

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2023

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

Commission File Number: 1-31987

**Hilltop Holdings Inc.**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of incorporation or organization)

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

**6565 Hillcrest Avenue**  
**Dallas, TX**  
(Address of principal executive offices)

**75205**  
(Zip Code)

**(214) 855-2177**  
(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	HTH	New York Stock Exchange

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the registrant's common stock outstanding at July 21, 2023 was 65,091,808.

**HILLTOP HOLDINGS INC.**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED JUNE 30, 2023**

**TABLE OF CONTENTS**

**PART I — FINANCIAL INFORMATION**

Item 1.	Financial Statements	
	Consolidated Balance Sheets . . . . .	3
	Consolidated Statements of Operations . . . . .	4
	Consolidated Statements of Comprehensive Income (Loss). . . . .	5
	Consolidated Statements of Stockholders' Equity. . . . .	6
	Consolidated Statements of Cash Flows . . . . .	8
	Notes to Consolidated Financial Statements . . . . .	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations . .	43
Item 3.	Quantitative and Qualitative Disclosures About Market Risk . . . . .	85
Item 4.	Controls and Procedures . . . . .	89

**PART II — OTHER INFORMATION**

Item 1.	Legal Proceedings . . . . .	90
Item 1A.	Risk Factors . . . . .	90
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds . . . . .	92
Item 5.	Other Information . . . . .	92
Item 6.	Exhibits . . . . .	92

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements.

#### HILLTOP HOLDINGS INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (in thousands, except share and per share data) (Unaudited)

	June 30, 2023	December 31, 2022
<b>Assets</b>		
Cash and due from banks	\$ 1,584,709	\$ 1,579,512
Federal funds sold	650	650
Assets segregated for regulatory purposes	50,711	67,737
Securities purchased under agreements to resell	143,982	118,070
Securities:		
Trading, at fair value	696,649	755,032
Available for sale, at fair value, net (amortized cost of \$1,658,036 and \$1,788,557, respectively)	1,526,869	1,658,766
Held to maturity, at amortized cost, net (fair value of \$755,186 and \$785,335, respectively)	847,437	875,532
Equity, at fair value	258	200
	3,071,213	3,289,530
Loans held for sale	1,333,044	982,616
Loans held for investment, net of unearned income	8,354,122	8,092,673
Allowance for credit losses	(109,306)	(95,442)
Loans held for investment, net	8,244,816	7,997,231
Broker-dealer and clearing organization receivables	1,474,177	1,038,055
Premises and equipment, net	176,574	184,950
Operating lease right-of-use assets	97,979	102,443
Mortgage servicing rights	95,101	100,825
Other assets	588,166	518,899
Goodwill	267,447	267,447
Other intangible assets, net	9,772	11,317
Total assets	\$ 17,138,341	\$ 16,259,282
<b>Liabilities and Stockholders' Equity</b>		
Deposits:		
Noninterest-bearing	\$ 3,451,438	\$ 3,968,862
Interest-bearing	7,712,739	7,346,887
Total deposits	11,164,177	11,315,749
Broker-dealer and clearing organization payables	1,306,646	966,470
Short-term borrowings	1,628,637	970,056
Securities sold, not yet purchased, at fair value	74,761	53,023
Notes payable	364,531	346,654
Operating lease liabilities	119,999	126,759
Other liabilities	389,336	417,042
Total liabilities	15,048,087	14,195,753
Commitments and contingencies (see Notes 13 and 14)		
Stockholders' equity:		
Hilltop stockholders' equity:		
Common stock, \$0.01 par value, 125,000,000 shares authorized; 65,070,667 and 64,684,625 shares issued and outstanding at June 30, 2023 and December 31, 2022, respectively	651	647
Additional paid-in capital	1,050,191	1,046,331
Accumulated other comprehensive loss	(131,718)	(133,531)
Retained earnings	1,144,624	1,123,636
Deferred compensation employee stock trust, net	450	481
Employee stock trust (21,126 and 22,566 shares, at cost, at June 30, 2023 and December 31, 2022, respectively)	(599)	(640)
Total Hilltop stockholders' equity	2,063,599	2,036,924
Noncontrolling interests	26,655	26,605
Total stockholders' equity	2,090,254	2,063,529
Total liabilities and stockholders' equity	\$ 17,138,341	\$ 16,259,282

*See accompanying notes.*

**HILLTOP HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data)  
(Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Interest income:				
Loans, including fees	\$ 138,397	\$ 98,728	\$ 261,776	\$ 189,136
Securities borrowed	18,515	10,498	35,583	19,315
Securities:				
Taxable	26,719	17,288	52,321	32,869
Tax-exempt	2,566	2,141	5,754	4,560
Other	27,229	6,478	49,419	8,790
Total interest income	<u>213,426</u>	<u>135,133</u>	<u>404,853</u>	<u>254,670</u>
Interest expense:				
Deposits	54,726	5,456	90,550	9,649
Securities loaned	16,413	8,512	31,759	15,984
Short-term borrowings	17,706	3,020	30,150	5,065
Notes payable	3,973	3,809	7,826	8,246
Other	2,342	2,280	4,597	3,679
Total interest expense	<u>95,160</u>	<u>23,077</u>	<u>164,882</u>	<u>42,623</u>
Net interest income	118,266	112,056	239,971	212,047
Provision for credit losses	14,836	5,336	17,167	5,451
Net interest income after provision for credit losses	<u>103,430</u>	<u>106,720</u>	<u>222,804</u>	<u>206,596</u>
Noninterest income:				
Net gains from sale of loans and other mortgage production income	48,535	97,543	88,501	208,437
Mortgage loan origination fees	41,440	42,378	70,217	74,440
Securities commissions and fees	29,606	34,757	60,829	71,903
Investment and securities advisory fees and commissions	32,037	32,002	58,885	61,707
Other	39,034	32,593	74,714	39,214
Total noninterest income	<u>190,652</u>	<u>239,273</u>	<u>353,146</u>	<u>455,701</u>
Noninterest expense:				
Employees' compensation and benefits	176,908	205,327	344,725	405,346
Occupancy and equipment, net	23,025	24,231	45,890	48,997
Professional services	12,594	16,246	23,291	26,309
Other	54,450	52,739	103,541	104,241
Total noninterest expense	<u>266,977</u>	<u>298,543</u>	<u>517,447</u>	<u>584,893</u>
Income before income taxes	27,105	47,450	58,503	77,404
Income tax expense	7,167	12,127	10,797	17,942
Net income	19,938	35,323	47,706	59,462
Less: Net income attributable to noncontrolling interest	1,805	2,063	3,773	3,952
Income attributable to Hilltop	<u>\$ 18,133</u>	<u>\$ 33,260</u>	<u>\$ 43,933</u>	<u>\$ 55,510</u>
Earnings per common share:				
Basic	<u>\$ 0.28</u>	<u>\$ 0.45</u>	<u>\$ 0.68</u>	<u>\$ 0.73</u>
Diluted	<u>\$ 0.28</u>	<u>\$ 0.45</u>	<u>\$ 0.68</u>	<u>\$ 0.73</u>
Weighted average share information:				
Basic	<u>65,025</u>	<u>73,693</u>	<u>64,963</u>	<u>76,389</u>
Diluted	<u>65,054</u>	<u>73,838</u>	<u>64,993</u>	<u>76,569</u>

*See accompanying notes.*

**HILLTOP HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(in thousands)**  
**(Unaudited)**

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Net income	\$ 19,938	\$ 35,323	\$ 47,706	\$ 59,462
Other comprehensive income (loss):				
Change in fair value of cash flow hedges, net taxes of \$1,010, \$808, \$4 and \$2,911, respectively	3,386	14,532	137	36,409
Net unrealized gains (losses) on securities available-for-sale, net taxes of \$(3,308), \$(8,804), \$(148) and \$(19,481), respectively	(11,097)	(31,775)	(1,234)	(67,318)
Reclassification adjustment for gains (losses) included in net income, net taxes of \$1, \$0, \$1 and \$3, respectively	6	—	6	10
Adjustment for unrealized losses on securities transferred from available-for-sale to held-to-maturity, net taxes of \$0, \$0, \$0 and \$(17,033), respectively	—	—	—	(56,690)
Amortization of unrealized losses on securities transferred from available-for-sale to held-to-maturity, net taxes of \$435, \$760, \$873 and \$760, respectively	1,447	2,529	2,904	2,529
Comprehensive income (loss)	<u>13,680</u>	<u>20,609</u>	<u>49,519</u>	<u>(25,598)</u>
Less: comprehensive income attributable to noncontrolling interest	<u>1,805</u>	<u>2,063</u>	<u>3,773</u>	<u>3,952</u>
Comprehensive income (loss) applicable to Hilltop	<u>\$ 11,875</u>	<u>\$ 18,546</u>	<u>\$ 45,746</u>	<u>\$ (29,550)</u>

