Hilltop Broker-Dealers' and the Bank's derivative instruments are recorded in other assets or other liabilities, as appropriate. The fair values of the Hilltop Broker-Dealers' derivative instruments decreased $1.8 million and $5.2 million during the three months ended March 31, 2019 and 2018, respectively, while the fair values of the Bank's derivative instruments decreased $0.1 million and increased $0.1 million during the three months ended March 31, 2019 and 2018, respectively.

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

	March 31, 2019		December 31, 2018	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Derivative instruments:				
IRLCs	$ 1,165,947	$ 29,860	$ 677,267	$ 17,421
Customer-based written options	31,200	(9)	31,200	(49)
Customer-based purchased options	31,200	9	31,200	49
Commitments to purchase MBSs	2,506,084	11,677	2,359,630	10,467
Commitments to sell MBSs	4,040,254	(18,108)	3,711,477	(19,315)

Interest rate swaps	7,735	21	15,104	82
U.S. Treasury bond futures and options (1)	373,900	—	367,200	—
Eurodollar futures (1)	912,000	—	104,000	—

(1) Changes in the fair value of these contracts are settled daily with the respective counterparties of PrimeLending and the Hilltop Broker-Dealers.

PrimeLending had cash collateral advances totaling $13.1 million and $11.9 million to offset net liability derivative positions on its commitments to sell MBSs at March 31, 2019 and December 31, 2018, respectively. In addition, PrimeLending and the Hilltop Broker-Dealers advanced cash collateral totaling $3.5 million and $3.4 million on U.S. Treasury bond futures and options and Eurodollar futures at March 31, 2019 and December 31, 2018, respectively. These amounts are included in other assets within the consolidated balance sheets.

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

19. 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 Not Offset in the Balance Sheet		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented in the Balance Sheet	Financial Instruments	Cash Collateral Pledged	Net Amount
March 31, 2019						
Securities borrowed:						
Institutional counterparties	$ 1,540,803	$ —	$ 1,540,803	$ (1,491,092)	$ —	$ 49,711
Interest rate options:						
Customer counterparties	9	—	9	—	—	9
Interest rate swaps:						
Institutional counterparties	43	—	43	—	—	43
Reverse repurchase agreements:						
Institutional counterparties	65,205	—	65,205	(64,818)	—	387
Forward MBS derivatives:						
Institutional counterparties	11,684	—	11,684	(11,684)	—	—
	$ 1,617,744	$ —	$ 1,617,744	$ (1,567,594)	$ —	$ 50,150
December 31, 2018						
Securities borrowed:						
	$ 1,365,547	$ —	$ 1,365,547	$ (1,307,121)	$ —	$ 58,426

Institutional counterparties										
Interest rate options: Customer counterparties		49		—		49		—	—	49
Interest rate swaps: Institutional counterparties		88		—		88		—	—	88
Reverse repurchase agreements: Institutional counterparties		61,611		—		61,611		(61,390)	—	221
Forward MBS derivatives: Institutional counterparties		10,469		—		10,469		(10,469)	—	—
	$	1,437,764	$	—	$	1,437,764	$	(1,378,980)	$ —	$ 58,784

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

	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
March 31, 2019						
Securities loaned:						
Institutional counterparties	$ 1,408,636	$ —	$ 1,408,636	$ (1,366,198)	$ —	$ 42,438
Interest rate options:						
Institutional counterparties	9	—	9	—	—	9
Interest rate swaps:						
Institutional counterparties	22	—	22	—	—	22
Repurchase agreements:						
Institutional counterparties	504,537	—	504,537	(504,537)	—	—
Customer counterparties	56,188	—	56,188	(56,188)	—	—
Forward MBS derivatives:						
Institutional counterparties	18,615	(501)	18,114	(12,275)	—	5,839
	$ 1,988,007	$ (501)	$ 1,987,506	$ (1,939,198)	$ —	$ 48,308
December 31, 2018						
Securities loaned:						
Institutional counterparties	$ 1,186,073	$ —	$ 1,186,073	$ (1,136,033)	$ —	$ 50,040
Interest rate options:						
Institutional counterparties	49	—	49	—	—	49

Interest rate swaps:						
Institutional counterparties	6	—	6	—	—	6
Repurchase agreements:						
Institutional counterparties	533,441	—	533,441	(533,441)	—	—
Customer counterparties	43,266	—	43,266	(43,266)	—	—
Forward MBS derivatives:						
Institutional counterparties	19,331	(15)	19,316	(7,728)	—	11,588
	$ 1,782,166	$ (15)	$ 1,782,151	$ (1,720,468)	$ —	$ 61,683

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 one to thirty days from the transaction date or involve arrangements with no definite termination 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

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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.

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 March 31, 2019 and December 31, 2018.

	Remaining Contractual Maturities				
March 31, 2019	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
Repurchase agreement transactions:					
U.S. Treasury and agency securities	$ 85,345	$ —	$ —	$ —	$ 85,345
Asset-backed securities	475,380	—	—	—	475,380
Securities lending transactions:					
Corporate securities	630	—	—	—	630
Equity securities	1,408,006	—	—	—	1,408,006
Total	$ 1,969,361	$ —	$ —	$ —	$ 1,969,361
Gross amount of recognized liabilities for repurchase agreement and securities lending transactions in offsetting disclosure above					$ 1,969,361
Amount related to agreements not included in offsetting disclosure above					$ —

	Remaining Contractual Maturities				
December 31, 2018	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
Repurchase agreement transactions:					
U.S. Treasury and agency securities	$ 131,848	$ —	$ —	$ —	$ 131,848
Asset-backed securities	444,859	—	—	—	444,859
Securities lending transactions:					

Corporate securities	113	—	—	—	113
Equity securities	1,185,960	—	—	—	1,185,960
Total	$ 1,762,780	$ —	$ —	$ —	$ 1,762,780

Gross amount of recognized liabilities for repurchase agreement and securities lending transactions in offsetting disclosure above	$ 1,762,780
Amount related to agreements not included in offsetting disclosure above	$ —

20. Broker-Dealer and Clearing Organization Receivables and Payables

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

	March 31, 2019	December 31, 2018
Receivables:		
Securities borrowed	$ 1,540,803	$ 1,365,547
Securities failed to deliver	19,855	16,300
Trades in process of settlement	72,850	32,993
Other	17,691	25,447
	$ 1,651,199	$ 1,440,287
Payables:		
Securities loaned	$ 1,408,636	$ 1,186,073
Correspondents	36,818	29,311
Securities failed to receive	39,313	75,015
Other	5,460	4,526
	$ 1,490,227	$ 1,294,925

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

21. Reserve for Losses and Loss Adjustment Expenses

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

	March 31, 2019	December 31, 2018
Reserve for unpaid losses and allocated LAE balance, net	$ 17,318	$ 16,498
Reinsurance recoverables on unpaid losses	2,506	3,214
Unallocated LAE	767	840
Reserve for unpaid losses and LAE balance, gross	$ 20,591	$ 20,552

A summary of claims loss reserve development activity is presented in the following table (dollars in thousands).

Accident	Three Months Ended March 31, 2019		March 31, 2019 Total of IBNR Reserves Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
Year	Paid	Incurred		
2015	$ 86,607	$ 86,963	$ 169	20,583
2016	83,265	84,085	401	20,180
2017	86,553	87,771	776	20,737
2018	68,015	76,110	4,542	15,288
2019	6,570	13,316	2,257	3,545
Total	331,010	$ 348,245		
	83	All outstanding reserves prior to 2015, net of reinsurance		
	$ 17,318			

Reserve for unpaid losses and allocated
LAE, net of reinsurance

22. 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 March 31, 2019, total reinsurance recoverables and receivables had a carrying value of $3.9 million, which is included in other assets within the consolidated balance sheets. There was no allowance for uncollectible accounts at March 31, 2019, based on NLC's quality requirements.

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

	Three Months Ended March 31,			
	2019		2018	
	Written	Earned	Written	Earned
Premiums from direct business	$ 30,790	$ 31,737	$ 33,085	$ 33,368
Reinsurance assumed	3,129	3,191	3,042	3,000
Reinsurance ceded	(1,725)	(1,725)	(2,010)	(2,053)
Net premiums	$ 32,194	$ 33,203	$ 34,117	$ 34,315

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Explanation of Responses:

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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

	Three Months Ended March 31,	
	2019	2018
Losses and LAE incurred	$ 14,985	$ 13,452
Reinsurance recoverables	(59)	2,080
Net loss and LAE incurred	$ 14,926	$ 15,532

Catastrophic coverage

At March 31, 2019, 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 $6.0 million of reinsurance coverage in excess of its $2.0 million retention to bridge to the primary program. The reinsurance for NLIC and ASIC in excess of $8 million is comprised of three layers of protection: $17 million in excess of $8 million retention and/or loss; $30 million in excess of $25 million loss; and $50 million in excess of $55 million loss. NLIC and ASIC retain no participation in any of the layers, beyond the first $8 million and $1.5 million, respectively. At March 31, 2019, total retention for any one catastrophe that affects both NLIC and ASIC was limited to $8 million in the aggregate.

Effective January 1, 2019, NLC renewed its underlying excess of loss contract that provides $10.0 million aggregate coverage in excess of NLC's per event retention of $1.0 million and aggregate retention of $15.0 million for sub-catastrophic events. As of January 1, 2019, NLC retains 37.5% participation in this coverage, up from 17.5% participation during 2018.

23. 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 chief operating decision maker, the Company’s President and Chief Executive Officer, to evaluate segment performance, develop strategy and allocate resources.

The banking segment includes the operations of the Bank, and since August 1, 2018, the operations acquired in the BORO Acquisition. The broker-dealer segment includes the operations of Securities Holdings, the mortgage origination segment is composed of PrimeLending and 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, merchant banking investment opportunities and management and administrative services to support the overall operations of the Company.

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).

Three Months Ended March 31, 2019	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hilltop Consolidated
Net interest income (expense)	$ 92,690	$ 12,850	$ (467)	$ 642	$ (1,330)	$ 4,546	$ 108,931
Provision (recovery) for loan losses	1,025	(74)	—	—	—	—	951
Noninterest income	10,621	91,307	118,033	36,492	538	(4,523)	252,468
Noninterest expense	60,726	87,807	114,677	30,338	15,562	(25)	309,085
Income (loss) before income taxes	$ 41,560	$ 16,424	$ 2,889	$ 6,796	$ (16,354)	$ 48	$ 51,363

Three Months	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hilltop Consolidated

Ended March 31, 2018							
Net interest income (expense)	$ 86,638	$ 12,550	$ 941	$ 787	$ (2,091)	$ 4,595	$ 103,420
Provision for loan losses	(1,531)	(276)	—	—	—	—	(1,807)
Noninterest income	10,180	68,547	127,102	35,018	(712)	(4,992)	235,143
Noninterest expense	59,370	77,776	130,704	31,013	9,403	(64)	308,202
Income (loss) before income taxes	$ 38,979	$ 3,597	$ (2,661)	$ 4,792	$ (12,206)	$ (333)	$ 32,168

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hilltop Consolidat
March 31, 2019							
Goodwill	$ 247,368	$ 7,008	$ 13,071	$ 23,988	$ —	$ —	$ 291,435
Total assets	$ 9,748,950	$ 3,333,574	$ 1,348,924	$ 252,857	$ 2,275,342	$ (3,410,277)	$ 13,549,3
December 31, 2018							
Goodwill	$ 247,368	$ 7,008	$ 13,071	$ 23,988	$ —	$ —	$ 291,435
Total assets	$ 10,004,971	$ 3,213,115	$ 1,627,134	$ 253,513	$ 2,243,182	$ (3,658,343)	$ 13,683,5

24. Earnings per Common Share

Net earnings, less any preferred dividends accumulated for the period (whether or not declared), is allocated between the common stock and participating securities pursuant to the two-class method, if applicable. Basic earnings per common share is computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested restricted shares. The Company calculated basic earnings per common share using the treasury method instead of the two-class method since there were no instruments which qualified as participating securities during the three months ended March 31, 2019 or 2018.

Diluted earnings per common share is computed in a similar manner, except that first the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares, excluding the participating securities, were issued using the treasury stock method. During the three months ended March 31, 2019 and 2018, RSUs were the only potentially dilutive non-participating instruments issued by Hilltop. Next, the Company determines and includes in the diluted earnings per common share calculation the more dilutive effect of the participating securities using the treasury stock method or the two-class method. Undistributed losses are not allocated to the nonvested share-based payment awards (the participating securities) under the two-class method as the holders are not contractually obligated to share in the losses of the Company.

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

	Three Months Ended March 31,	
	2019	2018
Basic earnings per share:		
Net earnings available to Hilltop common stockholders	$ 38,786	$ 24,441
Weighted average shares outstanding - basic	93,669	95,985
Basic earnings per common share	$ 0.41	$ 0.25
Diluted earnings per share:		
Income attributable to Hilltop	$ 38,786	$ 24,441
Weighted average shares outstanding - basic	93,669	95,985
Effect of potentially dilutive securities	—	161
Weighted average shares outstanding - diluted	93,669	96,146
Diluted earnings per common share	$ 0.41	$ 0.25

Explanation of Responses:

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SCHEDULE I – Insurance Incurred and Cumulative Paid Losses and Allocated Loss Adjustment Expenses,

Net of Reinsurance

(dollars in thousands)

	Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance					March 31, 2019	
Accident	March 31, 2019					Total of Incurred But Not Reported Reserves Plus Development On Reported	Cumulative Number of Reported
Year	2015	2016	2017	2018	2019	Claims	Claims
2015	$ 89,646	$ 88,477	$ 87,262	$ 86,961	$ 86,963	$ 169	20,583
2016		84,771	85,189	84,076	84,085	401	20,180
2017			87,899	88,025	87,771	776	20,737
2018				75,217	76,110	4,542	15,288
2019					13,316	2,257	3,545
					$ 348,245		

	Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance				
Accident	March 31, 2019				
Year	2015	2016	2017	2018	2019
2015	$ 71,820	$ 82,940	$ 85,507	$ 86,549	$ 86,607
2016		71,543	81,682	83,169	83,265
2017			77,675	86,319	86,553
2018				61,922	68,015
2019					6,570
Total					$ 331,010
All outstanding reserves prior to 2015, net of reinsurance					83
Reserve for unpaid losses and allocated loss adjustment expenses, net of reinsurance					$ 17,318

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the consolidated historical financial statements and notes appearing elsewhere in this Quarterly Report on Form 10-Q (this “Quarterly Report”) and the financial information set forth in the tables herein.

Unless the context otherwise indicates, all references in this Management’s Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, to the “Company,” “we,” “us,” “our” or “ours” or similar words are to Hilltop Holdings Inc. and its direct and indirect wholly owned subsidiaries, references to “Hilltop” refer solely to Hilltop Holdings Inc., references to “PCC” refer to PlainsCapital Corporation (a wholly owned subsidiary of Hilltop), references to “Securities Holdings” refer to Hilltop Securities Holdings LLC (a wholly owned subsidiary of Hilltop), references to “Hilltop Securities” refer to Hilltop Securities Inc. (a wholly owned subsidiary of Securities Holdings), references to “HTS Independent Network” refer to Hilltop Securities Independent Network Inc. (a wholly owned subsidiary of Securities Holdings), Hilltop Securities and HTS Independent Network are collectively referred to as the “Hilltop Broker-Dealers”, references to the “Bank” refer to PlainsCapital Bank (a wholly owned subsidiary of PCC), references to “FNB” refer to First National Bank, references to “SWS” refer to the former SWS Group, Inc., references to “PrimeLending” refer to PrimeLending, a PlainsCapital Company (a wholly owned subsidiary of the Bank) and its subsidiaries as a whole, references to “NLC” refer to National Lloyds Corporation (a wholly owned subsidiary of Hilltop) and its subsidiaries as a whole, references to “NLIC” refer to National Lloyds Insurance Company (a wholly owned subsidiary of NLC) and references to “ASIC” refer to American Summit Insurance Company (a wholly owned subsidiary of NLC).