*See accompanying notes.*

**HILLTOP HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands)  
(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Deferred Compensation Employee Stock Trust, Net	Employee Stock Trust Shares	Employee Stock Trust Amount	Total Hilltop Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
Balance, March 31, 2022	79,439	\$ 1,275,649	\$ (80,565)	\$ 1,267,415	\$ 744	5	\$ (104)	\$ 2,463,933	\$ 26,662	\$ 2,490,595
Net income	—	—	—	33,260	—	—	—	33,260	2,063	35,323
Other comprehensive loss	—	—	(14,714)	—	—	—	—	(14,714)	—	(14,714)
Stock-based compensation expense	—	2,105	—	—	—	—	—	2,105	—	2,105
Common stock issued to board members	6	153	—	—	—	—	—	153	—	153
Issuance of common stock related to share-based awards, net	—	(7)	—	—	—	—	—	(7)	—	(7)
Repurchases of common stock	(14,869)	(238,639)	—	(203,549)	—	—	—	(442,336)	—	(442,336)
Dividends on common stock (\$0.15 per share)	—	—	—	(11,918)	(49)	29	(850)	(11,918)	—	(11,918)
Deferred compensation plan	—	—	—	—	—	—	—	(899)	—	(899)
Net cash distributed to noncontrolling interest	—	—	—	—	—	—	—	—	(899)	(899)
Balance, June 30, 2022	64,576	\$ 1,039,261	\$ (95,279)	\$ 1,085,208	\$ 695	34	\$ (954)	\$ 2,029,577	\$ 27,826	\$ 2,057,403
Balance, March 31, 2023	65,023	\$ 1,044,774	\$ (125,461)	\$ 1,136,901	\$ 446	21	\$ (599)	\$ 2,056,711	\$ 27,087	\$ 2,083,798
Net income	—	—	—	18,133	—	—	—	18,133	1,805	19,938
Other comprehensive loss	—	—	(6,257)	—	—	—	—	(6,257)	—	(6,257)
Stock-based compensation expense	—	5,984	—	—	—	—	—	5,984	—	5,984
Common stock issued to board members	5	150	—	—	—	—	—	150	—	150
Issuance of common stock related to share-based awards, net	43	(717)	—	—	—	—	—	(716)	—	(716)
Dividends on common stock (\$0.16 per share)	—	—	—	(10,410)	4	—	—	(10,410)	—	(10,410)
Deferred compensation plan	—	—	—	—	—	—	—	—	—	—
Net cash distributed to noncontrolling interest	—	—	—	—	—	—	—	—	(2,237)	(2,237)
Balance, June 30, 2023	65,071	\$ 1,050,191	\$ (131,718)	\$ 1,144,624	\$ 450	21	\$ (599)	\$ 2,063,599	\$ 26,655	\$ 2,090,254

See accompanying notes.

**HILLTOP HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)**  
(in thousands)  
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Deferred Compensation Employee Stock Trust, Net	Employee Stock Trust Shares	Employee Stock Trust Amount	Total Hilltop Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
Balance, December 31, 2021	78,965	\$ 790	\$ 1,274,446	\$ (10,219)	\$ 1,257,014	\$ 752	6	\$ (115)	\$ 2,522,668	\$ 26,535	\$ 2,549,203
Net income	—	—	—	—	55,510	—	—	—	55,510	3,952	59,462
Other comprehensive loss	—	—	—	(85,060)	—	—	—	—	(85,060)	—	(85,060)
Stock-based compensation expense	—	—	7,219	—	—	—	—	—	7,219	—	7,219
Common stock issued to board members	11	—	305	—	—	—	—	—	305	—	305
Issuance of common stock related to share-based awards, net	469	4	(4,070)	—	—	—	—	—	(4,066)	—	(4,066)
Repurchases of common stock	(14,869)	(148)	(238,639)	—	(203,549)	—	—	—	(442,336)	—	(442,336)
Dividends on common stock (\$0.30 per share)	—	—	—	—	(23,767)	—	—	—	(23,767)	—	(23,767)
Deferred compensation plan	—	—	—	—	—	(57)	28	(839)	(896)	—	(896)
Net cash distributed to noncontrolling interest	—	—	—	—	—	—	—	—	—	(2,661)	(2,661)
Balance, June 30, 2022	64,576	\$ 646	\$ 1,039,261	\$ (95,279)	\$ 1,085,208	\$ 695	34	\$ (954)	\$ 2,029,577	\$ 27,826	\$ 2,057,403
Balance, December 31, 2022	64,685	\$ 647	\$ 1,046,331	\$ (133,531)	\$ 1,123,636	\$ 481	23	\$ (640)	\$ 2,036,924	\$ 26,605	\$ 2,063,529
Net income	—	—	—	—	43,933	—	—	—	43,933	3,773	47,706
Other comprehensive income	—	—	—	1,813	—	—	—	—	1,813	—	1,813
Stock-based compensation expense	—	—	10,031	—	—	—	—	—	10,031	—	10,031
Common stock issued to board members	10	—	300	—	—	—	—	—	300	—	300
Issuance of common stock related to share-based awards, net	521	6	(4,154)	—	—	—	—	—	(4,148)	—	(4,148)
Repurchases of common stock	(145)	(2)	(2,317)	—	(2,184)	—	—	—	(4,503)	—	(4,503)
Dividends on common stock (\$0.32 per share)	—	—	—	—	(20,761)	—	—	—	(20,761)	—	(20,761)
Deferred compensation plan	—	—	—	—	—	(31)	(2)	41	10	—	10
Net cash distributed to noncontrolling interest	—	—	—	—	—	—	—	—	—	(3,723)	(3,723)
Balance, June 30, 2023	65,071	\$ 651	\$ 1,050,191	\$ (131,718)	\$ 1,144,624	\$ 450	21	\$ (599)	\$ 2,063,599	\$ 26,635	\$ 2,090,234

See accompanying notes.

**HILLTOP HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(Unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>Operating Activities</b>		
Net income	\$ 47,706	\$ 59,462
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	17,167	5,451
Depreciation, amortization and accretion, net	10,233	14,171
Deferred income taxes	4,684	2,585
Other, net	10,070	7,296
Net change in securities purchased under agreements to resell	(25,912)	(21,667)
Net change in trading securities	58,383	54,725
Net change in broker-dealer and clearing organization receivables	(364,344)	893,304
Net change in other assets	(44,250)	(1,432)
Net change in broker-dealer and clearing organization payables	326,331	(629,481)
Net change in other liabilities	(28,213)	(40,489)
Net change in securities sold, not yet purchased	21,738	39,382
Proceeds from sale of mortgage servicing rights asset	19,055	1,876
Change in valuation of mortgage servicing rights asset	6,769	(18,064)
Net gains from sales of loans	(88,501)	(208,437)
Loans originated for sale	(4,843,504)	(8,206,551)
Proceeds from loans sold	4,548,967	8,793,501
Net cash provided by (used in) operating activities	(323,621)	745,632
<b>Investing Activities</b>		
Proceeds from maturities and principal reductions of securities held to maturity	31,043	39,631
Proceeds from sales, maturities and principal reductions of securities available for sale	150,389	190,943
Purchases of securities held to maturity	—	(6,254)
Purchases of securities available for sale	(19,997)	(470,617)
Purchases of equity securities	—	(30)
Net change in loans held for investment	(334,149)	(316,887)
Purchases of premises and equipment and other assets	(3,594)	(4,559)
Proceeds from sales of premises and equipment and other real estate owned	1,985	1,803
Net cash paid to Federal Home Loan Bank and Federal Reserve Bank stock	(18,395)	(144)
Net cash used in investing activities	(192,718)	(566,114)
<b>Financing Activities</b>		
Net change in deposits	(137,727)	(810,292)
Net change in short-term borrowings	658,148	(37,200)
Proceeds from notes payable	322,215	412,421
Payments on notes payable	(304,580)	(410,832)
Payments to repurchase common stock	(4,503)	(442,336)
Dividends paid on common stock	(20,761)	(23,767)
Net cash distributed to noncontrolling interest	(3,723)	(2,661)
Other, net	(4,559)	(5,363)
Net cash provided by (used in) financing activities	504,510	(1,320,030)
Net change in cash, cash equivalents and restricted cash	(11,829)	(1,140,512)
Cash, cash equivalents and restricted cash, beginning of period	1,647,899	3,045,263
Cash, cash equivalents and restricted cash, end of period	\$ 1,636,070	\$ 1,904,751
<b>Reconciliation of Cash, Cash Equivalents and Restricted Cash to Consolidated Balance Sheets</b>		
Cash and due from banks	\$ 1,584,709	\$ 1,783,554
Federal funds sold	650	381
Assets segregated for regulatory purposes	50,711	120,816
Total cash, cash equivalents and restricted cash	\$ 1,636,070	\$ 1,904,751
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid for interest	\$ 160,333	\$ 42,273
Cash paid for income taxes, net of refunds	\$ 14,767	\$ 6,840
<b>Supplemental Schedule of Non-Cash Activities</b>		
Conversion of loans to other real estate owned	\$ 3,142	\$ 179
Additions to mortgage servicing rights	\$ 20,100	\$ 18,510

*See accompanying notes.*



Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Unaudited)

## 1. Summary of Significant Accounting and Reporting Policies

### Nature of Operations

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

The Company, headquartered in Dallas, Texas, provides its products and services through two primary business units, PlainsCapital Corporation (“PCC”) and Hilltop Securities Holdings LLC (“Securities Holdings”). PCC is a financial holding company that provides, through its subsidiaries, traditional banking, wealth and investment management and treasury management services primarily in Texas and residential mortgage lending throughout the United States. Securities Holdings is a holding company 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, clearing, securities lending, structured finance and retail brokerage services throughout the United States.

### Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“GAAP”), and in conformity with the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, these financial statements contain all adjustments necessary for a fair statement of the results of the interim periods presented. Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 (“2022 Form 10-K”). Results for interim periods are not necessarily indicative of results to be expected for a full year or any future period.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates regarding the allowance for credit losses, the fair values of financial instruments, the mortgage loan indemnification liability, and the potential impairment of goodwill and identifiable intangible assets are particularly subject to change. The Company has applied its critical accounting policies and estimation methods consistently in all periods presented in these consolidated financial statements. Actual amounts and values as of the balance sheet dates may be materially different than the amounts and values reported due to the inherent uncertainty in the estimation process. Also, future amounts and values could differ materially from those estimates due to changes in values and circumstances after the balance sheet date.

Hilltop owns 100% of the outstanding stock of PCC. PCC owns 100% of the outstanding stock of the Bank and 100% of the membership interest in Hilltop Opportunity Partners LLC, a merchant bank utilized to facilitate investments in companies engaged in non-financial activities. The Bank owns 100% of the outstanding stock of PrimeLending, a PlainsCapital Company (“PrimeLending”).

PrimeLending owns a 100% membership interest in PrimeLending Ventures Management, LLC (“Ventures Management”), which holds a controlling ownership interest in and is the managing member of certain affiliated business arrangements (“ABAs”).

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

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

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

In addition, Hilltop owns 100% of the membership interest in each of HTH Hillcrest Project LLC (“HTH Project LLC”) and Hilltop Investments I, LLC. Hilltop Investments I, LLC owns 50% of the membership interest in HTH Diamond Hillcrest Land LLC (“Hillcrest Land LLC”) which is consolidated under the aforementioned VIE Subsections of the ASC. These entities are related to the Hilltop Plaza investment discussed in detail in Note 18 to the consolidated financial statements included in the Company’s 2022 Form 10-K and are collectively referred to as the “Hilltop Plaza Entities.”

The consolidated financial statements include the accounts of the above-named entities. Intercompany transactions and balances have been eliminated. Noncontrolling interests have been recorded for minority ownership in entities that are not wholly owned and are presented in compliance with the provisions of Noncontrolling Interest in Subsidiary Subsections of the ASC.

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

Significant accounting policies are detailed in Note 1 to the consolidated financial statements included in the Company’s 2022 Form 10-K.

## **2. Recently Issued Accounting Standards**

### *Accounting Standards Adopted During 2023*

In March 2022, the FASB issued Accounting Standards Update (“ASU”) 2022-02 to eliminate the recognition and measurement guidance on troubled debt restructurings (“TDRs”) for creditors, and require enhanced disclosures about loan modifications for borrowers experiencing financial difficulty. The amendments are effective in periods beginning after December 15, 2022 using either a prospective or modified retrospective transition. The Company adopted the provisions of ASU 2022-02 as of January 1, 2023 on a prospective basis. The adoption of this amendment did not have a material impact on the Company’s future consolidated financial statements.

In September 2022, the FASB issued ASU 2022-04 to require entities that use supplier finance programs in connection with the purchase of goods and services to disclose the key terms of such programs and information about obligations outstanding at the end of the reporting period, including a rollforward of those obligations and a description of where in the financial statements outstanding amounts are present. The guidance does not affect the recognition, measurement or financial statement presentation of supplier finance program obligations. The amendments are effective in periods beginning after December 15, 2022, except that the amendments to disclose a rollforward of obligations outstanding will be effective beginning after December 15, 2023. The Company adopted the provisions as of January 1, 2023. The adoption of this amendment did not have a material impact on the Company’s future consolidated financial statements.

### *Accounting Standards Issued But Not Yet Adopted*

In March 2023, the FASB issued ASU 2023-01 to require entities to classify and account for leases with related parties on the basis of legally enforceable terms and conditions of the arrangement. The amendments are effective in periods beginning after December 15, 2023, including interim periods within those fiscal years. The Company is currently evaluating the provisions of the amendments and the impact on its future consolidated financial statements.

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

### 3. Fair Value Measurements

#### *Fair Value Measurements and Disclosures*

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

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

- *Level 1 Inputs:* Unadjusted quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date.
- *Level 2 Inputs:* Observable inputs other than Level 1 prices. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, yield curves, prepayment speeds, default rates, credit risks and loss severities), and inputs that are derived from or corroborated by market data, among others.
- *Level 3 Inputs:* Unobservable inputs that reflect an entity’s own estimates about the assumptions that market participants would use in pricing the assets or liabilities. Level 3 inputs include pricing models and discounted cash flow techniques, among others.

#### *Fair Value Option*

The Company has elected to measure substantially all of PrimeLending’s mortgage loans held for sale and the retained mortgage servicing rights (“MSR”) asset at fair value, under the provisions of the Fair Value Option. The Company elected to apply the provisions of the Fair Value Option to these items so that it would have the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. At June 30, 2023 and December 31, 2022, the aggregate fair value of PrimeLending’s mortgage loans held for sale accounted for under the Fair Value Option was \$1.18 billion and \$855.7 million, respectively, and the unpaid principal balance of those loans was \$1.18 billion and \$850.3 million, respectively. The interest component of fair value is reported as interest income on loans in the accompanying consolidated statements of operations.

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

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

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

<u>June 30, 2023</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
Trading securities	\$ 7,546	\$ 689,103	\$ —	\$ 696,649
Available for sale securities	—	1,526,869	—	1,526,869
Equity securities	258	—	—	258
Loans held for sale	—	1,139,035	41,292	1,180,327
Loans held for investment	—	—	9,714	9,714
Derivative assets	—	85,053	—	85,053
MSR asset	—	—	95,101	95,101
Securities sold, not yet purchased	47,787	26,974	—	74,761
Derivative liabilities	—	15,188	—	15,188
<u>December 31, 2022</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
Trading securities	\$ 15,456	\$ 739,576	\$ —	\$ 755,032
Available for sale securities	—	1,658,766	—	1,658,766
Equity securities	200	—	—	200
Loans held for sale	—	814,990	40,707	855,697
Loans held for investment	—	—	9,181	9,181
Derivative assets	—	88,977	—	88,977
MSR asset	—	—	100,825	100,825
Securities sold, not yet purchased	25,506	27,517	—	53,023
Derivative liabilities	—	11,405	—	11,405

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

	<u>Balance, Beginning of Period</u>	<u>Purchases/ Additions</u>	<u>Sales/ Reductions</u>	<u>Transfers to (from) Level 3</u>	<u>Total Gains or Losses (Realized or Unrealized)</u>		<u>Balance, End of Period</u>
					<u>Included in Net Income</u>	<u>Included in Other Comprehensive Income (Loss)</u>	
<b><u>Three months ended June 30, 2023</u></b>							
Loans held for sale	\$ 33,993	\$ 20,712	\$ (7,275)	\$ —	\$ (6,138)	\$ —	\$ 41,292
Loans held for investment	9,437	—	—	—	277	—	9,714
MSR asset	103,314	6,890	(19,055)	—	3,952	—	95,101
Total	<u>\$ 146,744</u>	<u>\$ 27,602</u>	<u>\$ (26,330)</u>	<u>\$ —</u>	<u>\$ (1,909)</u>	<u>\$ —</u>	<u>\$ 146,107</u>
<b><u>Six months ended June 30, 2023</u></b>							
Loans held for sale	\$ 40,707	\$ 37,508	\$ (30,729)	\$ (446)	\$ (5,748)	\$ —	\$ 41,292
Loans held for investment	9,181	—	—	—	533	—	9,714
MSR asset	100,825	20,100	(19,055)	—	(6,769)	—	95,101
Total	<u>\$ 150,713</u>	<u>\$ 57,608</u>	<u>\$ (49,784)</u>	<u>\$ (446)</u>	<u>\$ (11,984)</u>	<u>\$ —</u>	<u>\$ 146,107</u>
<b><u>Three months ended June 30, 2022</u></b>							
Loans held for sale	\$ 45,977	\$ 13,456	\$ (12,090)	\$ 1,094	\$ (6,705)	\$ —	\$ 41,732
Loans held for investment	9,611	—	(562)	—	(22)	—	9,027
MSR asset	100,475	11,210	—	—	10,003	—	121,688
Total	<u>\$ 156,063</u>	<u>\$ 24,666</u>	<u>\$ (12,652)</u>	<u>\$ 1,094</u>	<u>\$ 3,276</u>	<u>\$ —</u>	<u>\$ 172,447</u>
<b><u>Six months ended June 30, 2022</u></b>							
Loans held for sale	\$ 47,716	\$ 20,442	\$ (24,748)	\$ 5,838	\$ (7,516)	\$ —	\$ 41,732
Loans held for investment	—	9,611	(562)	—	(22)	—	9,027
MSR asset	86,990	18,510	(1,876)	—	18,064	—	121,688
Total	<u>\$ 134,706</u>	<u>\$ 48,563</u>	<u>\$ (27,186)</u>	<u>\$ 5,838</u>	<u>\$ 10,526</u>	<u>\$ —</u>	<u>\$ 172,447</u>

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

All net realized and unrealized gains (losses) in the tables above are reflected in the accompanying consolidated financial statements. The unrealized gains (losses) relate to financial instruments still held at June 30, 2023.

For material Level 3 financial instruments measured at fair value on a recurring basis at June 30, 2023 and December 31, 2022, the significant unobservable inputs used in the fair value measurements were as follows.

Financial instrument	Valuation Technique	Unobservable Inputs	Range (Weighted-Average)	
			June 30, 2023	December 31, 2022
Loans held for sale	Market comparable	Projected price	82 - 90 % ( 83 %)	88 - 95 % ( 89 %)
Loans held for investment	Discounted cash flow	Discount rate	11.50 %	11.88 %
MSR asset	Discounted cash flow	Constant prepayment rate	8.49 %	8.14 %
		Discount rate	11.71 %	12.10 %

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

The fair value of certain loans held for investment by the Company's merchant bank subsidiary is measured using the income approach with Level 3 inputs. The fair value of such loans is based upon estimates of expected cash flows using unobservable inputs, including credit spreads derived from comparable securities and benchmark credit curves, and management's knowledge of underlying collateral.