FORWARD-LOOKING STATEMENTS

This Quarterly Report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”), as amended by the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, included in this Quarterly Report that address results or developments that we expect or anticipate will or may occur in the future, and statements that are preceded by, followed by or include, words such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “forecasts,” “goal,” “intends,” “may,” “might,” “plan,” “probable,” “projects,” “seeks,” “shoul “would” or the negative of these words and phrases or similar words or phrases, including such things as our business strategy, our financial condition, our efforts to make, and the timing of, strategic acquisitions, the costs of integration of the operations of acquired businesses, our revenue, our liquidity and sources of funding, market trends, operations and business, taxes, information technology expenses, capital levels, mortgage servicing rights (“MSR”) assets, stock repurchases, dividend payments, expectations concerning mortgage loan origination volume and interest rate compression, expected levels of refinancing as a percentage of total loan origination volume, projected losses on mortgage loans originated, loss estimates related to natural disasters, total expenses and cost savings expected from PrimeLending’s cost reduction efforts, the effects of government regulation applicable to our operations, the appropriateness of, and changes in, our allowance for loan losses and provision for loan losses, anticipated investment yields, our expectations regarding accretion of discount on loans in future periods, the collectability of loans, cybersecurity incidents and the outcome of litigation are forward-looking statements.

These forward-looking statements are based on our beliefs, assumptions and expectations of our future performance taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If an event occurs, our business, business plan, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Certain factors that could cause actual results to differ include, among others:

the credit risks of lending activities, including our ability to estimate loan losses as well as the effects of changes in the level of, and trends in, loan delinquencies and write-offs;

changes in the interest rate environment;

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

· risks associated with concentration in real estate related loans;

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

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

- the effects of our indebtedness on our ability to manage our business successfully, including the restrictions imposed by the indenture governing our indebtedness;
- cost and availability of capital;

changes in state and federal laws, regulations or policies affecting one or more of our business segments, including changes in regulatory fees, deposit insurance premiums, capital requirements and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act");

changes in key management;

competition in our banking, broker-dealer, mortgage origination and insurance segments from other banks and financial institutions as well as investment banking and financial advisory firms, mortgage bankers, asset-based non-bank lenders, government agencies and insurance companies;

legal and regulatory proceedings;

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

risks associated with merger and acquisition integration; and

our ability to use excess capital in an effective manner.

For a more detailed discussion of these and other factors that may affect our business and that could cause the actual results to differ materially from those anticipated in these forward-looking statements, see "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018 ("2018 Form 10-K"), which was filed with the Securities and Exchange Commission (the "SEC") on February 15, 2019, this Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," Part II, Item 1A, "Risk Factors" herein and other filings we have made with the SEC. We caution that the foregoing list of factors is not exhaustive, and new factors may emerge, or changes to the foregoing factors may occur, that could impact our business. All subsequent written and oral forward-looking statements concerning our business attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements above. We do not undertake any obligation to update any forward-looking statement, whether written or oral, relating to the matters discussed in this Quarterly Report except to the extent required by federal securities laws.

OVERVIEW

We are a financial holding company registered under the Bank Holding Company Act of 1956. Our primary line of business is to provide business and consumer banking services from offices located throughout Texas through the Bank. We also provide an array of financial products and services through our broker-dealer, mortgage origination and insurance segments. The following includes additional details regarding the financial products and services provided

by each of our primary business units.

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

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

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

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During the three months ended March 31, 2019, our net income to common stockholders was $38.8 million, or $0.41 per diluted share. We declared total common dividends of $0.08 per share during the three months ended March 31, 2019, which resulted in a dividend payout ratio of 19.32%. Dividend payout ratio is defined as cash dividends declared per common share divided by basic earnings per common share.

We reported $51.4 million of consolidated income before income taxes during the three months ended March 31, 2019, including the following contributions from our four reportable business segments.

- The banking segment contributed $41.6 million of income before income taxes during the three months ended March 31, 2019;
- The broker-dealer segment contributed $16.4 million of income before income taxes during the three months ended March 31, 2019;
- The mortgage origination segment contributed $2.9 million of income before income taxes during the three months ended March 31, 2019; and
- The insurance segment contributed $6.8 million of income before income taxes during the three months ended March 31, 2019.

At March 31, 2019, on a consolidated basis, we had total assets of $13.5 billion, total deposits of $8.3 billion, total loans, including loans held for sale, of $8.0 billion and stockholders' equity of $2.0 billion.

Factors Affecting Results of Operations

Changes in Management

On February 21, 2019, we entered into a Separation and Release Agreement (the "Separation Agreement") with Alan B. White, our Vice Chairman and Co-Chief Executive Officer, in connection with his retirement effective April 1, 2019 (the "Retirement Date"). Pursuant to the Separation Agreement, effective as of the Retirement Date, Mr. White resigned from all positions with Hilltop and its subsidiaries, including, without limitation, Vice Chairman of our Board of Directors and Co-Chief Executive Officer of Hilltop. The Separation Agreement also provides that Mr. White's retention agreement by and between the Company and Mr. White, as amended, terminated on the Retirement Date, except for certain provisions that addressed, among other items, non-competition, non-solicitation, confidential information and arbitration. Effective April 1, 2019, Jeremy B. Ford became Hilltop's sole Chief Executive Officer, Chairman of the Executive Committee of the Board of Directors of Hilltop and the Chairman of the Bank. The Separation Agreement, in accordance with Mr. White's retention agreement, provided for aggregate payments of $12.4 million to Mr. White, subject to any delay required under Section 409A of the Internal Revenue Code. During the first quarter of 2019, our financial results included the recognition within corporate of a pre-tax charge within employees' compensation and benefits of $5.8 million associated with Mr. White's retirement, but we expect his retirement to reduce our employees' compensation and benefits expense in future periods.

On February 19, 2019, we entered into a retention agreement with Hill A. Feinberg (the "Feinberg Retention Agreement") to set forth the terms of his ongoing role with the Company. As disclosed in our current report on Form 8-K filed on December 12, 2018, we appointed M. Bradley Winges to succeed Mr. Feinberg as President and Chief Executive Officer of Hilltop Securities effective February 20, 2019. The Feinberg Retention Agreement provides that, as of February 20, 2019, Mr. Feinberg resigned as President and Chief Executive Officer of Hilltop Securities and from all other positions with Hilltop and its subsidiaries, other than as Chairman of the Board of Directors of Hilltop Securities, as a member of the Board of Directors of Hilltop and a member of Executive Committee of the Board of Directors of Hilltop. Pursuant to the Feinberg Retention Agreement, Mr. Feinberg will continue to serve as the Chairman of the Board of Directors of Hilltop Securities until June 30, 2019, at which time he will become Chairman Emeritus of Hilltop Securities and resign from his membership on the Executive Committee of the Board of Directors of Hilltop. The Feinberg Retention Agreement provides for aggregate payments of $1.4 million to Mr. Feinberg upon his termination, resignation or death, of which $0.9 million was paid during the first quarter of 2019. Mr. Feinberg may resign or be terminated at any time. In connection with the appointment of Mr. Winges, Hilltop and Mr. Winges entered into an employment agreement providing for a sign-on cash bonus of $1.5 million, among other benefits, on the effective date of his employment. During the first quarter of 2019, the broker-dealer segment's financial results reflect aggregate pre-tax charges within employees' compensation and benefits noninterest expenses of $2.2 million related to these items.

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During the three months ended March 31, 2019, the total impact of the above noted changes in management was $8.0 million before income taxes. These changes and the related impact on our results of operations are collectively referred to as the “Leadership Changes.”

Technology Enhancements and Corporate Initiatives

In furtherance of our goal of building a premier, diversified financial services company, we regularly evaluate strategic opportunities to invest in our business and technology platforms. Such investments are intended to support long-term technological competitiveness and improved operational efficiencies throughout our organization. During 2018, we began the significant investment in new technological solutions, substantial core system upgrades and other technology enhancements, and we are working on preliminary plans for additional investments in such solutions, upgrades and enhancements. Such significant investments specifically include single, enterprise-wide general ledger and procurement solutions, a mortgage loan origination system and a core system replacement within our broker-dealer segment (collectively referred to as “Core System Improvements”). In combination with these technology enhancements, we have begun the consolidation of common back office functions. We believe that costs incurred related to these Core System Improvements will continue to represent an increasingly significant portion of our noninterest expenses in the near term, but we are making such investments with the expectation that they will result in cost savings over the long term. Costs related to our Core System Improvements, disaggregated by segment between internal-use software costs that were capitalized as premises and equipment and costs that were recorded to noninterest expense, were as follows (in thousands).

Three Months Ended March 31, 2019	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	Hilltop Consolidated
Premises and equipment	$ —	$ 1,151	$ 2,001	$ —	$ 218	$ 3,370
Noninterest expense	—	1,043	1,022	—	402	2,467
Total	$ —	$ 2,194	$ 3,023	$ —	$ 620	$ 5,837

Three Months Ended March 31, 2018	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	Hilltop Consolidated
Premises and equipment	$ —	$ 129	$ —	$ —	$ —	$ 129
Noninterest expense	—	1,215	549	—	344	2,108
Total	$ —	$ 1,344	$ 549	$ —	$ 344	$ 2,237

Factors Affecting Comparability of Results of Operations

Prior Year Acquisition

On August 1, 2018, we acquired privately-held, Houston-based The Bank of River Oaks ("BORO") in an all-cash transaction (the "BORO Acquisition"). Pursuant to the terms of the definitive agreement, we paid cash in the aggregate amount of $85 million to the shareholders and option holders of BORO. The fair value of the assets acquired was $434.8 million, including $326.6 million in loans, while the fair value of liabilities assumed was $389.4 million, consisting primarily of $376.4 million in deposits. The operations of BORO were included in our operating results beginning August 1, 2018. The estimated fair value of the core deposit intangible asset acquired as of August 1, 2018 was $10.0 million and resulting goodwill was $39.6 million. In connection with the acquisition, we merged BORO into the Bank, and all customer accounts were converted to the PlainsCapital Bank platform.

Termination of FDIC Loss-Share Agreements

In the fourth quarter of 2018, the Bank terminated its loss-share agreements with the FDIC which were entered into in connection with the FNB Transaction, resulting in a $6.26 million payment from the FDIC to the Bank. Prior to the termination, the Bank recorded "true-up" accruals with respect to the FNB Transaction loss-share agreements with the FDIC of $0.1 million during the three months ended March 31, 2018. The true-up accrual was based on a formula within the loss-share agreements, pursuant to which we agreed to reimburse the FDIC if actual losses incurred and billed to the FDIC through loss sharing were below a stated threshold. During the three months ended March 31, 2018, the Bank also recorded $3.9 million of amortization of excess book value of its receivables under the loss-share agreements (the "FDIC Indemnification Asset") due to lower projected collections from the FDIC than were initially estimated at the acquisition date.

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Segment Information

We have three primary business units, PCC (banking and mortgage origination), Securities Holdings (broker-dealer) and NLC (insurance). Under accounting principles generally accepted in the United States (“GAAP”), our business units are comprised of four reportable business segments organized primarily by the core products offered to the segments’ respective customers: banking, broker-dealer, mortgage origination and insurance. Consistent with our historical segment operating results, we anticipate that future revenues will be driven primarily from the banking segment, with the remainder being generated by our broker-dealer, mortgage origination and insurance segments. Operating results for the mortgage origination segment have historically been more volatile than operating results for the banking, broker-dealer and insurance segments.

The banking segment includes the operations of the Bank, and since August 1, 2018, the operations acquired in the BORO Acquisition. The banking segment primarily provides business and consumer banking services from offices located throughout Texas and generates revenue from its portfolio of earning assets. The Bank’s results of operations are primarily dependent on net interest income. The Bank also derives revenue from other sources, including service charges on customer deposit accounts and trust fees.

The broker-dealer segment includes the operations of Securities Holdings, which operates through its wholly owned subsidiaries Hilltop Securities and HTS Independent Network. The broker-dealer segment generates a majority of its revenues from fees and commissions earned from investment advisory and securities brokerage services. Hilltop Securities is a broker-dealer registered with the SEC and the Financial Industry Regulatory Authority (“FINRA”) and a member of the New York Stock Exchange (“NYSE”), HTS Independent Network is an introducing broker-dealer that is also registered with the SEC and FINRA. Hilltop Securities, HTS Independent Network and Hilltop Securities Asset Management, LLC, a wholly-owned subsidiary of First Southwest Holdings, LLC, are registered investment advisers under the Investment Advisers Act of 1940.

The mortgage origination segment includes the operations of PrimeLending, which offers a variety of loan products and generates revenue predominantly from fees charged on the origination and servicing of loans and from selling these loans in the secondary market.

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

Corporate includes certain activities not allocated to specific business segments. These activities include holding company financing and investing activities, merchant banking investment opportunities, and management and administrative services to support the overall operations of the Company.

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The eliminations of intercompany transactions are included in “All Other and Eliminations.” Additional information concerning our reportable segments is presented in Note 23, Segment and Related Information, in the notes to our consolidated financial statements. The following table presents certain information about the operating results of our reportable segments (in thousands). This table serves as a basis for the discussion and analysis in the segment operating results sections that follow.

	Three Months Ended March 31,		Variance 2019 vs 2018		
	2019	2018	Amount	Percent	
Net interest income (expense):					
Banking	$ 92,690	$ 86,638	$ 6,052	7	%
Broker-Dealer	12,850	12,550	300	2	%
Mortgage Origination	(467)	941	(1,408)	(150)	%
Insurance	642	787	(145)	(18)	%
Corporate	(1,330)	(2,091)	761	36	%
All Other and Eliminations	4,546	4,595	(49)	(1)	%
Hilltop Consolidated	$ 108,931	$ 103,420	$ 5,511	5	%
Provision (recovery) for loan losses:					
Banking	$ 1,025	$ (1,531)	$ 2,556	167	%
Broker-Dealer	(74)	(276)	202	73	%
Mortgage Origination	—	—	—	—	%
Insurance	—	—	—	—	%
Corporate	—	—	—	—	%
All Other and Eliminations	—	—	—	—	%
Hilltop Consolidated	$ 951	$ (1,807)	$ 2,758	153	%
Noninterest income:					
Banking	$ 10,621	$ 10,180	$ 441	4	%
Broker-Dealer	91,307	68,547	22,760	33	%
Mortgage Origination	118,033	127,102	(9,069)	(7)	%
Insurance	36,492	35,018	1,474	4	%
Corporate	538	(712)	1,250	176	%
All Other and Eliminations	(4,523)	(4,992)	469	9	%
Hilltop Consolidated	$ 252,468	$ 235,143	$ 17,325	7	%
Noninterest expense:					
Banking	$ 60,726	$ 59,370	$ 1,356	2	%
Broker-Dealer	87,807	77,776	10,031	13	%
Mortgage Origination	114,677	130,704	(16,027)	(12)	%
Insurance	30,338	31,013	(675)	(2)	%
Corporate	15,562	9,403	6,159	66	%
All Other and Eliminations	(25)	(64)	39	61	%
Hilltop Consolidated	$ 309,085	$ 308,202	$ 883	0	%

Income (loss) before income taxes:

Banking	$ 41,560	$ 38,979	$ 2,581	7	%
Broker-Dealer	16,424	3,597	12,827	357	%
Mortgage Origination	2,889	(2,661)	5,550	209	%
Insurance	6,796	4,792	2,004	42	%
Corporate	(16,354)	(12,206)	(4,148)	(34)	%
All Other and Eliminations	48	(333)	381	114	%
Hilltop Consolidated	$ 51,363	$ 32,168	$ 19,195	60	%

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How We Generate Revenue

We generate revenue from net interest income and from noninterest income. Net interest income represents the difference between the income earned on our assets, including our loans and investment securities, and our cost of funds, including the interest paid on the deposits and borrowings that are used to support our assets. Net interest income is a significant contributor to our operating results and is primarily earned by our banking segment. Fluctuations in interest rates, as well as the amounts and types of interest-earning assets and interest-bearing liabilities we hold, affect net interest income. Net interest income increased during the three months ended March 31, 2019, compared with the three months ended March 31, 2018, primarily due to an increase within our banking segment and, to a lesser extent within our broker-dealer segment and corporate, partially offset by a decrease within our mortgage origination segment.