The MSR asset is reported at fair value using Level 3 inputs. The MSR asset is valued by projecting net servicing cash flows, which are then discounted to estimate the fair value. The fair value of the MSR asset is impacted by a variety of factors. Prepayment and discount rates, the most significant unobservable inputs, are discussed further in Note 7 to the consolidated financial statements.

The Company had no transfers between Levels 1 and 2 during the periods presented. Any transfers are based on changes in the observability and/or significance of the valuation inputs and are assumed to occur at the beginning of the quarterly reporting period in which they occur.

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

	Three Months Ended June 30, 2023			Three Months Ended June 30, 2022		
	Net Gains (Losses)	Other Noninterest Income	Total Changes in Fair Value	Net Gains (Losses)	Other Noninterest Income	Total Changes in Fair Value
Loans held for sale	\$ (12,366)	\$ —	\$ (12,366)	\$ 14,862	\$ —	\$ 14,862
Loans held for investment	—	—	—	(283)	—	(283)
MSR asset	3,952	—	3,952	10,003	—	10,003
	Six Months Ended June 30, 2023			Six Months Ended June 30, 2022		
	Net Gains (Losses)	Other Noninterest Income	Total Changes in Fair Value	Net Gains (Losses)	Other Noninterest Income	Total Changes in Fair Value
Loans held for sale	\$ (2,233)	\$ —	\$ (2,233)	\$ (35,994)	\$ —	\$ (35,994)
Loans held for investment	—	—	—	(283)	—	(283)
MSR asset	(6,769)	—	(6,769)	18,064	—	18,064

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

*Financial Assets and Liabilities Not Measured at Fair Value on Recurring or Non-Recurring Basis*

The Fair Value of Financial Instruments Subsection of the ASC requires disclosure of the fair value of financial assets and liabilities, including the financial assets and liabilities previously discussed. There have been no changes to the methods for determining estimated fair value for financial assets and liabilities as described in detail in Note 4 to the consolidated financial statements included in the Company's 2022 Form 10-K.

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

<b>June 30, 2023</b>	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>			<b>Total</b>
		<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>	
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 1,585,359	\$ 1,585,359	\$ —	\$ —	\$ 1,585,359
Assets segregated for regulatory purposes	50,711	50,711	—	—	50,711
Securities purchased under agreements to resell	143,982	—	143,982	—	143,982
Held to maturity securities	847,437	—	755,186	—	755,186
Loans held for sale	152,717	—	121,186	32,477	153,663
Loans held for investment, net	8,235,102	—	359,444	7,836,335	8,195,779
Broker-dealer and clearing organization receivables	1,474,177	—	1,474,177	—	1,474,177
Other assets	77,919	—	76,253	1,666	77,919

<b>Financial liabilities:</b>					
Deposits	11,164,177	—	11,145,156	—	11,145,156
Broker-dealer and clearing organization payables	1,306,646	—	1,306,646	—	1,306,646
Short-term borrowings	1,628,637	—	1,628,637	—	1,628,637
Debt	364,531	—	344,720	—	344,720
Other liabilities	9,766	—	9,766	—	9,766

<b>December 31, 2022</b>	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>			<b>Total</b>
		<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>	
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 1,580,162	\$ 1,580,162	\$ —	\$ —	\$ 1,580,162
Assets segregated for regulatory purposes	67,737	67,737	—	—	67,737
Securities purchased under agreements to resell	118,070	—	118,070	—	118,070
Held to maturity securities	875,532	—	785,335	—	785,335
Loans held for sale	126,919	—	82,684	42,908	125,592
Loans held for investment, net	7,988,050	—	431,223	7,434,038	7,865,261
Broker-dealer and clearing organization receivables	1,038,055	—	1,038,055	—	1,038,055
Other assets	77,052	—	75,386	1,666	77,052

<b>Financial liabilities:</b>					
Deposits	11,315,749	—	11,295,153	—	11,295,153
Broker-dealer and clearing organization payables	966,470	—	966,470	—	966,470
Short-term borrowings	970,056	—	970,056	—	970,056
Debt	346,654	—	350,104	—	350,104
Other liabilities	5,410	—	5,410	—	5,410

The Company held equity investments other than securities of \$53.9 million and \$57.6 million at June 30, 2023 and December 31, 2022, respectively, which are included within other assets in the consolidated balance sheets. Of the \$53.9 million of such equity investments held at June 30, 2023, \$22.7 million do not have readily determinable fair values and each is measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

The following table presents the adjustments to the carrying value of these investments during the periods presented (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Balance, beginning of period	\$ 22,507	\$ 27,986	\$ 27,264	\$ 16,817
Additional investments	—	—	—	11,000
Upward adjustments	182	231	425	445
Impairments and downward adjustments	(35)	(34)	(5,035)	(79)
Balance, end of period	\$ 22,654	\$ 28,183	\$ 22,654	\$ 28,183

#### 4. Securities

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

	June 30, 2023	December 31, 2022
U.S. Treasury securities	\$ 7,481	\$ 10,466
U.S. government agencies:		
Bonds	20,545	20,878
Residential mortgage-backed securities	262,410	214,100
Collateralized mortgage obligations	83,564	182,717
Corporate debt securities	56,739	42,685
States and political subdivisions	229,705	260,271
Private-label securitized product	29,627	9,265
Other	6,578	14,650
Totals	\$ 696,649	\$ 755,032

In addition to the securities shown above, 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 \$74.8 million and \$53.0 million at June 30, 2023 and December 31, 2022, respectively.

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

June 30, 2023	Available for Sale			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	\$ 4,982	\$ —	\$ (492)	\$ 4,490
U.S. government agencies:				
Bonds	173,688	190	(1,383)	172,495
Residential mortgage-backed securities	421,362	—	(47,423)	373,939
Commercial mortgage-backed securities	183,708	56	(8,635)	175,129
Collateralized mortgage obligations	834,844	38	(70,012)	764,870
States and political subdivisions	39,452	50	(3,556)	35,946
Totals	\$ 1,658,036	\$ 334	\$ (131,501)	\$ 1,526,869

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

	Available for Sale			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
<b>December 31, 2022</b>				
U.S. Treasury securities	\$ 19,655	\$ 3	\$ (514)	\$ 19,144
U.S. government agencies:				
Bonds	202,834	323	(900)	202,257
Residential mortgage-backed securities	455,121	12	(48,775)	406,358
Commercial mortgage-backed securities	183,266	65	(7,832)	175,499
Collateralized mortgage obligations	887,521	—	(68,627)	818,894
States and political subdivisions	40,160	57	(3,603)	36,614
Totals	<u>\$ 1,788,557</u>	<u>\$ 460</u>	<u>\$ (130,251)</u>	<u>\$ 1,658,766</u>
	Held to Maturity			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>June 30, 2023</b>				
U.S. government agencies:				
Residential mortgage-backed securities	\$ 289,806	\$ —	\$ (28,471)	\$ 261,335
Commercial mortgage-backed securities	180,109	—	(15,529)	164,580
Collateralized mortgage obligations	299,519	—	(41,390)	258,129
States and political subdivisions	78,003	78	(6,939)	71,142
Totals	<u>\$ 847,437</u>	<u>\$ 78</u>	<u>\$ (92,329)</u>	<u>\$ 755,186</u>
	Held to Maturity			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>December 31, 2022</b>				
U.S. government agencies:				
Residential mortgage-backed securities	\$ 301,583	\$ —	\$ (29,727)	\$ 271,856
Commercial mortgage-backed securities	180,942	—	(14,935)	166,007
Collateralized mortgage obligations	314,705	—	(38,343)	276,362
States and political subdivisions	78,302	26	(7,218)	71,110
Totals	<u>\$ 875,532</u>	<u>\$ 26</u>	<u>\$ (90,223)</u>	<u>\$ 785,335</u>

Additionally, the Company had unrealized net gains of \$0.2 million and \$0.1 million at June 30, 2023 and December 31, 2022, respectively, from equity securities with fair values of \$0.3 million and \$0.2 million held at June 30, 2023 and December 31, 2022, respectively. The Company recognized net gains of \$0.1 million and net losses of \$0.1 million during the three months ended June 30, 2023 and 2022, respectively, and recognized net gains of \$0.1 million and net losses of \$0.1 million during the six months ended June 30, 2023 and 2022, respectively, due to changes in the fair value of equity securities still held at the balance sheet date. During the three and six months ended June 30, 2023 and 2022, net gains and losses recognized from equity securities sold were nominal.

The Company transferred certain agency-issued securities from the available-for-sale to held-to-maturity portfolio on March 31, 2022 having a book value of approximately \$782 million and a market value of approximately \$708 million. As of the date of transfer, the related pre-tax net unrecognized losses of approximately \$74 million within the accumulated other comprehensive loss balance are being amortized over the remaining term of the securities using the effective interest method. This transfer was completed after careful consideration of the Company's intent and ability to hold these securities to maturity. Factors used in assessing the ability to hold these securities to maturity were future liquidity needs and sources of funding.



Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

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

	June 30, 2023			December 31, 2022		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
<b>Available for Sale</b>						
U.S. treasury securities:						
Unrealized loss for less than twelve months	—	\$ —	\$ —	—	\$ —	\$ —
Unrealized loss for twelve months or longer	1	4,490	492	1	4,465	514
	1	4,490	492	1	4,465	514
U.S. government agencies:						
Bonds:						
Unrealized loss for less than twelve months	23	147,011	1,082	15	98,246	388
Unrealized loss for twelve months or longer	3	14,196	301	3	15,263	512
	26	161,207	1,383	18	113,509	900
Residential mortgage-backed securities:						
Unrealized loss for less than twelve months	45	66,246	3,304	95	168,351	10,036
Unrealized loss for twelve months or longer	82	307,692	44,119	30	236,739	38,739
	127	373,938	47,423	125	405,090	48,775
Commercial mortgage-backed securities:						
Unrealized loss for less than twelve months	5	29,845	1,351	11	79,337	2,047
Unrealized loss for twelve months or longer	14	140,501	7,284	8	86,923	5,785
	19	170,346	8,635	19	166,260	7,832
Collateralized mortgage obligations:						
Unrealized loss for less than twelve months	20	119,282	4,823	97	563,872	30,980
Unrealized loss for twelve months or longer	123	632,286	65,189	48	244,917	37,647
	143	751,568	70,012	145	808,789	68,627
States and political subdivisions:						
Unrealized loss for less than twelve months	27	11,546	204	34	20,555	964
Unrealized loss for twelve months or longer	34	16,032	3,352	29	7,892	2,639
	61	27,578	3,556	63	28,447	3,603
Total available for sale:						
Unrealized loss for less than twelve months	120	373,930	10,764	252	930,361	44,415
Unrealized loss for twelve months or longer	257	1,115,197	120,737	119	596,199	85,836
	377	\$ 1,489,127	\$ 131,501	371	\$ 1,526,560	\$ 130,251

  

	June 30, 2023			December 31, 2022		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
<b>Held to Maturity</b>						
U.S. government agencies:						
Residential mortgage-backed securities:						
Unrealized loss for less than twelve months	—	\$ —	\$ —	14	\$ 59,089	\$ 5,928
Unrealized loss for twelve months or longer	41	261,335	28,471	31	212,768	23,799
	41	261,335	28,471	45	271,857	29,727
Commercial mortgage-backed securities:						
Unrealized loss for less than twelve months	3	10,627	434	30	163,172	14,483
Unrealized loss for twelve months or longer	28	153,952	15,095	1	2,834	452
	31	164,579	15,529	31	166,006	14,935
Collateralized mortgage obligations:						
Unrealized loss for less than twelve months	—	—	—	18	33,836	3,225
Unrealized loss for twelve months or longer	54	258,128	41,390	38	242,527	35,118
	54	258,128	41,390	56	276,363	38,343
States and political subdivisions:						
Unrealized loss for less than twelve months	55	24,153	701	150	59,459	5,362
Unrealized loss for twelve months or longer	118	39,730	6,238	27	8,093	1,856
	173	63,883	6,939	177	67,552	7,218
Total held to maturity:						
Unrealized loss for less than twelve months	58	34,780	1,135	212	315,556	28,998
Unrealized loss for twelve months or longer	241	713,145	91,194	97	466,222	61,225
	299	\$ 747,925	\$ 92,329	309	\$ 781,778	\$ 90,223

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without penalties. The amortized cost and fair value of securities, excluding trading and equity securities, at June 30, 2023 are shown by contractual maturity below (in thousands).

	Available for Sale		Held to Maturity	
	Amortized	Fair Value	Amortized	Fair Value
	Cost		Cost	
Due in one year or less	\$ 11,547	\$ 11,271	\$ 882	\$ 881
Due after one year through five years	74,378	73,073	1,308	1,231
Due after five years through ten years	61,678	61,140	28,303	26,623
Due after ten years	<u>70,519</u>	<u>67,447</u>	<u>47,510</u>	<u>42,407</u>
	218,122	212,931	78,003	71,142
Residential mortgage-backed securities	421,362	373,939	289,806	261,335
Commercial mortgage-backed securities	183,708	175,129	180,109	164,580
Collateralized mortgage obligations	<u>834,844</u>	<u>764,870</u>	<u>299,519</u>	<u>258,129</u>
	<u>\$ 1,658,036</u>	<u>\$ 1,526,869</u>	<u>\$ 847,437</u>	<u>\$ 755,186</u>

The Company recognized net gains of \$9.2 million and \$6.8 million from its trading portfolio during the three months ended June 30, 2023 and 2022, respectively, and net gains of \$19.7 million and net losses of \$4.7 million during the six months ended June 30, 2023 and 2022, respectively. In addition, the Hilltop Broker-Dealers realized net gains from structured product trading activities of \$11.3 million and \$2.4 million during the three months ended June 30, 2023 and 2022, respectively, and net gains from structured product trading activities of \$43.9 million and \$9.1 million during the six months ended June 30, 2023 and 2022, respectively. The Company had nominal other realized gains and losses on securities during the three and six months ended June 30, 2023 and 2022, respectively. All such realized gains and losses are recorded as a component of other noninterest income within the consolidated statements of operations.

Securities with a carrying amount of \$640.0 million and \$778.6 million (with a fair value of \$594.1 million and \$717.6 million, respectively) at June 30, 2023 and December 31, 2022, respectively, were pledged by the Bank to secure public and trust deposits, federal funds purchased and securities sold under agreements to repurchase, and for other purposes as required or permitted by law. Substantially all of these pledged securities were included in the available for sale and held to maturity securities portfolios at June 30, 2023 and December 31, 2022.

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

## 5. Loans Held for Investment

The Bank originates loans to customers primarily in Texas. Although the Bank has diversified loan and leasing portfolios and, generally, holds collateral against amounts advanced to customers, its debtors’ ability to honor their contracts is substantially dependent upon the general economic conditions of the region and of the industries in which its debtors operate, which consist primarily of real estate (including construction and land development), wholesale/retail trade, agribusiness and energy. The Hilltop Broker-Dealers make loans to customers and correspondents through transactions originated by both employees and independent retail representatives throughout the United States. The Hilltop Broker-Dealers control risk by requiring customers to maintain collateral in compliance with various regulatory and internal guidelines, which may vary based upon market conditions. Securities owned by customers and held as collateral for loans are not included in the consolidated financial statements.

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Loans held for investment summarized by portfolio segment are as follows (in thousands).

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Commercial real estate	\$ 3,275,910	\$ 3,245,873
Commercial and industrial	1,797,639	1,639,980
Construction and land development	1,083,103	980,896
1-4 family residential	1,811,362	1,767,099
Consumer	26,664	27,602
Broker-dealer <sup>(1)</sup>	359,444	431,223
	<u>8,354,122</u>	<u>8,092,673</u>
Allowance for credit losses	<u>(109,306)</u>	<u>(95,442)</u>
Total loans held for investment, net of allowance	<u>\$ 8,244,816</u>	<u>\$ 7,997,231</u>

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

*Past Due Loans and Nonaccrual Loans*

An analysis of the aging of the Company's loan portfolio is shown in the following tables (in thousands).

<u>June 30, 2023</u>	<u>Loans Past Due</u>			<u>Total Past Due Loans</u>	<u>Current Loans</u>	<u>Total Loans</u>	<u>Accruing Loans Past Due 90 Days or More</u>
	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>90 Days or More</u>				
Commercial real estate:							
Non-owner occupied	\$ 8,003	\$ —	\$ 34	\$ 8,037	\$ 1,862,164	\$ 1,870,201	\$ —
Owner occupied	4,964	2,247	12	7,223	1,398,486	1,405,709	—
Commercial and industrial	14,002	59	4,641	18,702	1,778,937	1,797,639	49
Construction and land development	1,647	—	—	1,647	1,081,456	1,083,103	—
1-4 family residential	3,097	1,506	3,338	7,941	1,803,421	1,811,362	1
Consumer	47	1	9	57	26,607	26,664	1
Broker-dealer	—	—	—	—	359,444	359,444	—
	<u>\$ 31,760</u>	<u>\$ 3,813</u>	<u>\$ 8,034</u>	<u>\$ 43,607</u>	<u>\$ 8,310,515</u>	<u>\$ 8,354,122</u>	<u>\$ 51</u>

  

<u>December 31, 2022</u>	<u>Loans Past Due</u>			<u>Total Past Due Loans</u>	<u>Current Loans</u>	<u>Total Loans</u>	<u>Accruing Loans Past Due 90 Days or More</u>
	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>90 Days or More</u>				
Commercial real estate:							
Non-owner occupied	\$ 567	\$ —	\$ 235	\$ 802	\$ 1,869,750	\$ 1,870,552	\$ —
Owner occupied	1,037	2,880	—	3,917	1,371,404	1,375,321	—
Commercial and industrial	609	82	5,598	6,289	1,633,691	1,639,980	49
Construction and land development	3,665	—	—	3,665	977,231	980,896	—
1-4 family residential	9,733	773	4,467	14,973	1,752,126	1,767,099	1
Consumer	177	7	14	198	27,404	27,602	1
Broker-dealer	—	—	—	—	431,223	431,223	—
	<u>\$ 15,788</u>	<u>\$ 3,742</u>	<u>\$ 10,314</u>	<u>\$ 29,844</u>	<u>\$ 8,062,829</u>	<u>\$ 8,092,673</u>	<u>\$ 51</u>

In addition to the loans shown in the tables above, PrimeLending had \$130.0 million and \$92.0 million of loans included in loans held for sale (with an aggregate unpaid principal balance of \$130.3 million and \$92.4 million, respectively) that were 90 days past due and accruing interest at June 30, 2023 and December 31, 2022, respectively. These loans are guaranteed by U.S. government agencies and include loans that are subject to repurchase, or have been repurchased, by PrimeLending.

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

The following table provides details associated with non-accrual loans, excluding those classified as held for sale (in thousands).