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

(i) Income from broker-dealer operations. Through Securities Holdings, we provide investment banking and other related financial services. We generated $56.1 million and $57.1 million in securities commissions and fees and investment and securities advisory fees and commissions, and $31.6 million and $7.0 million in gains from derivative and trading portfolio activities (included within other noninterest income), during the three months ended March 31, 2019 and 2018, respectively.

(ii) Income from mortgage operations. Through PrimeLending, we generate noninterest income by originating and selling mortgage loans. During the three months ended March 31, 2019 and 2018, we generated $118.0 million and $126.4 million, respectively, in net gains from the sale of loans, other mortgage production income (including income associated with retained mortgage servicing rights), and mortgage loan origination fees.

(iii) Income from insurance operations. Through NLC, we provide fire and limited homeowners insurance for low value dwellings and manufactured homes. We generated $33.2 million and $34.3 million in net insurance premiums earned during the three months ended March 31, 2019 and 2018, respectively.

The increase in noninterest income noted in the table above was primarily due to increases of $24.6 million in gains from derivative and trading portfolio activities and $1.8 million in investment and securities advisory fees and commissions, partially offset by decreases of $9.6 million in net gains from sale of loans and other mortgage production income and $2.7 million in securities commissions and fees.

We also incur noninterest expenses in the operation of our businesses. Our businesses engage in labor intensive activities and, consequently, employees’ compensation and benefits represent the majority of our noninterest expenses.

Consolidated Operating Results

Net income applicable to common stockholders during the three months ended March 31, 2019 was $38.8 million, or $0.41 per diluted share, compared with net income applicable to common stockholders of $24.4 million, or $0.25 per diluted share, during the three months ended March 31, 2018. The first quarter of 2019 included costs associated with significant Leadership Changes and other efficiency initiative-related charges which, in the aggregate, totaled $8.7 million before income taxes.

Certain items included in net income for the three months ended March 31, 2019 and 2018 resulted from purchase accounting associated with the merger of PlainsCapital Corporation with and into a wholly owned subsidiary of Hilltop on November 30, 2012 (the “PlainsCapital Merger”), the Federal Deposit Insurance Corporation (“FDIC”) -assisted transaction (the “FNB Transaction”) whereby the Bank acquired certain assets and assumed certain liabilities of FNB, the acquisition of SWS Group, Inc. in a stock and cash transaction (the “SWS Merger”) and the BORO Acquisition (collectively, the “Bank Transactions”). Income before taxes during the three months ended March 31, 2019 and 2018, included the following purchase accounting items related to the Bank Transactions (in thousands).

Three Months Ended March 31, 2019	PlainsCapital Merger	FNB Transaction	SWS Merger	BORO Acquisition	Total
Net accretion on earning assets and liabilities	$ 544	$ 5,533	$ 561	$ 1,977	$ 8,615
Amortization of identifiable intangibles	(1,001)	(76)	(174)	(714)	(1,965)

Three Months Ended March 31, 2018	PlainsCapital Merger	FNB Transaction	SWS Merger	BORO Acquisition	Total
Net accretion on earning assets and liabilities	$ 574	$ 8,377	$ 708	$ —	$ 9,659
Amortization of identifiable intangibles	(1,448)	(114)	(195)	—	(1,757)

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

	Three Months Ended March 31,	
	2019	2018
Return on average stockholder's equity	8.04 %	5.19 %
Return on average assets	1.21 %	0.77 %
Net interest margin (1) (3) (4)	3.69 %	3.52 %
Net interest margin (taxable equivalent) (2) (3) (4)	3.70 %	3.53 %

(1) Net interest margin is defined as net interest income divided by average interest-earning assets.
(2) Net interest margin (taxable equivalent), a non-GAAP measure, is defined as taxable equivalent net interest income divided by average interest-earning assets. Annualized taxable equivalent adjustments are based on the applicable corporate federal income tax rate of 21%. The interest income earned on certain earnings assets is completely or partially exempt from federal income tax. See footnote 2 to the following tables for the taxable equivalent adjustments to interest income.
(3) The securities financing operations within our broker-dealer segment had the effect of lowering both the net interest margin and taxable equivalent net interest margin by 43 basis points and 42 basis points during the three months ended March 31, 2019 and 2018, respectively.
(4) During the three months ended March 31, 2019 and 2018, purchase accounting contributed 32 basis points and 36 basis points, respectively, to both net interest margin and taxable equivalent net interest margin.

We present net interest margin in the previous table, and net interest margin and net interest income below, on a taxable equivalent basis. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins for all earning assets, we use net interest income on a taxable- equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments.

During the three months ended March 31, 2019 and 2018, purchase accounting contributed 32 and 36 basis points, respectively, to our consolidated taxable equivalent net interest margin of 3.70% and 3.53%, respectively, and primarily related to the following purchase accounting items associated with the Bank Transactions (in thousands).

Three Months Ended March 31, 2019	PlainsCapital Merger	FNB Transaction	SWS Merger	BORO Acquisition	Total
Accretion of discount on loans	$ 753	$ 5,533	$ 536	$ 1,913	$ 8,735
Accretion (amortization) of discount (premium) on acquired securities	(209)	—	7	64	(138)

Three Months Ended March 31, 2018	PlainsCapital Merger	FNB Transaction	SWS Merger	BORO Acquisition	Total
Accretion of discount on loans	$ 938	$ 8,377	$ 552	$ —	$ 9,867
Amortization of premium on acquired securities	(410)	—	—	—	(410)

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

	Three Months Ended March 31,							
	2019				2018			
	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate		Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	
Assets								
Interest-earning assets								
Loans held for sale	$ 1,015,010	$ 12,487	4.92	%	$ 1,294,245	$ 14,613	4.52	%
Loans held for investment, gross (1)	6,843,343	98,383	5.76	%	6,308,756	85,331	5.42	%
Investment securities - taxable	1,792,501	15,584	3.48	%	1,613,608	10,928	2.71	%
Investment securities - non-taxable (2)	221,602	1,658	2.99	%	258,732	2,030	3.14	%
Federal funds sold and securities purchased under agreements to resell	66,346	388	2.37	%	189,623	481	1.03	%
Interest-bearing deposits in other financial institutions	505,582	3,151	2.53	%	632,727	2,478	1.59	%
Securities borrowed	1,446,412	16,859	4.66	%	1,537,306	16,300	4.24	%
Other	61,263	1,671	11.01	%	70,854	1,452	8.27	%
Interest-earning assets, gross (2)	11,952,059	150,181	5.03	%	11,905,851	133,613	4.50	%
Allowance for loan losses	(59,549)				(65,202)			
Interest-earning assets, net	11,892,510				11,840,649			
Noninterest-earning assets	1,419,075				1,228,058			
Total assets	$ 13,311,585				$ 13,068,707			
Liabilities and Stockholders' Equity								
Interest-bearing liabilities								
	$ 5,825,886	$ 17,106	1.19	%	$ 5,494,657	$ 8,675	0.64	%

Interest-bearing deposits								
Securities loaned	1,295,002	14,738	4.62	%	1,365,081	13,739	4.08	%
Notes payable and other borrowings	1,065,432	9,265	3.51	%	1,195,993	7,526	2.54	%
Total interest-bearing liabilities	8,186,320	41,109	2.03	%	8,055,731	29,940	1.50	%
Noninterest-bearing liabilities								
Noninterest-bearing deposits	2,520,057				2,419,725			
Other liabilities	623,710				680,543			
Total liabilities	11,330,087				11,155,999			
Stockholders’ equity	1,958,531				1,911,160			
Noncontrolling interest	22,967				1,548			
Total liabilities and stockholders' equity	$ 13,311,585				$ 13,068,707			
Net interest income (2)		$ 109,072				$ 103,673		
Net interest spread (2)			3.00	%			2.99	%
Net interest margin (2)			3.70	%			3.53	%

(2) Average balance includes non-accrual loans.

(3) Presented on a taxable equivalent basis with annualized taxable equivalent adjustments based on the applicable corporate federal income tax rate of 21% for the periods presented. The adjustment to interest income was $0.2 million and $0.3 million for the three months ended March 31, 2019 and 2018, respectively.

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

On a consolidated basis, net interest income increased during the three months ended March 31, 2019, compared with the same period in 2018, primarily due to changes attributable to both volumes and yields within our banking segment, partially offset by a decrease in accretion of discount on loans. Refer to the discussion in the “Banking Segment” section below for more details on the changes in net interest income, including the component changes in the volume of average interest-earning assets and interest-bearing liabilities and changes in the rates earned or paid on

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The provision (recovery) for loan losses is determined by management as the amount to be added to (recovered from) the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. Substantially all of our consolidated provision (recovery) for loan losses is related to the banking segment. During the three months ended March 31, 2019, the provision for loan losses was impacted by the banking segment's release of a $2.0 reserve associated with previously estimated hurricane loss exposures due to improved customer performance. The provision for loan losses was comprised of the following (in thousands).

	Three Months Ended March 31,	
	2019	2018
Charges (recovery of charges) relating to newly originated loans and acquired loans without credit impairment at acquisition	$ 491	$ (1,493)
Charges (recovery of charges) on PCI loans	460	(314)
Provision (recovery) for loan losses	$ 951	$ (1,807)

Consolidated noninterest income increased during the three months ended March 31, 2019, compared with the same period in 2018, primarily due to increases in noninterest income within our broker-dealer and insurance segments, partially offset by a decrease within our mortgage origination segment.

Consolidated noninterest expense increased during the three months ended March 31, 2019, compared with the same period in 2018, primarily due to increases within our broker-dealer and banking segments as well as corporate, partially offset by decreases within our mortgage origination and insurance segments.

Consolidated effective income tax rates during the three months ended March 31, 2019 and 2018, were 22.6% and 23.3%, respectively, and approximated the applicable statutory rate for such periods.

Segment Results

Banking Segment

The following table presents certain information about the operating results of our banking segment (in thousands).

	Three Months Ended March 31,		Variance
	2019	2018	2019 vs 2018
Net interest income	$ 92,690	$ 86,638	$ 6,052
Provision (recovery) for loan losses	1,025	(1,531)	2,556
Noninterest income	10,621	10,180	441
Noninterest expense	60,726	59,370	1,356
Income before income taxes	$ 41,560	$ 38,979	$ 2,581

Income before income taxes increased during the three months ended March 31, 2019, compared with the same period in 2018, primarily due to an increase in net interest income associated with net volume and yield changes partially offset by an increase in deposit rates and a decline in accretion. Changes to net interest income related to the component changes in the volume of average interest-earning assets and interest-bearing liabilities and changes in the rates earned or paid on those items are discussed in more detail below.

During the second quarter of 2018, we were the victim of a "spear phishing" attack which resulted in a wire fraud loss of approximately $4.0 million and approximately $0.3 million of other related expenses. We have not recorded an accrual for future claims related to this matter as we have not concluded that such a loss is probable. We continue to seek recovery of the wire fraud loss arising from this incident through insurance providers and other means. We cannot currently estimate the amount of any future legal or insurance recoveries related to this loss.

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The ratios shown in the table below include certain key indicators of the performance and asset quality of our banking segment.

	Three Months Ended March 31,			
	2019		2018	
Efficiency ratio (1)	58.78	%	61.32	%
Return on average assets	1.34	%	1.31	%
Net interest margin (2) (4)	4.24	%	4.15	%
Net interest margin (taxable equivalent) (3) (4)	4.25	%	4.16	%
Net recoveries (charge-offs) to average loans outstanding	(0.10)	%	0.09	%

(1) Efficiency ratio is defined as noninterest expenses divided by the sum of total noninterest income and net interest income for the period.
(2) Net interest margin is defined as net interest income divided by average interest-earning assets.
(3) Net interest margin (taxable equivalent), a non-GAAP measure, is defined as taxable equivalent net interest income divided by average interest-earning assets. Annualized taxable equivalent adjustments are based on the applicable corporate federal income tax rate of 21% for the periods presented. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. See footnote 2 to the following tables for the taxable equivalent adjustments to interest income.
(4) During the three months ended March 31, 2019 and 2018, purchase accounting contributed 44 basis points and 51 basis points, respectively, to net interest margin and taxable equivalent net interest margin.

The banking segment presents net interest margin in the table above, and net interest margin and net interest income in the following discussion and tables below, on a taxable equivalent basis. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins for all earning assets, we use net interest income on a taxable equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments.

During the three months ended March 31, 2019 and 2018, purchase accounting contributed 44 and 51 basis points, respectively, to the banking segment's taxable equivalent net interest margin of 4.25% and 4.16%, respectively, and primarily related to the purchase accounting items associated with the Bank Transactions as detailed in the tables presented in the Consolidated Operating Results above.

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

Three Months Ended March 31,	
2019	2018

	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate		Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	
Assets								
Interest-earning assets								
Loans held for investment, gross (1)	$ 6,359,924	$ 91,310	5.75	%	$ 5,794,528	$ 79,191	5.47	%
Subsidiary warehouse lines of credit	936,457	11,085	4.73	%	1,212,755	11,699	3.86	%
Investment securities - taxable	1,113,797	7,092	2.55	%	904,625	4,826	2.13	%
Investment securities - non-taxable (2)	97,592	828	3.40	%	117,561	980	3.33	%
Federal funds sold and securities purchased under agreements to resell	416	—	0.13	%	495	—	0.38	%
Interest-bearing deposits in other financial institutions	316,319	1,914	2.45	%	382,353	1,474	1.56	%
Other	41,084	544	5.30	%	46,436	506	4.36	%
Interest-earning assets, gross (2)	8,865,589	112,773	5.09	%	8,458,753	98,676	4.67	%
Allowance for loan losses	(59,410)				(64,843)			
Interest-earning assets, net	8,806,179				8,393,910			
Noninterest-earning assets	945,409				890,284			
Total assets	$ 9,751,588				$ 9,284,194			
Liabilities and Stockholders' Equity								
Interest-bearing liabilities								
Interest-bearing deposits	$ 5,525,366	$ 18,994	1.39	%	$ 5,149,294	$ 11,176	0.88	%
Notes payable and other borrowings	179,878	933	2.08	%	281,906	661	0.94	%
Total interest-bearing liabilities	5,705,244	19,927	1.42	%	5,431,200	11,837	0.88	%
Noninterest-bearing liabilities	2,487,922				2,412,326			

Noninterest-bearing deposits								
Other liabilities	92,303				49,919			
Total liabilities	8,285,469				7,893,445			
Stockholders’ equity	1,466,119				1,390,749			
Total liabilities and stockholders’ equity	$ 9,751,588				$ 9,284,194			
Net interest income (2)		$ 92,846				$ 86,839		
Net interest spread (2)			3.68	%			3.79	%
Net interest margin (2)			4.25	%			4.16	%

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(1) Average balance includes non-accrual loans.
(2) Presented on a taxable equivalent basis with annualized taxable equivalent adjustments based on the applicable corporate federal income tax rate of 21% for the periods presented. The adjustment to interest income was $0.2 million for both the three months ended March 31, 2019 and 2018.