	Non-accrual Loans						Interest Income Recognized			
	June 30, 2023			December 31, 2022			Three Months Ended June 30,		Six Months Ended June 30,	
	With Allowance	With No Allowance	Total	With Allowance	With No Allowance	Total	2023	2022	2023	2022
Commercial real estate:										
Non-owner occupied	\$ 472	\$ 1,984	\$ 2,456	\$ 688	\$ 562	\$ 1,250	\$ 58	\$ 60	\$ 181	\$ 157
Owner occupied	767	329	1,096	2,862	157	3,019	261	334	324	417
Commercial and industrial	582	20,860	21,442	3,727	5,368	9,095	138	439	269	627
Construction and land development	395	—	395	1	—	1	29	8	36	15
1-4 family residential	407	9,390	9,797	433	10,862	11,295	379	1,304	835	1,725
Consumer	9	—	9	14	—	14	—	—	—	—
Broker-dealer	—	—	—	—	—	—	—	—	—	—
	<u>\$ 2,632</u>	<u>\$ 32,563</u>	<u>\$ 35,195</u>	<u>\$ 7,725</u>	<u>\$ 16,949</u>	<u>\$ 24,674</u>	<u>\$ 865</u>	<u>\$ 2,145</u>	<u>\$ 1,645</u>	<u>\$ 2,941</u>

At June 30, 2023 and December 31, 2022, \$3.8 million and \$4.8 million, respectively, of real estate loans secured by residential properties and classified as held for sale were in non-accrual status.

As shown in the table above, loans accounted for on a non-accrual basis increased from December 31, 2022 to June 30, 2023 by \$10.5 million. The change in non-accrual loans was primarily due to increases in commercial and industrial loans of \$12.3 million, partially offset by decreases in 1-4 family residential loans of \$1.5 million and commercial real estate owner occupied loans of \$1.9 million. The increase in commercial and industrial loans was primarily due to the addition of two relationships with an aggregate loan balance of \$14.2 million to non-accrual status since December 31, 2022, partially offset by principal paydowns. The decrease in commercial real estate owner occupied loans in non-accrual status since December 31, 2022 was primarily due to the foreclosure of one office property in Texas.

The Company considers non-accrual loans to be collateral-dependent unless there are underlying mitigating circumstances, such as expected cash flow recovery. The practical expedient to measure the allowance using the fair value of the collateral has been implemented.

#### Loan Modifications

As previously discussed, as of January 1, 2023, the Company adopted the new guidance which eliminated the recognition and measurement guidance on TDRs for creditors, and requires enhanced disclosures about loan modifications for borrowers experiencing financial difficulty. Loan modifications are typically structured to create affordable payments for the debtor and can be achieved in a variety of ways. The Bank modifies loans by reducing interest rates and/or lengthening loan amortization schedules. The Bank may also reconfigure a single loan into two or more loans (“A/B Note”). The typical A/B Note restructure results in a “bad” loan which is charged off and a “good” loan or loans, the terms of which comply with the Bank’s customary underwriting policies. The debt charged off on the “bad” loan is not forgiven to the debtor.

The following table presents the amortized cost basis of the loans held for investment modified for borrowers experiencing financial difficulty grouped by portfolio segment and type of modification granted (in thousands).

June 30, 2023	Interest Rate Reduction	Term Extension	Principal Forgiveness	Payment Delay	Total Modifications as a % of Portfolio Segment
Commercial real estate:					
Non-owner occupied	\$ —	\$ 43,538	\$ —	\$ —	2.3 %
Owner occupied	—	2,214	—	—	0.2 %
Commercial and industrial	—	11,383	—	2,960	0.8 %
Construction and land development	—	308	—	—	0.0 %
1-4 family residential	—	—	—	—	— %
Consumer	—	—	—	—	— %
Broker-Dealer	—	—	—	—	— %
Total	<u>\$ —</u>	<u>\$ 57,443</u>	<u>\$ —</u>	<u>\$ 2,960</u>	<u>0.7 %</u>

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

The following table presents the financial effects of the loans held for investment modified for borrowers experiencing financial difficulty (in thousands).

<u>June 30, 2023</u>	<u>Weighted-Average Term Extension (in months)</u>
Commercial real estate:	
Non-owner occupied	25
Owner occupied	35
Commercial and industrial	8
Construction and land development	9
1-4 family residential	—
Consumer	—
Broker-Dealer	—
Total	22

There were no loans that have been modified during the six months ended June 30, 2023 for which a payment was at least 30 days past due.

*Troubled Debt Restructurings*

During the three months ended June 30, 2022 there were two TDRs granted with a balance at date of extension of \$3.0 million and a balance at June 30, 2022 of \$3.0 million. During the six months ended June 30, 2022 there were three TDRs granted with a balance at date of extension of \$3.6 million and a balance at June 30, 2022 of \$3.1 million. The Bank had no unadvanced commitments to borrowers whose loans had been restructured in TDRs at June 30, 2022. There were no TDRs granted during the twelve months preceding June 30, 2022 for which a payment was at least 30 days past due.

*Credit Risk Profile*

Management tracks credit quality trends on a quarterly basis related to: (i) past due levels, (ii) non-performing asset levels, (iii) classified loan levels, and (iv) general economic conditions in state and local markets. The Company defines classified loans as loans with a risk rating of substandard, doubtful or loss. There have been no changes to the risk rating internal grades utilized for commercial loans as described in detail in Note 6 to the consolidated financial statements in the Company's 2022 Form 10-K.

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

The following table presents loans held for investment grouped by asset class and credit quality indicator, segregated by year of origination or renewal (in thousands).

June 30, 2023	Amortized Cost Basis by Origination Year						Loans		
	2023	2022	2021	2020	2019	2018 and Prior	Revolving	Converted to Term Loans	Total
<b>Commercial real estate: non-owner occupied</b>									
Internal Grade 1-3 (Pass low risk)	\$ 657	\$ 37,424	\$ 33,322	\$ 8,877	\$ 7,813	\$ 6,905	\$ 51	\$ 194	\$ 95,243
Internal Grade 4-7 (Pass normal risk)	90,911	298,895	395,438	128,334	75,641	61,348	33,100	1,807	1,085,474
Internal Grade 8-11 (Pass high risk and watch)	54,971	150,585	112,274	92,970	55,209	114,396	14,676	847	595,928
Internal Grade 12 (Special mention)	—	—	—	—	—	—	—	—	—
Internal Grade 13 (Substandard accrual)	55,940	11,797	14,550	1,600	6,078	1,135	—	—	91,100
Internal Grade 14 (Substandard non-accrual)	—	1,442	385	—	—	629	—	—	2,456
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
<b>Commercial real estate: owner occupied</b>									
Internal Grade 1-3 (Pass low risk)	\$ 34,739	\$ 20,200	\$ 110,795	\$ 53,924	\$ 17,513	\$ 62,379	\$ 2,802	\$ 14,710	\$ 317,062
Internal Grade 4-7 (Pass normal risk)	55,489	177,783	148,245	86,997	73,217	124,323	16,804	—	682,858
Internal Grade 8-11 (Pass high risk and watch)	21,336	89,184	78,420	79,419	20,976	70,269	5,921	1,514	367,039
Internal Grade 12 (Special mention)	—	—	—	638	2,781	—	—	—	3,419
Internal Grade 13 (Substandard accrual)	2,351	7,307	2,773	6,894	1,470	13,274	166	—	34,235
Internal Grade 14 (Substandard non-accrual)	—	172	663	—	—	261	—	—	1,096
Current period gross charge-offs	—	—	—	—	—	977	—	—	977
<b>Commercial and industrial</b>									
Internal Grade 1-3 (Pass low risk)	\$ 10,502	\$ 31,296	\$ 32,937	\$ 20,027	\$ 20,541	\$ 2,649	\$ 27,000	\$ —	\$ 144,952
Internal Grade 4-7 (Pass normal risk)	45,580	114,639	140,978	36,366	6,126	15,881	300,172	256	659,998
Internal Grade 8-11 (Pass high risk and watch)	63,626	114,686	38,346	31,942	9,237	9,175	293,752	2,465	563,229
Internal Grade 12 (Special mention)	—	—	140	—	—	—	79	—	219
Internal Grade 13 (Substandard accrual)	3,897	2,008	4,789	4,276	5,029	5,306	15,815	26,583	67,703
Internal Grade 14 (Substandard non-accrual)	84	177	162	4,616	—	2,258	10,380	3,765	21,442
Current period gross charge-offs	53	3,001	—	—	25	—	—	—	3,079
<b>Construction and land development</b>									
Internal Grade 1-3 (Pass low risk)	\$ 1,729	\$ 20,641	\$ 10,639	\$ 406	\$ 833	\$ 2,376	\$ —	\$ —	\$ 36,624
Internal Grade 4-7 (Pass normal risk)	164,313	322,044	107,413	28,527	892	1,860	43,545	—	668,594
Internal Grade 8-11 (Pass high risk and watch)	99,990	173,112	52,808	4,417	2,399	210	9,021	—	341,957
Internal Grade 12 (Special mention)	—	—	—	—	—	—	—	—	—
Internal Grade 13 (Substandard accrual)	—	—	—	10,560	—	—	—	—	10,560
Internal Grade 14 (Substandard non-accrual)	—	395	—	—	—	—	—	—	395
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
<b>Construction and land development - individuals</b>									
FICO less than 620	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
FICO between 620 and 720	87	2,717	—	—	—	946	—	—	3,750
FICO greater than 720	11,638	9,288	122	52	—	—	—	—	21,100
Substandard non-accrual	—	—	—	—	—	—	—	—	—
Other <sup>(1)</sup>	96	27	—	—	—	—	—	—	123
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
<b>1-4 family residential</b>									
FICO less than 620	\$ 151	\$ 1,464	\$ 658	\$ 762	\$ 278	\$ 24,061	\$ 244	\$ —	\$ 27,618
FICO between 620 and 720	2,752	16,849	12,901	6,828	4,880	27,801	1,749	—	73,760
FICO greater than 720	116,871	558,654	762,069	96,884	42,182	64,146	3,664	636	1,645,106
Substandard non-accrual	—	537	—	—	—	9,260	—	—	9,797
Other <sup>(1)</sup>	13,160	22,735	12,015	1,395	2,278	3,121	377	—	55,081
Current period gross charge-offs	—	—	—	—	—	73	—	—	73
<b>Consumer</b>									
FICO less than 620	\$ 561	\$ 609	\$ 158	\$ 93	\$ 19	\$ 5	\$ 366	\$ 2	\$ 1,813
FICO between 620 and 720	2,406	2,351	633	391	220	44	1,966	8	8,019
FICO greater than 720	1,679	3,662	1,151	813	154	10	2,454	1	9,924
Substandard non-accrual	—	—	—	—	—	9	—	—	9
Other <sup>(1)</sup>	2,796	3,049	486	328	72	16	152	—	6,899
Current period gross charge-offs	44	54	6	5	2	11	—	—	122
Total loans with credit quality measures	\$ 858,312	\$ 2,195,729	\$ 2,075,270	\$ 708,336	\$ 355,838	\$ 624,053	\$ 784,256	\$ 52,788	\$ 7,654,582
Commercial and industrial (mortgage warehouse lending)									\$ 330,382
Commercial and industrial (loans accounted for at fair value)									\$ 9,714
Broker-Dealer (margin loans and correspondent receivables)									\$ 359,444
<b>Total loans held for investment</b>									<b>\$ 8,354,122</b>