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

The following table summarizes the changes in the banking segment's net interest income for the periods indicated below, including the component changes in the volume of average interest-earning assets and interest-bearing liabilities and changes in the rates earned or paid on those items (in thousands).

	Three Months Ended March 31, 2019 vs. 2018 Change Due To (1)		
	Volume	Yield/Rate	Change
Interest income			
Loans held for investment, gross	$ 7,628	$ 4,491	$ 12,119
Subsidiary warehouse lines of credit	(2,629)	2,015	(614)
Investment securities - taxable	1,101	1,165	2,266
Investment securities - non-taxable (2)	(164)	12	(152)
Federal funds sold and securities purchased under agreements to resell	—	—	—
Interest-bearing deposits in other financial institutions	(255)	695	440
Other	(57)	95	38
Total interest income (2)	5,624	8,473	14,097
Interest expense			
Deposits	$ 816	$ 7,002	$ 7,818
Notes payable and other borrowings	(237)	509	272
Total interest expense	579	7,511	8,090
Net interest income (2)	$ 5,045	$ 962	$ 6,007

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

Changes in the yields earned on interest-earning assets increased taxable equivalent net interest income during the three months ended March 31, 2019, compared to the same period in 2018, primarily as a result of higher loan yields due to increased market rates, partially offset by a decrease in accretion of discount on loans of $1.1 million. Accretion of discount on loans is expected to continue to decrease in future periods as loans acquired in the Bank Transactions are repaid, refinanced or renewed. Changes in the volume of interest-earning assets, primarily due to an increase in the loan portfolio, increased taxable equivalent net interest income during the three months ended March 31, 2019, compared with the same period in 2018. Changes in rates paid on interest-bearing liabilities decreased taxable equivalent net interest income during the three months ended March 31, 2019, compared with the same period in 2018, due to increases in market interest rates. Short-term interest rates have risen faster than medium and longer term rates, which has reduced the favorable impact of our asset-sensitive position on net interest income. Our portfolio includes loans that periodically reprice or mature prior to the end of an amortized term. Some of our variable-rate loans remain at applicable rate floors, which may delay and/or limit changes in interest income in a period of changing rates. If interest rates were to fall, the impact on our interest income would be limited by these rate floors. If interest rates were to rise, yields on the portion of our portfolio that remain at applicable rate floor would rise more slowly than increases in market interest rates. Any changes in interest rates across the term structure will continue to impact net interest income and net interest margin. The impact of rate movements will change with the shape of the yield curve, including any changes in steepness or flatness and inversions at any points on the yield curve.

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The banking segment's noninterest income increased during the three months ended March 31, 2019, compared to the same period in 2018, primarily due to year-over-year increases in service charge income due to the restructuring of our products.

The banking segment's noninterest expenses increased during the three months ended March 31, 2019, compared to the same period in 2018, primarily due to increased expenses associated with the acquired BORO locations, offset by a reduction in net expenses associated with previously covered assets, including the FDIC Indemnification Asset discussed in the "Factors Affecting Comparability of Results of Operations" section above.

Broker-Dealer Segment

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

	Three Months Ended March 31,		Variance
	2019	2018	2019 vs 2018
Net interest income:			
Securities lending	$ 2,121	$ 2,561	$ (440)
Structured finance	2,153	1,907	246
Clearing	2,651	3,061	(410)
Other	5,925	5,021	904
Total net interest income	12,850	12,550	300
Noninterest income:			
Securities commissions and fees by business line (1):			
Capital markets	11,208	10,138	1,070
Retail	18,051	20,944	(2,893)
Clearing	8,785	9,005	(220)
Other	774	1,393	(619)
	38,818	41,480	(2,662)
Investment and securities advisory fees and commissions by business line:			
Public banking	12,673	12,056	617
Capital markets	1,928	949	979
Retail	4,543	4,362	181
Structured finance	721	655	66
Clearing	275	292	(17)
Other	20	40	(20)
	20,160	18,354	1,806
Other:			
Structured finance	23,728	4,564	19,164

Capital markets	7,910	2,461	5,449
Other	691	1,688	(997)
	32,329	8,713	23,616
Total noninterest income	91,307	68,547	22,760
Net revenue (2)	104,157	81,097	23,060
Noninterest expense (3):			
Employees' compensation and benefits	63,075	52,265	10,810
Other	24,658	25,235	(577)
Total noninterest expense	87,733	77,500	10,233
Income before income taxes	$ 16,424	$ 3,597	$ 12,827

(1) Securities commissions and fees includes income of $2.9 million and $2.8 million during the three months ended March 31, 2019 and 2018, respectively, that is eliminated in consolidation.
(2) Net revenue is defined as the sum of total net interest income and total noninterest income
(3) Noninterest expense includes provision for loan losses associated with the broker-dealer segment within other noninterest expenses.

Income before income taxes increased during the three months ended March 31, 2019, compared with the same period in 2018, primarily as a result of a 28% increase in net revenues, most notably in trading gains earned from our derivative and trading portfolio activities, primarily from our structured finance and capital markets businesses. The increase in trading gains during the three months ended March 31, 2019, compared to the same period in 2018, was primarily due to a more favorable market environment resulting in a 26% increase in trading volumes, enhanced spreads and an 8% increase in the structured finance business line’s to-be-announced (“TBA”) mortgage-backed securities volume. This increase was offset by a $10.8 million increase in compensation and benefits expense, primarily due to an increase in variable compensation based on more robust financial results, as well as the $2.2 million in pre-tax costs associated with Leadership Changes as noted in the “Factors Affecting Results of Operations” section above.

The broker-dealer segment is subject to interest rate risk as a consequence of maintaining inventory positions, trading in interest rate sensitive financial instruments and maintaining a matched stock loan book. Changes in interest rates are likely to have a meaningful impact on our overall financial performance. Our broker-dealer segment has historically earned a significant portion of its revenues from advisory fees upon the successful completion of the client’s transaction. Rapid or significant changes in interest rates could adversely affect the broker-dealer segment’s bond trading, sales,

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underwriting activities and other interest spread-sensitive activities described below. The broker-dealer segment also receives administrative fees for providing money market and FDIC investment alternatives to clients, which tend to be sensitive to short term interest rates. In addition, the profitability of the broker-dealer segment depends, to an extent, on the spread between revenues earned on customer loans and excess customer cash balances, and the interest expense paid on customer cash balances, as well as the interest revenue earned on trading securities, net of financing costs.

In the broker-dealer segment, interest is earned from securities lending activities, interest charged on customer margin loan balances and interest earned on investment securities used to support sales, underwriting and other customer activities. Net interest income increased between the three months ended March 31, 2019, and the comparable period in 2018 primarily due to an increase in net interest earned on trading securities, partially offset by a decrease in net interest income from the segment’s stock lending activities due to an 11% decrease in both the average stock lending balance and the net interest spread. The segment also experienced a decrease in net interest income from our clearing operations due to a 35% decrease in receivables from correspondents.

Noninterest income increased between the three months ended March 31, 2019, and the comparable period in 2018, primarily due to increases in other noninterest income and investment and securities advisory fees and commissions, partially offset by decreases in and securities commissions and fees.

Securities commissions and fees decreased during the three months ended March 31, 2019, compared with the same period in 2018, primarily due to decreases in commissions earned by our retail brokers on municipal bond, mutual fund and insurance transactions.

Investment and securities advisory fees and commissions increased during the three months ended March 31, 2019, compared with the same period in 2018, primarily due to an increase in the aggregate dollar amount of municipal bond transactions. We expect a modest improvement in national municipal issuance volume in 2019, compared to that of 2018.

Other noninterest income increased during the three months ended March 31, 2019, compared with the same period in 2018, primarily as a result of a $24.6 million increase in trading gains earned from our derivative and trading portfolio activities, most notably in our structured finance business, which accounted for $19.2 million of the increase, while our capital markets business accounted for $4.9 million of the increase. The $19.2 million increase in our structured finance business was primarily due to the 24 basis-point decline in the 10-year treasury bond yield during the first quarter of 2019 compared to a 34 basis-point increase during the same period in 2018, and an 8% increase in the TBA mortgage-backed securities volume. The $4.9 million increase in our capital markets business is attributable to an improved market environment and improved spreads leading to a 26% increase in trading volume.

Noninterest expenses increased during the three months ended March 31, 2019, compared to the same period in 2018, primarily due to an increase in the variable compensation and benefits expense components that are based on performance. The $2.2 million in pre-tax costs associated with Leadership Changes as noted in the “Factors Affecting Results of Operations” section above also contributed to the increase in compensation and benefits expenses.

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

	Three Months Ended March 31,	
	2019	2018
Compensation as a % of net revenue	60.6 %	64.4 %
FDIC insured program balances at the Bank (end of period)	$ 1,301,989	$ 1,301,820
Other FDIC insured program balances (end of period)	$ 746,925	$ 1,011,032
Customer margin balances (end of period)	$ 331,786	$ 324,241
Customer funds on deposit, including short credits (end of period)	$ 331,375	$ 402,587
Public banking:		
Number of issues	215	236
Aggregate amount of offerings	$ 11,927,733	$ 10,649,121
Capital markets:		
Total volumes	$ 20,031,917	$ 15,871,265
Net inventory (end of period)	$ 631,412	$ 494,264
Retail:		
Retail employee representatives (end of period)	124	122
Independent registered representatives (end of period)	211	218
Structured finance:		
Lock production/TBA volume	$ 1,148,214	$ 1,061,512
Clearing:		
Total tickets	505,221	406,131
Correspondents (end of period)	148	156
Securities lending:		
Interest-earning assets - stock borrowed (end of period)	$ 1,540,803	$ 1,614,291
Interest-bearing liabilities - stock loaned (end of period)	$ 1,408,636	$ 1,431,009

Mortgage Origination Segment

The following table presents certain information regarding the operating results of our mortgage origination segment (in thousands).

	Three Months Ended March 31,		Variance
	2019	2018	2019 vs 2018
Net interest income (expense)	$ (467)	$ 941	$ (1,408)
Noninterest income	118,033	127,102	(9,069)
Noninterest expense	114,677	130,704	(16,027)
Income (loss) before income taxes	$ 2,889	$ (2,661)	$ 5,550

The mortgage lending business is subject to variables that can impact loan origination volume, including seasonal and interest rate fluctuations. Historically, the mortgage origination segment has typically experienced increased loan origination volume from purchases of homes during the spring and summer, when more people tend to move and buy or sell homes. An increase in mortgage interest rates tends to result in decreased loan origination volume from refinancings, while a decrease in mortgage interest rates tends to result in increased loan origination volume from refinancings. As average mortgage interest rates have increased slightly between the three months ended March 31, 2018 and the comparable period in 2019, refinancing volume as a percentage of total origination volume has decreased from 20.3% to 16.2% during the same periods. Changes in mortgage interest rates have historically had a lesser impact on home purchases volume than on refinancing volume. While mortgage interest rates have decreased since December 2018, we do not anticipate that current mortgage interest rates will significantly impact the percentage mix of refinancing and purchase volumes relative to total loan origination volume for the remainder of 2019.

The mortgage origination segment primarily originates its mortgage loans through a retail channel, with limited lending through its affiliated business arrangements (“ABAs”). For the three months ended March 31, 2019, funded volume through ABAs was approximately 7% of the mortgage origination segment’s total loan volume. Currently, PrimeLending owns a 51% membership interest in four ABAs. We expect production within the ABA channel to increase to approximately 10% of the total loan volume of the mortgage origination segment during 2019.

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The following table provides certain details regarding our mortgage loan originations and selected information for the periods indicated below (dollars in thousands).

	Three Months Ended March 31,				
	2019		2018		
	Amount	% of Total	Amount	% of Total	Variance 2019 vs 2018
Mortgage Loan Originations - units	10,278		12,311		(2,033)
Mortgage Loan Originations - volume	$ 2,447,042		$ 2,959,797		$ (512,755)
Mortgage Loan Originations:					
Conventional	$ 1,490,935	60.93 %	$ 1,759,233	59.44 %	$ (268,298)
Government	598,181	24.45 %	756,078	25.54 %	(157,897)
Jumbo	195,140	7.97 %	275,609	9.31 %	(80,469)
Other	162,786	6.65 %	168,877	5.71 %	(6,091)
	$ 2,447,042	100.00 %	$ 2,959,797	100.00 %	$ (512,755)
Home purchases	$ 2,050,760	83.81 %	$ 2,358,692	79.69 %	$ (307,932)
Refinancings	396,282	16.19 %	601,105	20.31 %	(204,823)
	$ 2,447,042	100.00 %	$ 2,959,797	100.00 %	$ (512,755)
Texas	$ 468,883	19.16 %	$ 564,624	19.08 %	$ (95,741)
California	237,734	9.72 %	386,238	13.05 %	(148,504)
Florida	197,087	8.05 %	217,308	7.34 %	(20,221)
Arizona	112,706	4.61 %	116,791	3.95 %	(4,085)
Ohio	103,536	4.23 %	127,209	4.30 %	(23,673)
New York	98,710	4.03 %	72,899	2.46 %	25,811
Maryland	86,754	3.55 %	89,198	3.01 %	(2,444)
Washington	82,140	3.36 %	95,624	3.23 %	(13,484)
South Carolina	76,893	3.14 %	106,640	3.60 %	(29,747)
North Carolina	74,813	3.06 %	90,588	3.06 %	(15,775)
All other states	907,786	37.09 %	1,092,678	36.92 %	(184,892)
	$ 2,447,042	100.00 %	$ 2,959,797	100.00 %	$ (512,755)
Mortgage Loan Sales - volume	$ 2,711,114		$ 3,185,438		$ (474,324)

The mortgage origination segment’s total loan origination volume during the three months ended March 31, 2019 decreased 17.3% compared to the same period in 2018, while income before income taxes during the three months ended March 31, 2019 increased 208.6% compared to the same period in 2018. The increase in income before taxes during the three months ended March 31, 2019, compared to the same period in 2018, was primarily due to decreases in segment operating costs and variable compensation and an increase in the change in net fair value and related derivative activity of interest rate lock commitments (“IRLCs”) and loans held for sale. These changes were partially

offset by a decrease in net gains from sale of loans.

Net interest income (expense) decreased $1.4 million during the three months ended March 31, 2019, compared to the same period in 2018. Net interest income (expense) during the comparative periods was primarily comprised of interest incurred on a warehouse line of credit held with the Bank as well as related intercompany financing costs, partially offset by interest earned on loans held for sale. Year-over-year increases in average mortgage interest rates contributed to increased yield on loans held for sale in the mortgage origination segment; however, an increase in average borrowing costs offset the benefit of the increase in average mortgage interest rates.

Noninterest income was comprised of the items set forth in the table below (in thousands).

	Three Months Ended March 31,		Variance
	2019	2018	2019 vs 2018
Net gains from sale of loans	$ 89,351	$ 106,105	$ (16,754)
Mortgage loan origination fees and other related income	21,873	20,926	947
Other mortgage production income:			
Change in net fair value and related derivative activity:			
IRLCs and loans held for sale	3,203	(4,539)	7,742
Mortgage servicing rights asset	(2,666)	(1,142)	(1,524)
Servicing fees	6,272	5,752	520
Total noninterest income	$ 118,033	$ 127,102	$ (9,069)

The decrease in net gains from sale of loans during the three months ended March 31, 2019, compared with the same period in 2018, was primarily a result of a decrease in total loan sales volume in addition to a slight decrease in average

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loan sales margin during the three months ended March 31, 2019, compared with the same period in 2018. The increase in mortgage loan origination fees was primarily the result of an increase in average mortgage loan origination fees, partially offset by a decrease in total loan origination volume, during three months ended March 31, 2019, compared with the same period in 2018.

Noninterest income included the impact of changes between periods in the net fair value of the mortgage origination segment's IRLCs and loans held for sale and the related activity associated with forward commitments used by the mortgage origination segment to mitigate interest rate risk associated with its IRLCs and mortgage loans held for sale. The increase during the three months ended March 31, 2019, was primarily the result of an increase in the volume of IRLCs and mortgage loans, partially offset by a decrease in the average value of individual IRLCs and mortgage loans.

The mortgage origination segment sells substantially all mortgage loans it originates to various investors in the secondary market, the majority servicing released. During the three months ended March 31, 2019, the mortgage origination segment retained servicing on approximately 5% of loans sold, compared to 18% during the same period in 2018. The mortgage origination segment's determination of whether to retain or release servicing on mortgage loans it sells is impacted by, among other things, changes in mortgage interest rates, and refinancing and market activity. The related MSR asset was valued at $63.8 million on $5.3 billion of serviced loan volume at March 31, 2019, compared with a value of $67.9 million on $5.3 billion of serviced loan volume at December 31, 2018. The mortgage origination segment may, from time to time, manage its MSR asset through different strategies, including varying the percentage of mortgage loans sold servicing released and opportunistically selling MSR assets. The mortgage origination segment has also retained servicing on certain loans sold to the banking segment. Gains and losses associated with such sales to the banking segment and the related MSR asset are eliminated in consolidation. The mortgage origination segment uses derivative financial instruments, including U.S. Treasury bond futures and options, Eurodollar futures and forward commitments to sell mortgage-backed securities, as a means to mitigate interest rate risk associated with its MSR asset. Changes in the net fair value of the MSR asset and the related derivatives associated with normal customer payments, changes in discount rates, prepayment speed assumptions and customer payoffs resulted in net losses of $2.7 million during the three months ended March 31, 2019, compared to net losses of $1.1 million during the three months ended March 31, 2018. Additionally, net servicing income was $3.1 million during the three months ended March 31, 2019, compared with $2.5 million during the same period in 2018.

Noninterest expenses were comprised of the items set forth in the table below (in thousands).

	Three Months Ended March 31,		Variance 2019 vs 2018
	2019	2018	
Variable compensation	$ 38,929	$ 46,292	$ (7,363)
Segment operating costs	69,041	76,678	(7,637)
Lender paid closing costs	3,498	4,480	(982)

Servicing expense	3,209	3,254	(45)
Total noninterest expense	$ 114,677	$ 130,704	$ (16,027)

During the third quarter of 2018, PrimeLending committed to close certain underperforming branches, while at the same time reducing its fulfillment and corporate support staff. The purpose of this initiative was to better align resources and lower PrimeLending's cost structure. Costs under this initiative are expected to total up to $1.3 million, of which $0.9 million has been incurred to date. The decrease in segment operating costs during the three months ended March 31, 2019, compared to the three months ended March 31, 2018, was primarily the result of this initiative. We expect to realize additional cost savings as a result of this initiative of approximately $1.0 million per month for the remainder of 2019 compared to average monthly segment operating costs during the first three quarters of 2018. These savings have been partially offset by costs related to the "Technology Enhancements and Corporate Initiatives" discussed in detail within the "Overview" above.

Employees' compensation and benefits accounted for the majority of noninterest expenses incurred during all periods presented. Variable compensation comprised 49.3% and 50.8% of total employees' compensation and benefits expenses during the three months ended March 31, 2019 and 2018, respectively. Variable compensation, which is primarily driven by loan origination volume, tends to fluctuate to a greater degree than loan origination volume because mortgage loan originator and fulfillment staff incentive compensation plans are structured to pay at increasing rates as higher monthly volume tiers are achieved. However, certain other incentive compensation plans driven by non-mortgage production criteria may alter this trend. In addition to decreases in loan origination volume each year, a decrease in the average incentive rate paid and the impact of incentive plans driven by non-mortgage production criteria contributed to the decreases in variable compensation between the three months ended 2019 and 2018.

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While total loan origination volume decreased 17.3% for the three months ended March 31, 2019, compared to the same period in 2018, the mortgage origination segment's operating costs decreased 10.0%. The decrease in segment operating costs during the three months ended March 31, 2019, compared to the same period in 2018, was primarily due to a decrease in non-variable compensation and related benefits, in addition to decreases in professional services, and occupancy costs, partially offset by an increase in software license and maintenance fees. The decrease in non-variable compensation and benefits and occupancy costs during the three months ended March 31, 2019, was due to a reduction in fulfillment and corporate staff and the closure of certain underperforming branches primarily resulting from PrimeLending's cost reduction initiative implemented during the third quarter of 2018.

In exchange for a higher interest rate, customers may opt to have PrimeLending pay certain costs associated with the origination of their mortgage loans ("lender paid closing costs"). Fluctuations in lender paid closing costs are not always aligned with fluctuations in loan origination volume. Other loan pricing conditions, including the mortgage loan interest rate, loan origination fees paid by the customer, and a customer's willingness to pay closing costs, may influence fluctuations in lender paid closing costs.

Between January 1, 2010 and March 31, 2019, the mortgage origination segment sold mortgage loans totaling $110.3 billion. These loans were sold under sales contracts that generally include provisions that hold the mortgage origination segment responsible for errors or omissions relating to its representations and warranties that loans sold meet certain requirements, including representations as to underwriting standards and the validity of certain borrower representations in connection with the loan. In addition, the sales contracts typically require the refund of purchased servicing rights plus certain investor servicing costs if a loan experiences an early payment default. While the mortgage origination segment sold loans prior to 2010, it does not anticipate experiencing significant losses in the future on loans originated prior to 2010 as a result of investor claims under these provisions of its sales contracts.

When a claim for indemnification of a loan sold is made by an agency, investor, or other party, the mortgage origination segment evaluates the claim and determines if the claim can be satisfied through additional documentation or other deliverables. If the claim is valid and cannot be satisfied in that manner, the mortgage origination segment negotiates with the claimant to reach a settlement of the claim. Settlements typically result in either the repurchase of a loan or reimbursement to the claimant for losses incurred on the loan.

Following is a summary of the mortgage origination segment's claims resolution activity relating to loans sold between January 1, 2010 and March 31, 2019 (dollars in thousands).

	Original Loan Balance		Loss Recognized	
		% of Loans		% of Loans

	Amount	Sold	Amount	Sold
Claims resolved with no payment	$ 198,172	0.18%	$ —	0.00%
Claims resolved because of a loan repurchase or payment to an investor for losses incurred (1)	194,108	0.00%	9,068	0.01%
	$ 392,280	0.18%	$ 9,068	0.01%

(1) Losses incurred include refunded purchased servicing rights.

The mortgage origination segment has established a specific claims indemnification liability reserve for each loan it concludes its obligation to a claimant is both probable and reasonably estimable. An additional indemnification liability reserve has been established for probable agency, investor or other party losses that may have been incurred, but not yet reported to the mortgage origination segment based upon a reasonable estimate of such losses.

At both March 31, 2019 and December 31, 2018, the mortgage origination segment's indemnification liability reserve totaled $10.7 million. The related provision for indemnification losses was $0.5 million and $0.7 million during the three months ended March 31, 2019 and 2018, respectively.

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Insurance Segment

The following table presents certain information regarding the operating results of our insurance segment (in thousands).

	Three Months Ended March 31,		Variance
	2019	2018	2019 vs 2018
Net interest income	$ 642	$ 787	$ (145)
Noninterest income	36,492	35,018	1,474
Noninterest expense	30,338	31,013	(675)
Income before income taxes	$ 6,796	$ 4,792	$ 2,004

The increase in income before income taxes during the three months ended March 31, 2019, compared with the same period in 2018, was primarily due to a decrease in loss and LAE resulting from fewer weather-related events and an increase in the fair value of the equity securities held by the insurance segment, partially offset by a decline in net insurance premiums earned.

The insurance segment is subject to claims arising out of severe weather, the incidence and severity of which are inherently unpredictable. Generally, the insurance segment’s insured risks exhibit higher losses in the second and third calendar quarters due to a seasonal concentration of weather-related events in its primary geographic markets. Although weather-related losses (including hail, high winds, tornadoes, monsoons and hurricanes) can occur in any calendar quarter, the second calendar quarter, historically, has experienced the highest frequency of losses associated with these events. Hurricanes, however, are more likely to occur in the third calendar quarter of the year.

The insurance segment periodically reviews the pricing of its primary products in each state of operation utilizing a consulting actuarial firm to supplement normal review processes resulting in filings to adjust rates as deemed necessary. The benefit of these rate actions are not fully realized until all policies under the old rates expire, which typically occurs one year from the date of rate change implementation. Concurrently, business concentrations are reviewed and actions initiated, including cancellation of agents, non-renewal of policies and cessation of new business writing on certain products in problematic geographic areas. The insurance segment has historically utilized rate actions to reduce the rate of premium growth for targeted areas when compared with the patterns exhibited in prior quarters and years and reduced the insurance segment’s exposure to volatile weather in these areas, but competition and customer response to rate increases has negatively impacted customer retention and new business. The insurance segment aims to manage and diversify its business concentrations and products to minimize the effects of future weather-related events. We believe that current initiatives to evaluate product offerings and pricing, streamline business activities and expenses and mitigate the impact of future significant weather-related events are critical to improving the insurance segment’s long-term financial condition and operating results.

The insurance segment's operations resulted in combined ratios of 86.5% and 85.2% during the three months ended March 31, 2019 and 2018, respectively. The increase in the combined ratio during the three months ended March 31, 2019, compared with the same period in 2018, was primarily driven by an increase in the underwriting expense ratio due to a decrease in net insurance premiums earned, partially offset by a slight decrease in the loss and LAE ratio. The combined ratio is a measure of overall insurance underwriting profitability, and represents the sum of loss and LAE and underwriting expenses divided by net insurance premiums earned.

Noninterest income during the three months ended March 31, 2019 and 2018, respectively, was primarily comprised of net insurance premiums earned of $33.2 million and $34.3 million, respectively. The year-over-year decrease in net insurance premiums earned was driven by the effect of historical decreases in net premiums written.

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Direct insurance premiums written by major product line are presented in the table below (in thousands).

	Three Months Ended March 31,		Variance
	2019	2018	2019 vs 2018
Direct Insurance Premiums Written:			
Homeowners	$ 11,974	$ 12,473	$ (499)
Fire	9,767	10,204	(437)
Mobile Home	9,049	9,731	(682)
Commercial	—	653	(653)
Other	—	24	(24)
	$ 30,790	$ 33,085	$ (2,295)

The total direct insurance premiums written for our three largest insurance product lines decreased by $1.6 million during the three months ended March 31, 2019, compared with the same period in 2018. These continued decreases were due to increased competition, rationalization of product offerings, including the non-renewal of commercial policies, and continued review of geographic concentrations. In the fourth quarter of 2018, in connection with a strategic initiative to focus on our insurance segment's key markets, we discontinued writing new insurance policies in five non-core states. Approximately 2% and 3% of total net insurance premiums earned during the three months ended March 31, 2019 and 2018, respectively, were from these five non-core states. As our insurance policies are generally in effect for one year, we anticipate that the full impact of this initiative on premiums earned will be complete by the end of 2019.

Net insurance premiums earned by major product line are presented in the table below (in thousands).

	Three Months Ended March 31,		Variance
	2019	2018	2019 vs 2018
Net Insurance Premiums Earned:			
Homeowners	$ 12,912	$ 12,935	$ (23)
Fire	10,532	10,584	(52)
Mobile Home	9,759	10,093	(334)
Commercial	—	678	(678)
Other	—	25	(25)
	$ 33,203	$ 34,315	$ (1,112)

Net insurance premiums earned during the three months ended March 31, 2019 decreased compared to the same period in 2018, primarily due to the decrease in net premiums written noted above.

Noninterest expenses during the three months ended March 31, 2019 and 2018, respectively, include both loss and LAE expenses and policy acquisition and other underwriting expenses, as well as other noninterest expenses. Loss and LAE are recognized based on formula and case basis estimates for losses reported with respect to direct business, estimates of unreported losses based on past experience and deduction of amounts for reinsurance placed with reinsurers. Loss and LAE ratios during the three months ended March 31, 2019, compared with the same period in 2018, were 45.0% and 45.3%, respectively. The slight decrease in the loss and LAE ratio during the three months ended March 31, 2019, compared to the same period in 2018, was primarily driven by a 3.9% decrease in loss and LAE expense due to fewer weather-related events, while premiums earned decreased by 3.2%.

Policy acquisition and other underwriting expenses encompass all expenses incurred relative to NLC operations, and include elements of multiple categories of expense otherwise reported as noninterest expense in the consolidated statements of operations.

The following table details the calculation of the underwriting expense ratio for the periods presented (dollars in thousands).

	Three Months Ended March 31,		Variance
	2019	2018	2019 vs 2018
Amortization of deferred policy acquisition costs	$ 8,092	$ 9,090	$ (998)
Other underwriting expenses	6,562	5,531	1,031
Total	14,654	14,621	33
Agency expenses	(865)	(921)	56
Total less agency expenses	$ 13,789	$ 13,700	$ 89
Net insurance premiums earned	$ 33,203	$ 34,315	$ (1,112)
Expense ratio	41.5 %	39.9 %	1.6 %

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Corporate

Corporate includes certain activities not allocated to specific business segments. These activities include holding company financing and investing activities, merchant banking investment opportunities and management and administrative services to support the overall operations of the Company. Hilltop's merchant banking investment activities include the identification of attractive opportunities for capital deployment in companies engaged in non-financial activities through its merchant bank subsidiary, Hilltop Opportunity Partners LLC.

As a holding company, Hilltop's primary investment objectives are to support capital deployment for organic growth and to preserve capital to be deployed through acquisitions, dividend payments and potential stock repurchases. Investment and interest income during the three months ended March 31, 2019, was primarily comprised of dividend income from merchant banking investment activities, in addition to interest income earned on intercompany notes.

Interest expense during each period was primarily associated with recurring quarterly interest expense of $1.9 million incurred on our $150.0 million aggregate principal amount of 5% senior notes due 2025 ("Senior Notes"). Additionally, we incurred interest expense of $1.0 million and $0.8 million during the three months ended March 31, 2019 and 2018, respectively, on junior subordinated debentures of $67.0 million issued by PCC (the "Debentures").

Noninterest income during the three months ended March 31, 2019, included activity associated with the Hilltop Plaza investment. Noninterest income during the three months ended March 31, 2018, included losses associated with the write-off of a long-term, legacy investment held by our merchant bank subsidiary.

Noninterest expenses during the three months ended March 31, 2019 and 2018, respectively, were primarily comprised of employees' compensation and benefits, occupancy expenses and professional fees, including corporate governance, legal and transaction costs. Noninterest expenses during the three months ended March 31, 2019 included costs of $5.8 million associated with significant Leadership Changes and other efficiency initiative-related charges which, in the aggregate, totaled $6.5 million before income taxes.