(1) Loans classified in this category were assigned a FICO score for credit modeling purposes.

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

## 6. Allowance for Credit Losses

### *Available for Sale Securities and Held to Maturity Securities*

The Company has evaluated available for sale debt securities that are in an unrealized loss position and has determined that any decline in value is unrelated to credit loss and related to changes in market interest rates since purchase. None of the available for sale debt securities held were past due at June 30, 2023. In addition, as of June 30, 2023, the Company had not made a decision to sell any of its debt securities held, nor did the Company consider it more likely than not that it would be required to sell such securities before recovery of their amortized cost basis. The Company does not expect to have credit losses associated with the debt securities and no allowance was recognized on the debt securities portfolio.

### *Loans Held for Investment*

The allowance for credit losses for loans held for investment represents management's best estimate of all expected credit losses over the expected contractual life of our existing portfolio. Management's methodology for determining the allowance for credit losses uses the current expected credit losses ("CECL") standard. Management considers the level of allowance for credit losses to be a reasonable and supportable estimate of expected credit losses inherent within the loans held for investment portfolio as of June 30, 2023. While the Company believes it has an appropriate allowance for the existing loan portfolio at June 30, 2023, additional provision for losses on existing loans may be necessary in the future. Future changes in the allowance for credit losses are expected to be volatile given dependence upon, among other things, the portfolio composition and quality, as well as changes in macroeconomic forecasts and loan cash flow assumptions. In addition to the allowance for credit losses, the Company maintains a separate allowance for credit losses related to off-balance sheet credit exposures, including unfunded loan commitments, and this amount is included in other liabilities within the consolidated balance sheets. For further information on the policies that govern the estimation of the allowances for credit losses levels, see Note 1 to the consolidated financial statements in the Company's 2022 Form 10-K.

One of the most significant judgments involved in estimating the Company's allowance for credit losses relates to the macroeconomic forecasts used to estimate credit losses over the reasonable and supportable forecast period. To determine our best estimate of expected credit losses as of June 30, 2023, the Company utilized a single macroeconomic alternative scenario, or S7, published by Moody's Analytics in June 2023 that was updated to reflect the U.S. economic outlook. This alternative economic scenario expects inflation persistently higher than the baseline scenario as uneven supply chain and labor market conditions continue from the conflict between Russia and Ukraine, consumer and business confidence declines due to recent bank failures and tighter lending standards, and still elevated interest rates contribute to a mild U.S recession starting in the first quarter of 2024. Federal Reserve monetary policy maintains the elevated interest rates to a federal funds rate at the baseline target range of 5% to 5.25% into the third and fourth quarters of 2023. Significant variables that impact the modeled losses across our loan portfolios are the U.S. Real Gross Domestic Product, or GDP, growth rates and unemployment rate assumptions. Changes in these assumptions and forecasts of economic conditions could significantly affect the estimate of expected credit losses at the balance sheet date or between reporting periods.

During the three and six months ended June 30, 2022, the increases in the allowance reflected a deteriorating U.S economic outlook, partially offset by decreases in specific reserves and positive risk rating grade migration. The net impact to the allowance of changes associated with individually evaluated loans during the three and six months ended June 30, 2022 included a reversal of credit losses of \$1.3 million and \$1.0 million, respectively, while collectively evaluated loans included a provision for credit losses of \$6.6 million and \$6.4 million, respectively. The changes in the allowance for credit losses during the noted periods were primarily attributable to the Bank and also reflected other factors including, but not limited to, loan mix, and changes in loan balances and qualitative factors from the prior quarter. The changes in the allowance during the three and six months ended June 30, 2022 were also impacted by net charge-offs of \$1.2 million and \$1.5 million, respectively.

During the three and six months ended June 30, 2023, the provision for credit losses reflected a significant build in the allowance related to loan portfolio changes since the prior quarter and a deteriorating outlook for commercial real estate markets. The net impact to the allowance of changes associated with collectively evaluated loans during the three and six months ended June 30, 2023 included a provision for credit losses on collectively evaluated loans at the Bank of \$12.9

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

million and \$14.5 million, respectively, while the net impact to the allowance of changes associated with individually evaluated loans during the three and six months ended June 30, 2023 included a provision for credit losses of \$1.9 million and \$2.7 million, respectively. The changes in the allowance for credit losses during the noted periods were primarily attributable to the Bank and also reflected other factors including, but not limited to, loan mix, and changes in loan balances and qualitative factors from the prior quarter. The changes in the allowance during the three and six months ended June 30, 2023 were also impacted by net charge-offs of \$2.9 million and \$3.3 million, respectively.

Changes in the allowance for credit losses for loans held for investment, distributed by portfolio segment, are shown below (in thousands).

	Balance, Beginning of Period	Provision for (Reversal of) Credit Losses	Loans Charged Off	Recoveries on Charged Off Loans	Balance, End of Period
<b>Three Months Ended June 30, 2023</b>					
Commercial real estate	\$ 61,521	\$ 9,921	\$ —	\$ 20	\$ 71,462
Commercial and industrial	16,615	3,632	(3,020)	88	17,315
Construction and land development	5,999	1,396	—	—	7,395
1-4 family residential	11,691	(108)	—	35	11,618
Consumer	563	59	(53)	46	615
Broker-dealer	965	(64)	—	—	901
Total	<u>\$ 97,354</u>	<u>\$ 14,836</u>	<u>\$ (3,073)</u>	<u>\$ 189</u>	<u>\$ 109,306</u>
<b>Six Months Ended June 30, 2023</b>					
Commercial real estate	\$ 63,255	\$ 9,153	\$ (977)	\$ 31	\$ 71,462
Commercial and industrial	16,035	3,579	(3,079)	780	17,315
Construction and land development	6,051	1,344	—	—	7,395
1-4 family residential	9,313	2,326	(73)	52	11,618
Consumer	554	98	(122)	85	615
Broker-dealer	234	667	—	—	901
Total	<u>\$ 95,442</u>	<u>\$ 17,167</u>	<u>\$ (4,251)</u>	<u>\$ 948</u>	<u>\$ 109,306</u>
<b>Three Months Ended June 30, 2022</b>					
Commercial real estate	\$ 60,361	\$ 3,347	\$ —	\$ 11	\$ 63,719
Commercial and industrial	20,130	871	(1,892)	727	19,836
Construction and land development	5,515	(519)	—	—	4,996
1-4 family residential	4,340	1,212	(33)	35	5,554
Consumer	499	114	(99)	28	542
Broker-dealer	340	311	—	—	651
Total	<u>\$ 91,185</u>	<u>\$ 5,336</u>	<u>\$ (2,024)</u>	<u>\$ 801</u>	<u>\$ 95,298</u>
<b>Six Months Ended June 30, 2022</b>					
Commercial real estate	\$ 59,354	\$ 4,322	\$ —	\$ 43	\$ 63,719
Commercial and industrial	21,982	(679)	(3,101)	1,634	19,836
Construction and land development	4,674	322	—	—	4,996
1-4 family residential	4,589	965	(48)	48	5,554
Consumer	578	45	(212)	131	542
Broker-dealer	175	476	—	—	651
Total	<u>\$ 91,352</u>	<u>\$ 5,451</u>	<u>\$ (3,361)</u>	<u>\$ 1,856</u>	<u>\$ 95,298</u>

*Unfunded Loan Commitments*

The Bank uses a process similar to that used in estimating the allowance for credit losses on the funded portion to estimate the allowance for credit loss on unfunded loan commitments. The allowance is based on the estimated exposure at default, multiplied by the lifetime Probability of Default grade and Loss Given Default grade for that particular loan segment. The Bank estimates expected losses by calculating a commitment usage factor based on industry usage factors. The commitment usage factor is applied over the relevant contractual period. Loss factors from the underlying loans to



Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

which commitments are related are applied to the results of the usage calculation to estimate any liability for credit losses related for each loan type. The expected losses on unfunded commitments align with statistically calculated parameters used to calculate the allowance for credit losses on the funded portion. There is no reserve calculated for letters of credit as they are issued primarily as credit enhancements and the likelihood of funding is low.