Financial Condition

The following discussion contains a more detailed analysis of our financial condition at March 31, 2019, as compared with December 31, 2018.

Securities Portfolio

At March 31, 2019, investment securities consisted of securities of the U.S. Treasury, U.S. government and its agencies, obligations of municipalities and other political subdivisions, primarily in the State of Texas, mortgage-backed, corporate debt, and equity securities. We may categorize investments as trading, available for sale, held to maturity and equity securities.

Trading securities are bought and held principally for the purpose of selling them in the near term and are carried at fair value, marked to market through operations and held at the Bank and the Hilltop Broker-Dealers. Securities that may be sold in response to changes in market interest rates, changes in securities' prepayment risk, increases in loan demand, general liquidity needs and other similar factors are classified as available for sale and are carried at estimated fair value, with unrealized gains and losses recorded in accumulated other comprehensive income (loss). Equity investments are carried at fair value, with all changes in fair value recognized in net income. Securities are classified as held to maturity based on the intent and ability of our management, at the time of purchase, to hold such securities to maturity. These securities are carried at amortized cost.

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The table below summarizes our securities portfolio (in thousands).

	March 31, 2019	December 31, 2018
Trading securities, at fair value		
U.S. Treasury securities	$ 2,121	$ 7,945
U.S. government agencies:		
Bonds	1,485	1,494
Residential mortgage-backed securities	334,090	309,455
Commercial mortgage-backed securities	2,225	4,239
Collateralized mortgage obligations	119,178	206,813
Corporate debt securities	67,442	59,293
States and political subdivisions	134,572	126,748
Unit investment trusts	33,276	19,913
Private-label securitized product	5,520	5,680
Other	3,386	3,886
	703,295	745,466
Securities available for sale, at fair value		
U.S. Treasury securities	10,617	11,538
U.S. government agencies:		
Bonds	86,011	85,611
Residential mortgage-backed securities	471,087	385,074
Commercial mortgage-backed securities	11,962	11,772
Collateralized mortgage obligations	340,765	276,399
Corporate debt securities	50,102	53,302
States and political subdivisions	49,307	51,962
	1,019,851	875,658
Securities held to maturity, at amortized cost		
U.S. Treasury securities	9,932	9,903
U.S. government agencies:		
Bonds	39,018	39,018
Residential mortgage-backed securities	21,154	21,903
Commercial mortgage-backed securities	112,056	87,065
Collateralized mortgage obligations	137,053	142,474
States and political subdivisions	50,652	50,649
	369,865	351,012
Equity securities, at fair value	19,343	19,679
Total securities portfolio	$ 2,112,354	$ 1,991,815

We had net unrealized losses of $1.4 million and $11.1 million at March 31, 2019 and December 31, 2018, respectively, related to the available for sale investment portfolio, and net unrealized losses associated with the securities held to maturity portfolio of $4.1 million and $9.9 million at March 31, 2019 and December 31, 2018, respectively. We had net unrealized gains of $0.5 million and net unrealized losses of $0.9 million at March 31, 2019

and December 31, 2018, respectively, related to equity securities.

Banking Segment

The banking segment's securities portfolio plays a role in the management of our interest rate sensitivity and generates additional interest income. In addition, the securities portfolio is used to meet collateral requirements for public and trust deposits, securities sold under agreements to repurchase and other purposes. The available for sale and equity securities portfolios serve as a source of liquidity. Historically, the Bank's policy has been to invest primarily in securities of the U.S. government and its agencies, obligations of municipalities in the State of Texas and other high grade fixed income securities to minimize credit risk. At March 31, 2019, the banking segment's securities portfolio of $1.3 billion was comprised of trading securities of $2.5 million, available for sale securities of $924.7 million, equity securities of $0.1 million and held to maturity securities of $369.9 million, in addition to $14.0 million of other investments included in other assets within the consolidated balance sheets.

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Broker-Dealer Segment

The broker-dealer segment holds securities to support sales, underwriting and other customer activities. The interest rate risk inherent in holding these securities is managed by setting and monitoring limits on the size and duration of positions and on the length of time the securities can be held. The Hilltop Broker-Dealers are required to carry their securities at fair value and record changes in the fair value of the portfolio in operations. Accordingly, the securities portfolio of the Hilltop Broker-Dealers included trading securities of $700.8 million at March 31, 2019. In addition, the Hilltop Broker-Dealers enter into transactions that represent commitments to purchase and deliver securities at prevailing future market prices to facilitate customer transactions and satisfy such commitments. Accordingly, the Hilltop Broker-Dealers’ ultimate obligations may exceed the amount recognized in the financial statements. These securities, which are carried at fair value and reported as securities sold, not yet purchased in the consolidated balance sheets, had a value of $69.4 million at March 31, 2019.

Insurance Segment

The insurance segment’s primary investment objective is to preserve capital and manage for a total rate of return. NLC’s strategy is to purchase securities in sectors that represent the most attractive relative value. Our insurance segment invests the premiums it receives from policyholders until they are needed to pay policyholder claims or other expenses. At March 31, 2019, the insurance segment’s securities portfolio was comprised of $95.2 million in available for sale securities, $19.2 million of equity securities and $6.0 million of other investments included in other assets within the consolidated balance sheets.

Loan Portfolio

Consolidated loans held for investment are detailed in the tables below, classified by portfolio segment and segregated between those considered to be purchased credit impaired, or PCI, loans and all other originated or acquired loans (in thousands). PCI loans showed evidence of credit deterioration on the date of acquisition that made it probable that all contractually required principal and interest payments would not be collected.

March 31, 2019	Loans, excluding PCI Loans	PCI Loans	Total Loans Held for Investment
Commercial real estate	$ 2,912,553	$ 27,302	$ 2,939,855
Commercial and industrial	1,487,231	6,205	1,493,436
Construction and land development	995,399	299	995,698

1-4 family residential	639,449	56,760	696,209
Mortgage warehouse	350,896	—	350,896
Consumer	43,723	5	43,728
Broker-dealer	491,857	—	491,857
Loans held for investment, gross	6,921,108	90,571	7,011,679
Allowance for loan losses	(55,350)	(3,459)	(58,809)
Loans held for investment, net of allowance	$ 6,865,758	$ 87,112	$ 6,952,870

December 31, 2018	Loans, excluding PCI Loans	PCI Loans	Total Loans Held for Investment
Commercial real estate	$ 2,912,407	$ 27,713	$ 2,940,120
Commercial and industrial	1,501,892	6,559	1,508,451
Construction and land development	932,445	464	932,909
1-4 family residential	620,936	58,327	679,263
Mortgage warehouse	243,806	—	243,806
Consumer	47,537	9	47,546
Broker-dealer	578,363	—	578,363
Loans held for investment, gross	6,837,386	93,072	6,930,458
Allowance for loan losses	(56,594)	(2,892)	(59,486)
Loans held for investment, net of allowance	$ 6,780,792	$ 90,180	$ 6,870,972

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Banking Segment

The loan portfolio constitutes the major earning asset of the banking segment and typically offers the best alternative for obtaining the maximum interest spread above the banking segment's cost of funds. The overall economic strength of the banking segment generally parallels the quality and yield of its loan portfolio.

The banking segment's total loans held for investment, net of the allowance for loan losses, were $7.4 billion and $7.5 billion at March 31, 2019 and December 31, 2018, respectively. The banking segment's loan portfolio includes warehouse lines of credit extended to PrimeLending of $2.3 billion, of which $891.0 million and $1.2 billion was drawn at March 31, 2019 and December 31, 2018, respectively. Amounts advanced against the warehouse line of credit are eliminated from net loans held for investment on our consolidated balance sheets. The banking segment does not generally participate in syndicated loan transactions and has no foreign loans in its portfolio.

At March 31, 2019, the banking segment had loan concentrations (loans to borrowers engaged in similar activities) that exceeded 10% of total loans in its real estate portfolio. The areas of concentration within our real estate portfolio were non-construction commercial real estate loans, construction and land development loans and non-construction residential real estate loans which represented 45.1%, 15.3% and 10.7%, respectively, of the banking segment's total loans held for investment, excluding warehouse lines of credit extended to PrimeLending, at March 31, 2019. The banking segment's loan concentrations were within regulatory guidelines at March 31, 2019.

Broker-Dealer Segment

The loan portfolio of the broker-dealer segment consists primarily of margin loans to customers and correspondents. These loans are collateralized by the securities purchased or by other securities owned by the clients and, because of collateral coverage ratios, are believed to present minimal collectability exposure. Additionally, these loans are subject to a number of regulatory requirements as well as the Hilltop Broker-Dealers' internal policies. The broker-dealer segment's total loans held for investment, net of the allowance for loan losses, were $491.8 million and $578.2 million at March 31, 2019 and December 31, 2018, respectively. This decrease from December 31, 2018 to March 31, 2019 was primarily attributable to a decrease of $84.0 million, or 35%, in receivables from correspondents.

Mortgage Origination Segment

The loan portfolio of the mortgage origination segment consists of loans held for sale, primarily single-family residential mortgages funded through PrimeLending, and IRLCs with customers pursuant to which we agree to originate a mortgage loan on a future date at an agreed-upon interest rate. The components of the mortgage origination

segment’s loans held for sale and IRLCs are as follows (in thousands).

	March 31, 2019	December 31, 2018
Loans held for sale:		
Unpaid principal balance	$ 896,824	$ 1,213,068
Fair value adjustment	31,383	44,707
	$ 928,207	$ 1,257,775
IRLCs:		
Unpaid principal balance	$ 1,165,947	$ 677,267
Fair value adjustment	29,859	17,421
	$ 1,195,806	$ 694,688

The mortgage origination segment uses forward commitments to mitigate interest rate risk associated with its loans held for sale and IRLCs. The notional amounts of these forward commitments at March 31, 2019 and December 31, 2018 were $1.7 billion and $1.4 billion, respectively, while the related estimated fair values were ($5.8) million and ($11.6) million, respectively.

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Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses inherent in our existing loan portfolio. Management has responsibility for determining the level of the allowance for loan losses, subject to review by the Loan Review Committee of the Bank's board of directors.

The allowance for loan losses is subject to regulatory examination, which may take into account such factors as the methodology used to calculate the allowance and the size of the allowance. While we believe we have an appropriate allowance for our existing loan portfolio at March 31, 2019, additional provisions for losses on existing loans may be necessary in the future.

For additional information regarding the allowance for loan losses, refer to the sections captioned "Allowance for Loan Losses" and "Critical Accounting Policies and Estimates" in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2018 Form 10-K. There have been no significant changes in our application of critical accounting policies related to the allowance for loan losses since December 31, 2018.

The Bank acquired certain assets and assumed certain liabilities of FNB in connection with the FNB Transaction. The FNB Transaction is discussed in detail in Note 6 to the consolidated financial statements included in the Company's 2018 Form 10-K. As discussed in the "Factors Affecting Comparability of Results of Operations" section above, the loss-share agreements with the FDIC were terminated during the fourth quarter of 2018. Accordingly, loans which were previously referred to as either "covered loans" if covered by the loss-share agreements or otherwise "non-covered loans" are now collectively referred to as "loans held for investment."

The following tables present the activity in our allowance for loan losses within our loan portfolio for the periods presented (in thousands). Substantially all of the activity shown below occurred within the banking segment.

	Three Months Ended March 31,	
Loans Held for Investment	2019	2018
Balance, beginning of period	$ 59,486	$ 63,686
Provision (recovery) for loan losses	951	(1,807)
Recoveries of loans previously charged off:		
Commercial real estate	—	—
Commercial and industrial	648	2,474
Construction and land development	—	—

1-4 family residential	14	28
Mortgage warehouse	—	—
Consumer	10	12
Broker-dealer	—	—
Covered	—	3
Total recoveries	672	2,517
Loans charged off:		
Commercial real estate	—	—
Commercial and industrial	1,818	1,183
Construction and land development	—	—
1-4 family residential	28	6
Mortgage warehouse	—	—
Consumer	454	13
Broker-dealer	—	—
Covered	—	—
Total charge-offs	2,300	1,202
Net recoveries (charge-offs)	(1,628)	1,315
Balance, end of period	$ 58,809	$ 63,194
Allowance for loan losses as a percentage of gross loans held for investment	0.84 %	0.99 %

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The distribution of the allowance for loan losses among loan types and the percentage of the loans for that type to gross loans, excluding unearned income, within our loan portfolio are presented in the tables below (dollars in thousands).

	March 31, 2019			December 31, 2018		
Loans Held for Investment	Reserve	% of Gross Non-Covered Loans		Reserve	% of Gross Non-Covered Loans	
Commercial real estate	$ 26,845	41.93	%	$ 27,100	42.42	%
Commercial and industrial	21,268	21.30	%	21,980	21.77	%
Construction and land development	5,908	14.20	%	6,061	13.46	%
1-4 family residential	4,331	9.93	%	3,956	9.80	%
Mortgage warehouse	—	5.00	%	—	3.52	%
Consumer	409	0.62	%	267	0.69	%
Broker-dealer	48	7.02	%	122	8.34	%
Total	$ 58,809	100.00	%	$ 59,486	100.00	%

Potential Problem Loans

Potential problem loans consist of loans that are performing in accordance with contractual terms but for which management has concerns about the ability of an obligor to continue to comply with repayment terms because of the obligor's potential operating or financial difficulties. Management monitors these loans and reviews their performance on a regular basis. Potential problem loans contain potential weaknesses that could improve, persist or further deteriorate. If such potential weaknesses persist without improving, the loan is subject to downgrade, typically to substandard, in three to six months. Potential problem loans are assigned a grade of special mention within our risk grading matrix. Potential problem loans do not include PCI loans because PCI loans exhibited evidence of credit deterioration at acquisition that made it probable that all contractually required principal payments would not be collected. Within our loan portfolio, we had three credit relationships totaling $6.8 million of potential problem loans at March 31, 2019, compared with seven credit relationships totaling $17.8 million of potential problem loans at December 31, 2018.

Non-Performing Assets

The following table presents components of our non-performing assets (dollars in thousands).

	March 31, 2019	December 31, 2018	Variance 2019 vs 2018
Loans accounted for on a non-accrual basis:			
Commercial real estate	$ 5,332	$ 5,324	$ 8
Commercial and industrial	13,350	14,870	(1,520)
Construction and land development	1,473	3,278	(1,805)
1-4 family residential	10,662	10,437	225
Mortgage warehouse	—	—	—
Consumer	38	41	(3)
Broker-dealer	—	—	—
	$ 30,855	$ 33,950	$ (3,095)
Non-performing loans as a percentage of total loans	0.38 %	0.41 %	(0.03) %
Other real estate owned	$ 23,066	$ 27,578	$ (4,512)
Other repossessed assets	$ 30	$ 68	$ (38)
Non-performing assets	$ 53,951	$ 61,596	$ (7,645)
Non-performing assets as a percentage of total assets	0.40 %	0.45 %	(0.05) %
Non-PCI loans past due 90 days or more and still accruing	$ 77,045	$ 83,131	$ (6,086)
Troubled debt restructurings included in accruing loans held for investment	$ 1,313	$ 1,339	$ (26)

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At March 31, 2019, non-accrual loans included 17 commercial and industrial relationships with loans secured by accounts receivable, life insurance, oil and gas, livestock and equipment. Non-accrual loans at March 31, 2019 also included $3.3 million of loans secured by residential real estate which were classified as loans held for sale. At December 31, 2018, non-accrual loans included 16 commercial and industrial relationships with loans secured by accounts receivable, life insurance, oil and gas, livestock, and equipment. Non-accrual loans at December 31, 2018 included $3.4 million of loans secured by residential real estate which were classified as loans held for sale.

OREO decreased from December 31, 2018 to March 31, 2019, due $6.0 million of disposals and fair valuation decreases related to 20 properties, offset by the addition of 15 properties totaling $1.5 million. At both March 31, 2019 and December 31, 2018, the OREO balance was primarily comprised of commercial properties.

Non-PCI loans past due 90 days or more and still accruing at March 31, 2019 and December 31, 2018, were primarily comprised of loans held for sale and guaranteed by U.S. government agencies, including loans that are subject to repurchase, or have been repurchased, by PrimeLending. Loans past due 90 days or more and still accruing include Government National Mortgage Association related loans subject to repurchase within our mortgage origination segment.

At March 31, 2019, troubled debt restructurings (“TDRs”) were comprised of $1.3 million of loans that are considered to be performing and non-performing loans of $3.6 million reported in non-accrual loans. At December 31, 2018, TDRs were comprised of $1.3 million of loans that are considered to be performing and non-performing loans of $5.9 million reported in non-accrual loans.

Current Expected Credit Loss (CECL) Standard

In June 2016, the FASB issued ASU 2016-13 which sets forth a “current expected credit loss” (CECL) model for measuring credit losses on certain exposures. The new model will require the measurement of expected credit losses to reflect the lifetime of an exposure (or pool of exposures) represented by certain financial instruments to be based on historical experience, current conditions and reasonable and supportable forecasts. Under the current “incurred loss” model, the allowance for loan losses is based only on estimates of loan losses that currently exist in the portfolio as of the reporting date. The new model will become effective on January 1, 2020, and applies to most debt instruments, trade receivables, lease receivables, reinsurance receivables, financial guarantees and loan commitments. Our ongoing transition CECL efforts include reassessing risk ratings, developing and validating the new model, collecting and processing new data and establishing internal controls and accounting policies. New model development has increased expenses associated with the collection and processing of data, and these increases in expenses will continue for the remainder of 2019 as we perform parallel calculations of our allowance for loan and other credit losses under both the current allowance model and under the CECL model. We expect that the new model may require a material increase in our allowance for loan losses upon adoption on January 1, 2020.

Insurance Losses and Loss Adjustment Expenses

At both March 31, 2019 and December 31, 2018, our gross reserve for unpaid losses and LAE was $20.6 million, including estimated recoveries from reinsurance of $2.5 million and $3.2 million, respectively. The liability for insurance losses and LAE represents estimates of the ultimate unpaid cost of all losses incurred, including losses for claims that have not yet been reported, less a reduction for reinsurance recoverables related to those liabilities. Separately for each of NLIC and ASIC and each line of business, our actuaries estimate the liability for unpaid losses and LAE by first estimating ultimate losses and LAE amounts for each year, prior to recognizing the impact of reinsurance. 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.

NLC's liabilities for unpaid losses represent the best estimate at a given point in time of what it expects to pay claimants, based on facts, circumstances and historical trends then known. During the loss settlement period, additional facts regarding individual claims may become known and, consequently, it often becomes necessary to refine and adjust the estimates of liability. This process is commonly referred to as loss development. To project ultimate losses and LAE, our actuaries examine the paid and reported losses and LAE for each accident year and multiply these values by a loss development factor. The selected loss development factors are based upon a review of the loss development patterns

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indicated in the companies' historical loss triangles (which utilize historical trends, adjusted for changes in loss costs, underwriting standards, policy provisions, product mix and other factors) and applicable insurance industry loss development 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.

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

Deposits

The banking segment's major source of funds and liquidity is its deposit base. Deposits provide funding for its investments in loans and securities. Interest paid for deposits must be managed carefully to control the level of interest expense and overall net interest margin. The composition of the deposit base (time deposits versus interest-bearing demand deposits and savings), as discussed in more detail within the section entitled "Liquidity and Capital Resources — Banking Segment" below, is constantly changing due to the banking segment's needs and market conditions.

The table below presents the average balance of, and rate paid on, consolidated deposits (dollars in thousands).

	Three Months Ended March 31,				Year Ended December 31,	
	2019		2018		2018	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Noninterest-bearing demand deposits	$ 2,520,057	0.00 %	$ 2,419,725	0.00 %	$ 2,504,599	0.00 %
Interest-bearing demand deposits	4,301,403	1.03 %	3,868,738	0.44 %	4,025,259	0.66 %
Savings deposits	182,161	0.18 %	222,232	0.12 %	201,328	0.11 %
Time deposits	1,342,322	1.83 %	1,403,687	1.27 %	1,341,886	1.42 %
	$ 8,345,943	0.83 %	$ 7,914,382	0.44 %	$ 8,073,072	0.57 %

Borrowings

Our borrowings are shown in the table below (dollars in thousands).

	March 31, 2019		December 31, 2018		
		Average		Average	Variance
	Balance	Rate Paid	Balance	Rate Paid	2019 vs 2018
Short-term borrowings	$ 914,525	2.79 %	$ 1,065,807	2.15 %	$ (151,282)
Notes payable	225,372	5.35 %	228,872	4.95 %	(3,500)
Junior subordinated debentures	67,012	6.06 %	67,012	5.47 %	-
	$ 1,206,909	3.49 %	$ 1,361,691	2.70 %	$ (154,782)

Short-term borrowings consisted of federal funds purchased, securities sold under agreements to repurchase, borrowings at the Federal Home Loan Bank ("FHLB") and short-term bank loans. The decrease in short-term borrowings at March 31, 2019, compared with December 31, 2018, included a decrease in borrowings in our banking segment primarily associated with the increased utilization of available internal funds and a decrease in securities sold under agreements to repurchase used by the Bank and the Hilltop Broker-Dealers to finance their activities, partially offset by an increase in short-term bank loans used by the Hilltop Broker-Dealers to finance their activities. Notes payable at March 31, 2019, was comprised of $148.6 million related to Senior Notes, net of loan origination fees, FHLB borrowings with an original maturity greater than one year within the banking segment of $4.3 million, insurance segment line of credit and term notes of $27.5 million, and mortgage origination segment borrowings of $44.9 million.

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Liquidity and Capital Resources

Hilltop is a financial holding company whose assets primarily consist of the stock of its subsidiaries and invested assets. Hilltop's primary investment objectives, as a holding company, are to support capital deployment for organic growth and to preserve capital to be deployed through acquisitions, dividend payments and potential stock repurchases. At March 31, 2019, Hilltop had $62.6 million in cash and cash equivalents, an increase of $18.7 million from $43.9 million at December 31, 2018. This increase in cash and cash equivalents was primarily due to $46.5 million of dividends from subsidiaries, partially offset by $7.5 million in cash dividends declared, and other general corporate expenses. Subject to regulatory restrictions, Hilltop has received, and may also continue to receive, dividends from its subsidiaries. If necessary or appropriate, we may also finance acquisitions with the proceeds from equity or debt issuances. We believe that Hilltop's liquidity is sufficient for the foreseeable future, with current short-term liquidity needs including operating expenses, interest on debt obligations, dividend payments to stockholders and potential stock repurchases.

Dividend Declaration

On April 25, 2019, our board of directors declared a quarterly cash dividend of $0.08 per common share, payable on May 31, 2019 to all common stockholders of record as of the close of business on May 15, 2019.

Future dividends on our common stock are subject to the determination by the board of directors based on an evaluation of our earnings and financial condition, liquidity and capital resources, the general economic and regulatory climate, our ability to service any equity or debt obligations senior to our common stock and other factors.

Senior Notes due 2025

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 we redeem 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 our 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. At March 31, 2019, $150.0 million of our Senior Notes was outstanding.

Junior Subordinated Debentures

The Debentures have a stated term of 30 years with maturities ranging from July 2031 to February 2038 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 March 31, 2019 was 5.87%. The Debentures are callable at PCC's discretion with a minimum of a 45- to 60- day notice. At March 31, 2019, $67.0 million of PCC's Debentures were outstanding.

Stock Repurchase Program

In January 2019, our board of directors authorized a new stock repurchase program through January 2020, pursuant to which we are authorized to repurchase, in the aggregate, up to $50.0 million of our outstanding common stock, inclusive of repurchases to offset dilution related to grants of stock-based compensation. Under the stock repurchase program authorized, we may repurchase shares in the open market or through privately negotiated transactions as permitted under Rule 10b-18 promulgated under the Exchange Act. The extent to which we repurchase our shares and the timing of such repurchases depends upon market conditions and other corporate considerations, as determined by Hilltop's management team. Repurchased shares will be returned to our pool of authorized but unissued shares of common stock.

Regulatory Capital

We are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements may prompt certain actions by regulators that, if undertaken, could have a direct material adverse effect on our financial condition and results of operations. Under capital adequacy and regulatory requirements, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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In order to avoid limitations on capital distributions, including dividend payments, stock repurchases and certain discretionary bonus payments to executive officers, Basel III requires banking organizations to maintain a capital conservation buffer above minimum risk-based capital requirements measured relative to risk-weighted assets. The phase-in of the capital conservation buffer requirements began on January 1, 2016 for Hilltop and PlainsCapital, and the requirements were fully phased in as of January 1, 2019.

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. All of the debentures issued to the PCC Statutory Trusts I, II, III and IV (the “Trusts”), less the common stock of the Trusts, qualified as Tier 1 capital as of March 31, 2019, under guidance issued by the Board of Governors of the Federal Reserve System.

At March 31, 2019, Hilltop had a total capital to risk weighted assets ratio of 17.64%, Tier 1 capital to risk weighted assets ratio of 17.22%, common equity Tier 1 capital to risk weighted assets ratio of 16.75% and a Tier 1 capital to average assets, or leverage, ratio of 13.22%. Accordingly, Hilltop’s actual capital amounts and ratios in accordance with Basel III exceeded the regulatory capital requirements including conservation buffer in effect at the end of the period.

At March 31, 2019, PlainsCapital had a total capital to risk weighted assets ratio of 14.60%, Tier 1 capital to risk weighted assets ratio of 13.89%, common equity Tier 1 capital to risk weighted assets ratio of 13.89% and a Tier 1 capital to average assets, or leverage, ratio of 12.61%. Accordingly, PlainsCapital’s actual capital amounts and ratios in accordance with Basel III resulted in it being considered “well-capitalized” and exceeded the regulatory capital requirements including conservation buffer in effect at the end of the period.

We discuss regulatory capital requirements in more detail in Note 16 to our consolidated financial statements, as well as under the caption “Government Supervision and Regulation — Corporate — Capital Adequacy Requirements and BASEL III” set forth in Part I, Item I. of our 2018 Form 10-K.

Banking Segment

Within our banking segment, our primary uses of cash are for customer withdrawals and extensions of credit as well as our borrowing costs and other operating expenses. Our asset and liability group is responsible for continuously monitoring our liquidity position to ensure that our assets and liabilities are managed in a manner that will meet our short-term and long-term cash requirements. Our goal is to manage our liquidity position in a manner such that we can meet our customers’ short-term and long-term deposit withdrawals and anticipated and unanticipated increases in loan

demand without penalizing earnings. Funds invested in short-term marketable instruments, the continuous maturing of other interest-earning assets, cash flows from self-liquidating investments such as mortgage-backed securities and collateralized mortgage obligations, the possible sale of available for sale securities and the ability to securitize certain types of loans provide sources of liquidity from an asset perspective. The liability base provides sources of liquidity through deposits and the maturity structure of short-term borrowed funds. For short-term liquidity needs, we utilize federal fund lines of credit with correspondent banks, securities sold under agreements to repurchase, borrowings from the Federal Reserve and borrowings under lines of credit with other financial institutions. For intermediate liquidity needs, we utilize advances from the FHLB. To supply liquidity over the longer term, we have access to brokered time deposits, term loans at the FHLB and borrowings under lines of credit with other financial institutions.

Within our banking segment, deposit flows are affected by the level of market interest rates, the interest rates and products offered by competitors, the volatility of equity markets and other factors. The Bank regularly evaluates its deposit products and pricing structures relative to the market to maintain competitiveness over time.

The Bank's 15 largest depositors, excluding Hilltop and Hilltop Securities, accounted for 10.37% of the Bank's total deposits, and the Bank's five largest depositors, excluding Hilltop and Hilltop Securities, accounted for 5.83% of the Bank's total deposits at March 31, 2019. The loss of one or more of our largest Bank customers, or a significant decline in our deposit balances due to ordinary course fluctuations related to these customers' businesses, could adversely affect our liquidity and might require us to raise deposit rates to attract new deposits, purchase federal funds or borrow funds on a short-term basis to replace such deposits.

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Broker-Dealer Segment

The Hilltop Broker-Dealers rely on their equity capital, short-term bank borrowings, interest-bearing and non-interest-bearing client credit balances, correspondent deposits, securities lending arrangements, repurchase agreement financings and other payables to finance their assets and operations, subject to their respective compliance with broker-dealer net capital and customer protection rules. At March 31, 2019, Hilltop Securities had credit arrangements with five unaffiliated banks with maximum aggregate commitments of up to $725.0 million. These credit arrangements are used to finance securities owned, securities held for correspondent accounts, receivables in customer margin accounts and underwriting activities. These credit arrangements are provided on an “as offered” basis and are not committed lines of credit. In addition, Hilltop Securities has a committed revolving credit facility with an unaffiliated bank of up to $50.0 million. At March 31, 2019, Hilltop Securities had borrowed $221.0 million under its credit arrangements and had no borrowings under its credit facility.

Mortgage Origination Segment

PrimeLending funds the mortgage loans it originates through warehouse lines of credit maintained with the Bank which have an aggregate commitment of $2.3 billion, of which $891.0 million was drawn at March 31, 2019. PrimeLending sells substantially all mortgage loans it originates to various investors in the secondary market, the majority with servicing released. As these mortgage loans are sold in the secondary market, PrimeLending pays down its warehouse line of credit with the Bank. In addition, PrimeLending has an available line of credit with an unaffiliated bank of up to $1.0 million, of which no borrowings were outstanding at March 31, 2019.

PrimeLending owns a 100% membership interest in PrimeLending Ventures Management, LLC (“Ventures Management”) which holds an ownership interest in and is the managing member of certain ABAs. At March 31, 2019, these ABAs have combined available lines of credit totaling $130.0 million, $70.0 million of which was with a single unaffiliated bank, and the remaining $60.0 million of which was with the Bank. At March 31, 2019, Ventures Management had outstanding borrowings of $51.3 million, $6.4 million of which was with the Bank.

Insurance Segment

Our insurance operating subsidiary’s primary investment objectives are to preserve capital and manage for a total rate of return. NLC’s strategy is to purchase securities in sectors that represent the most attractive relative value. Bonds, cash and short-term investments of $130.0 million, or 83.8%, equity investments of $19.2 million and other investments of $6.0 million comprised NLC’s $155.2 million in total cash and investments at March 31, 2019. NLC does not currently have any significant concentration in both direct and indirect guarantor exposure or any investments in subprime mortgages. NLC has custodial agreements with an unaffiliated bank and an investment management agreement with DTF Holdings, LLC.

Impact of Inflation and Changing Prices

Our consolidated financial statements included herein have been prepared in accordance with GAAP, which presently require us to measure financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on our operations is reflected in increased operating costs. In management’s opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond our control, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the U.S. government, its agencies and various other governmental regulatory authorities.

Off-Balance Sheet Arrangements; Commitments; Guarantees

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in our consolidated balance sheets.

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We enter into contractual loan commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of our commitments to extend credit are contingent upon customers maintaining specific credit standards until the time of loan funding. We minimize our exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. We assess the credit risk associated with certain commitments to extend credit and have recorded a liability related to such credit risk in our consolidated financial statements.

Standby letters of credit are written conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, we would be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek recovery from the customer. Our policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

In the aggregate, the Bank had outstanding unused commitments to extend credit of $2.3 billion at March 31, 2019 and outstanding financial and performance standby letters of credit of $95.1 million at March 31, 2019.

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 account 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.

Critical Accounting Policies and Estimates

Our accounting policies are fundamental to understanding our management’s discussion and analysis of our results of operations and financial condition. We have identified certain significant accounting policies which involve a higher degree of judgment and complexity in making certain estimates and assumptions that affect amounts reported in our consolidated financial statements. The significant accounting policies which we believe to be the most critical in preparing our consolidated financial statements relate to allowance for loan losses, reserve for losses and LAE, goodwill and identifiable intangible assets, mortgage loan indemnification liability, mortgage servicing rights asset and acquisition accounting. Since December 31, 2018, there have been no changes in critical accounting policies as further described under “Critical Accounting Policies and Estimates” and Note 1 to the Consolidated Financial Statements in our 2018 Form 10-K, except that we no longer consider estimates related to the FDIC Indemnification Asset to be a critical accounting policy.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our assessment of market risk as of March 31, 2019 indicates there are no material changes in the quantitative and qualitative disclosures from those previously reported in our 2018 Form 10-K, except as discussed below.

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risks. Market risk represents the risk of loss that may result from changes in value of a financial instrument as a result of changes in interest rates, market prices and the credit perception of an issuer. The disclosure is not meant to be a precise indicator of expected future losses, but rather an indicator of reasonably possible losses, and therefore our actual results may differ from any of the following projections. This forward-looking information provides an indicator of how we view and manage our ongoing market risk exposures.

Banking Segment

The banking segment is engaged primarily in the business of investing funds obtained from deposits and borrowings in interest-earning loans and investments, and our primary component of market risk is sensitivity to changes in interest rates. Consequently, our earnings depend to a significant extent on our net interest income, which is the difference between interest income on loans and investments and our interest expense on deposits and borrowings. To the extent

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that our interest-bearing liabilities do not reprice or mature at the same time as our interest-bearing assets, we are subject to interest rate risk and corresponding fluctuations in net interest income.

There are several common sources of interest rate risk that must be effectively managed if there is to be minimal impact on our earnings and capital. Repricing risk arises largely from timing differences in the pricing of assets and liabilities. Reinvestment risk refers to the reinvestment of cash flows from interest payments and maturing assets at lower or higher rates. Basis risk exists when different yield curves or pricing indices do not change at precisely the same time or in the same magnitude such that assets and liabilities with the same maturity are not all affected equally. Yield curve risk refers to unequal movements in interest rates across a full range of maturities.

We have employed asset/liability management policies that attempt to manage our interest-earning assets and interest-bearing liabilities, thereby attempting to control the volatility of net interest income, without having to incur unacceptable levels of risk. We employ procedures which include interest rate shock analysis, repricing gap analysis and balance sheet decomposition techniques to help mitigate interest rate risk in the ordinary course of business. In addition, the asset/liability management policies permit the use of various derivative instruments to manage interest rate risk or hedge specified assets and liabilities.

An interest rate sensitive asset or liability is one that, within a defined time period, either matures or experiences an interest rate change in line with general market interest rates. The management of interest rate risk is performed by analyzing the maturity and repricing relationships between interest-earning assets and interest-bearing liabilities at specific points in time (“GAP”) and by analyzing the effects of interest rate changes on net interest income over specific periods of time by projecting the performance of the mix of assets and liabilities in varied interest rate environments. Interest rate sensitivity reflects the potential effect on net interest income resulting from a movement in interest rates. A company is considered to be asset sensitive, or have a positive GAP, when the amount of its interest-earning assets maturing or repricing within a given period exceeds the amount of its interest-bearing liabilities also maturing or repricing within that time period. Conversely, a company is considered to be liability sensitive, or have a negative GAP, when the amount of its interest-bearing liabilities maturing or repricing within a given period exceeds the amount of its interest-earning assets also maturing or repricing within that time period. During a period of rising interest rates, a negative GAP would tend to affect net interest income adversely, while a positive GAP would tend to result in an increase in net interest income. During a period of falling interest rates, a negative GAP would tend to result in an increase in net interest income, while a positive GAP would tend to affect net interest income adversely. However, it is our intent to remain relatively balanced so that changes in rates do not have a significant impact on earnings.

As illustrated in the table below, the banking segment is asset sensitive overall. Loans that adjust daily or monthly to the Wall Street Journal Prime rate comprise a large percentage of interest sensitive assets and are the primary cause of the banking segment’s asset sensitivity. To help neutralize interest rate sensitivity, the banking segment has kept the terms of most of its borrowings under one year as shown in the following table (dollars in thousands).

	March 31, 2019 3 Months or Less	> 3 Months to 1 Year	> 1 Year to 3 Years	> 3 Years to 5 Years	> 5 Years	Total
Interest sensitive assets:						
Loans	$ 4,151,100	$ 1,250,579	$ 1,524,568	$ 285,206	$ 201,882	$ 7,413,335
Securities	160,133	171,511	316,053	147,987	500,530	1,296,214
Federal funds sold and securities purchased under agreements to resell	438	—	—	—	—	438
Other interest sensitive assets	150,113	—	—	—	29,218	179,331
Total interest sensitive assets	4,461,784	1,422,090	1,840,621	433,193	731,630	8,889,318
Interest sensitive liabilities:						
Interest bearing checking	$ 3,955,623	$ —	$ —	$ —	$ —	$ 3,955,623
Savings	185,015	—	—	—	—	185,015
Time deposits	158,288	874,499	303,189	13,007	46,261	1,395,244
Notes payable and other borrowings	189,368	549	3,704	592	5,001	199,214
Total interest sensitive liabilities	4,488,294	875,048	306,893	13,599	51,262	5,735,096
Interest sensitivity gap	$ (26,510)	$ 547,042	$ 1,533,728	$ 419,594	$ 680,368	$ 3,154,222
Cumulative interest sensitivity	$ (26,510)	$ 520,532	$ 2,054,260	$ 2,473,854	$ 3,154,222	

gap

Percentage of cumulative gap to total interest sensitive assets	(0.30)	%	5.86	%	23.11	%	27.83	%	35.48	%

The positive GAP in the interest rate analysis indicates that banking segment net interest income would generally rise if rates increase. Because of inherent limitations in interest rate GAP analysis, the banking segment uses multiple interest

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rate risk measurement techniques. Simulation analysis is used to subject the current repricing conditions to rising and falling interest rates in increments and decrements of 1%, 2% and 3% to determine the effect on net interest income changes for the next twelve months. The banking segment also measures the effects of changes in interest rates on economic value of equity by discounting projected cash flows of deposits and loans. Economic value changes in the investment portfolio are estimated by discounting future cash flows and using duration analysis. Investment security prepayments are estimated using current market information. We believe the simulation analysis presents a more accurate picture than the GAP analysis. Simulation analysis recognizes that deposit products may not react to changes in interest rates as quickly or with the same magnitude as earning assets contractually tied to a market rate index. The sensitivity to changes in market rates varies across deposit products. Also, unlike GAP analysis, simulation analysis takes into account the effect of embedded options in the securities and loan portfolios as well as any off-balance-sheet derivatives.

The table below shows the estimated impact of increases of 1%, 2% and 3% and a decrease of 0.5% in interest rates on net interest income and on economic value of equity for the banking segment at March 31, 2019 (dollars in thousands).

Change in Interest Rates (basis points)	Changes in Net Interest Income		Changes in Economic Value of Equity	
	Amount	Percent	Amount	Percent
+300	$ 58,181	16.83 %	$ 282,201	15.53 %
+200	$ 35,806	10.36 %	$ 196,883	10.84 %
+100	$ 18,621	5.39 %	$ 95,533	5.26 %
-50	$ (8,188)	(2.37) %	$ (51,884)	(2.86) %

The projected changes in net interest income and economic value of equity to changes in interest rates at March 31, 2019 were in compliance with established internal policy guidelines. These projected changes are based on numerous assumptions of growth and changes in the mix of assets or liabilities.

Our portfolio includes loans that periodically reprice or mature prior to the end of an amortized term. Some of our variable-rate loans remain at applicable rate floors, which may delay and/or limit changes in interest income in a period of changing rates. If interest rates were to fall, the impact on our interest income would be limited by these rate floors. If interest rates were to rise, yields on the portion of our portfolio that remain at applicable rate floor would rise more slowly than increases in market interest rates. Short-term interest rates have risen faster than medium and longer term rates, which has reduced the favorable impact of our asset-sensitive position on net interest income. Any changes in interest rates across the term structure will continue to impact net interest income and net interest margin. The impact of rate movements will change with the shape of the yield curve, including any changes in steepness or flatness and inversions at any points on the yield curve.

Broker-Dealer Segment

Our broker-dealer segment is exposed to market risk primarily due to its role as a financial intermediary in customer transactions, which may include purchases and sales of securities, use of derivatives and securities lending activities, and in our trading activities, which are used to support sales, underwriting and other customer activities. We are subject to the risk of loss that may result from the potential change in value of a financial instrument as a result of fluctuations in interest rates, market prices, investor expectations and changes in credit ratings of the issuer.

Our broker-dealer segment is exposed to interest rate risk as a result of maintaining inventories of interest rate sensitive financial instruments and other interest earning assets including customer and correspondent margin loans and receivables and securities borrowing activities. Our exposure to interest rate risk is also from our funding sources including customer and correspondent cash balances, bank borrowings, repurchase agreements and securities lending activities. Interest rates on customer and correspondent balances and securities produce a positive spread with rates generally fluctuating in parallel.

With respect to securities held, our interest rate risk is managed by setting and monitoring limits on the size and duration of positions and on the length of time securities can be held. Much of the interest rates on customer and correspondent margin loans are indexed and can vary daily. Our funding sources are generally short term with interest rates that can vary daily.

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The following table categorizes the broker-dealer segment’s net trading securities which are subject to interest rate and market price risk (dollars in thousands).

	March 31, 2019				
	1 Year or Less	> 1 Year to 5 Years	> 5 Years to 10 Years	> 10 Years	Total
Trading securities, at fair value					
Municipal obligations	$ 55	$ 2,459	$ 34,378	$ 97,680	$ 134,572
U.S. government and government agency obligations	519	(19,372)	(5,952)	449,097	424,292
Corporate obligations	1,908	10,135	10,842	18,186	41,071
Total debt securities	2,482	(6,778)	39,268	564,963	599,935
Corporate equity securities	(5,184)	-	-	-	(5,184)
Other	36,661	-	-	-	36,661
	$ 33,959	$ (6,778)	$ 39,268	$ 564,963	$ 631,412
Weighted average yield					
Municipal obligations	0.00 %	1.78 %	2.53 %	3.55 %	3.26 %
U.S. government and government agency obligations	2.35 %	2.27 %	2.40 %	5.33 %	5.13 %
Corporate obligations	2.79 %	3.11 %	3.98 %	5.89 %	3.89 %

Derivatives are used to support certain customer programs and hedge our related exposure to interest rate risks.

Our broker-dealer segment is engaged in various brokerage and trading activities that expose us to credit risk arising from potential non-performance from counterparties, customers or issuers of securities. This risk is managed by setting and monitoring position limits for each counterparty, conducting periodic credit reviews of counterparties, reviewing concentrations of securities and conducting business through central clearing organizations.

Collateral underlying margin loans to customers and correspondents and with respect to securities lending activities is marked to market daily and additional collateral is required as necessary.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the supervision and participation of our Principal Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report.

Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to the Company’s management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except that we implemented internal controls and key system functionality to enable the preparation of financial information upon the adoption of ASC 842, Leases.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

For a description of material pending legal proceedings, see the discussion set forth under the heading “Legal Matters” in Note 13 to our Consolidated Financial Statements, which is incorporated by reference herein.

Item 1A. Risk Factors.

There have been no material changes to the risk factors disclosed under “Item 1A. Risk Factors” of our 2018 Form 10-K. For additional information concerning our risk factors, please refer to “Item 1A. Risk Factors” of our 2018 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On March 31, 2019, we issued an aggregate of 7,958 shares of common stock under the Hilltop Holdings Inc. 2012 Equity Incentive Plan to certain non-employee directors as compensation for their service on our board of directors during the first quarter of 2019. The shares were issued pursuant to the exemption from registration under Section 4(a)(2) of the Securities Act.

On February 20, 2019, we issued to Mr. Winges, Chief Executive Officer of Hilltop Securities, an aggregate of 93,363 restricted stock units under the Hilltop Holdings Inc. 2012 Equity Incentive Plan. The restricted stock units will vest, and an equal number of shares of common stock will be deliverable, on the third anniversary of the date of grant. Such securities were issued pursuant to the exemption from registration under section 4(a)(2) of the Securities Act.

The following table details our repurchases of shares of common stock during the three months ended March 31, 2019.

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

		Paid per Share	Programs	of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1 - January 31, 2019	—	$ —	—	$ 50,000,000
February 1 - February 28, 2019	—	—	—	50,000,000
March 1 - March 31, 2019	—	—	—	50,000,000
Total	—	$ —	—	

(1) On January 25, 2019, we announced that our board of directors authorized a new stock repurchase program under which we may repurchase, in the aggregate, up to $50.0 million of our outstanding common stock through January 2020, which is inclusive of repurchases to offset dilution related to grants of stock-based compensation. As of March 31, 2019, we had made no repurchases under this stock repurchase program. On January 25, 2019, the stock repurchase program announced on January 25, 2018 authorizing us to repurchase up to $50.0 million of our outstanding common stock, which was subsequently increased to $100.0 million in July 2018, expired. We repurchased an aggregate of $59.0 million of our then outstanding common stock under this expired stock repurchase program.

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Item 6. Exhibits.

Exhibit Number	Description of Exhibit
2.1	Termination Agreement among Federal Deposit Insurance Corporation, as Receiver of First National Bank, Edinburg, Texas, PlainsCapital Bank and Federal Deposit Insurance Corporation, acting in its corporate capacity, dated as of October 17, 2018 (filed as Exhibit 99.1 to the Registrant’s Current Report on Form 8-K file October 22, 2018 (File no. 001-31987) and incorporated herein by reference).
10.1	Separation and Release Agreement, dated as of February 21, 2019, by and between Hilltop Holdings Inc. and any of its parents, predecessors, successors, subsidiaries, affiliates or related companies, organizations, managers, officers, directors, executives, agents, plan fiduciaries, shareholders, attorneys and/or representatives, and Alan B. White (filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on February 22, 2019 (File No. 001-31987) and incorporated herein by reference).
10.2	Retention Agreement, dated as of February 19, 2019, by and between Hill A. Feinberg and Hilltop Holdings Inc. (filed as Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed on February 22, 2019 (File No. 001-31987) and incorporated herein by reference).
10.3*	Form of Restricted Stock Unit Award Agreement (Performance-Based Vesting) for awards beginning in 2019.
10.4*	Form of Restricted Stock Unit Award Agreement (Time-Based Vesting for Section 16 Officers) for awards beginning in 2019.
10.5*	Form of Restricted Stock Unit Award Agreement (Time-Based Vesting for Non-Section 16 Officers) for awards beginning in 2019.
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase

101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

*Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	HILLTOP HOLDINGS INC.	
Date: April 25, 2019	By:	/s/ William B. Furr
		William B. Furr
		Chief Financial Officer
		(Principal Financial Officer and duly authorized officer)