Changes in the allowance for credit losses for loans with off-balance sheet credit exposures are shown below (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Balance, beginning of period	\$ 6,805	\$ 6,487	\$ 7,784	\$ 5,880
Other noninterest expense	1,187	444	208	1,051
Balance, end of period	<u>\$ 7,992</u>	<u>\$ 6,931</u>	<u>\$ 7,992</u>	<u>\$ 6,931</u>

During the three and six months ended June 30, 2022, the increases in the reserve for unfunded commitments were primarily due to increases in both loan expected loss rates and available commitment balances. During the three and six months ended June 30, 2023, the increases in the reserve for unfunded commitments were primarily due to increases in expected loss rates.

## 7. Mortgage Servicing Rights

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Balance, beginning of period	\$ 103,314	\$ 100,475	\$ 100,825	\$ 86,990
Additions	6,890	11,210	20,100	18,510
Sales	(19,055)	—	(19,055)	(1,876)
Changes in fair value:				
Due to changes in model inputs or assumptions <sup>(1)</sup>	5,326	13,237	(4,539)	24,093
Due to customer payoffs	(1,374)	(3,234)	(2,230)	(6,029)
Balance, end of period	<u>\$ 95,101</u>	<u>\$ 121,688</u>	<u>\$ 95,101</u>	<u>\$ 121,688</u>
			<u>June 30,</u>	<u>December 31,</u>
			<u>2023</u>	<u>2022</u>
Mortgage loans serviced for others <sup>(2)</sup>			\$ 4,986,261	\$ 5,144,558
MSR asset as a percentage of serviced mortgage loans			1.91 %	1.96 %

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

(2) Represents unpaid principal balance of mortgage loans serviced for others.

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

	June 30, 2023	December 31, 2022
Weighted average constant prepayment rate	8.49 %	8.14 %
Weighted average discount rate	11.71 %	12.10 %
Weighted average life (in years)	8.3	8.4

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

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

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Constant prepayment rate:		
Impact of 10% adverse change	\$ (3,288)	\$ (3,288)
Impact of 20% adverse change	(6,362)	(6,375)
Discount rate:		
Impact of 10% adverse change	(4,404)	(4,797)
Impact of 20% adverse change	(8,404)	(9,147)

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

Contractually specified servicing fees, late fees and ancillary fees earned of \$8.3 million and \$8.9 million during the three months ended June 30, 2023 and 2022, respectively, and \$15.6 million and \$17.5 million during the six months ended June 30, 2023 and 2022, respectively, were included in net gains from sale of loans and other mortgage production income within the consolidated statements of operations.

## 8. Deposits

Deposits are summarized as follows (in thousands).

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Noninterest-bearing demand	\$ 3,451,438	\$ 3,968,862
Interest-bearing:		
Demand accounts	3,990,812	4,110,418
Brokered - demand	305,920	5,336
Money market	2,025,849	2,045,554
Brokered - money market	9,813	9,031
Savings	281,699	312,140
Time	1,007,315	864,408
Brokered - time	91,331	—
	<u>\$ 11,164,177</u>	<u>\$ 11,315,749</u>

At June 30, 2023, remaining maturities of estimated uninsured time deposits greater than \$250,000 were \$414.3 million.

## 9. Short-term Borrowings

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

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Federal funds purchased	\$ 438,908	\$ 397,108
Securities sold under agreements to repurchase	402,594	297,856
Federal Home Loan Bank	500,000	—
Short-term bank loans	78,000	57,500
Commercial paper	209,135	217,592
	<u>\$ 1,628,637</u>	<u>\$ 970,056</u>

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

*Federal Funds Purchased and Securities Sold under Agreements to Repurchase*

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

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

	<u>Six Months Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
Average balance during the period	\$ 768,514	\$ 477,533
Average interest rate during the period	5.16 %	0.67 %
	<u>June 30,</u>	<u>December 31,</u>
	<u>2023</u>	<u>2022</u>
Average interest rate at end of period	5.38 %	4.37 %
Securities underlying the agreements at end of period:		
Carrying value	\$ 402,714	\$ 296,075
Estimated fair value	\$ 431,244	\$ 318,409

*Federal Home Loan Bank ("FHLB")*

FHLB short-term borrowings mature over terms not exceeding 365 days and are collateralized by FHLB Dallas stock, nonspecified real estate loans and certain specific commercial real estate loans. Other information regarding FHLB short-term borrowings is shown in the following table (dollars in thousands).

	<u>Six Months Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
Average balance during the period	\$ 252,901	\$ —
Average interest rate during the period	5.05 %	— %
	<u>June 30,</u>	<u>December 31,</u>
	<u>2023</u>	<u>2022</u>
Average interest rate at end of period	5.35 %	— %

*Short-Term Bank Loans*

The Hilltop Broker-Dealers use short-term bank loans periodically to finance securities owned, margin loans to customers and correspondents and underwriting activities. Interest on the borrowings varies with the federal funds rate. The weighted average interest rate on borrowings at June 30, 2023 was 6.26%.

*Commercial Paper*

Hilltop Securities uses the net proceeds (after deducting related issuance expenses) from the sale of two commercial paper programs for general corporate purposes, including working capital and the funding of a portion of its securities inventories. The commercial paper notes ("CP Notes") may be issued with maturities of 14 days to 270 days from the date of issuance. The CP Notes are issued under two separate programs, Series 2019-1 CP Notes and Series 2019-2 CP Notes, in maximum aggregate amounts of \$300 million and \$200 million, respectively. The CP Notes are not redeemable prior to maturity or subject to voluntary prepayment and do not bear interest, but are sold at a discount to par. The CP Notes are secured by a pledge of collateral owned by Hilltop Securities. As of June 30, 2023, the weighted average maturity of the CP Notes was 141 days at a rate of 5.99%, with a weighted average remaining life of 73 days. At June 30, 2023, the aggregate amount outstanding under these secured arrangements was \$209.1 million, which was collateralized by securities held for Hilltop Securities accounts valued at \$230.7 million.

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

**10. Notes Payable**

Notes payable consisted of the following (in thousands).

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Senior Notes due April 2025, net of discount of \$602 and \$699, respectively	\$ 149,398	\$ 149,301
Subordinated Notes due May 2030, net of discount of \$561 and \$610, respectively	49,439	49,390
Subordinated Notes due May 2035, net of discount of \$1,941 and \$2,037, respectively	148,059	147,963
Ventures Management lines of credit	17,635	—
	<u>\$ 364,531</u>	<u>\$ 346,654</u>

**11. Leases**

Supplemental balance sheet information related to finance leases is as follows (in thousands).

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Finance leases:		
Premises and equipment	\$ 7,780	\$ 7,780
Accumulated depreciation	(6,243)	(5,948)
Premises and equipment, net	<u>\$ 1,537</u>	<u>\$ 1,832</u>

The components of lease costs, including short-term lease costs, are as follows (in thousands).

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 9,015	\$ 9,352	\$ 17,744	\$ 18,958
Less operating lease and sublease income	(678)	(561)	(1,311)	(1,130)
Net operating lease cost	<u>\$ 8,337</u>	<u>\$ 8,791</u>	<u>\$ 16,433</u>	<u>\$ 17,828</u>
Finance lease cost:				
Amortization of ROU assets	\$ 147	\$ 147	\$ 295	\$ 295
Interest on lease liabilities	108	121	220	245
Total finance lease cost	<u>\$ 255</u>	<u>\$ 268</u>	<u>\$ 515</u>	<u>\$ 540</u>

Supplemental cash flow information related to leases is as follows (in thousands).

	<u>Six Months Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 19,150	\$ 18,713
Operating cash flows from finance leases	222	247
Financing cash flows from finance leases	409	372
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 9,559	\$ 8,266
Finance leases	—	—

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Information regarding the lease terms and discount rates of the Company's leases is as follows.

Lease Classification	June 30, 2023		December 31, 2022	
	Weighted Average Remaining Lease Term (Years)	Weighted Average Discount Rate	Weighted Average Remaining Lease Term (Years)	Weighted Average Discount Rate
Operating	5.5	4.35 %	5.7	3.89 %
Finance	3.6	4.93 %	4.0	4.89 %

Future minimum lease payments under lease agreements as of June 30, 2023, are presented below (in thousands).

	Operating Leases	Finance Leases
2023	\$ 20,707	\$ 649
2024	36,971	1,163
2025	30,964	886
2026	24,293	813
2027	17,646	448
Thereafter	37,708	149
Total minimum lease payments	168,289	4,108
Less amount representing interest	(48,290)	(1,113)
Lease liabilities	\$ 119,999	\$ 2,995

As of June 30, 2023, the Company had no additional operating leases that have not yet commenced.

## 12. Income Taxes

The Company applies an estimated annual effective rate to interim period pre-tax income to calculate the income tax provision for the quarter in accordance with the principal method prescribed by the accounting guidance established for computing income taxes in interim periods. The Company's effective tax rates were 26.4% and 25.6% for the three months ended June 30, 2023 and 2022, respectively, and 18.5% and 23.2% for the six months ended June 30, 2023 and 2022, respectively. The effective tax rate for the three months ended June 30, 2022 was higher than the applicable statutory rate primarily due to the impact of non-deductible compensation expense and other permanent adjustments, while the effective tax rate during the three months ended June 30, 2023 was higher than the applicable statutory rate primarily due to the booking of additional taxes from a recent change in the source of funding for an acquired non-qualified, deferred compensation plan. During the six months ended June 30, 2023, the effective tax rate was lower than the applicable statutory rate primarily due to the impacts of excess tax benefits on share-based payment awards, investments in tax-exempt instruments and changes in accumulated tax reserves, partially offset by nondeductible expenses and the increase in taxes noted above.

## 13. Commitments and Contingencies

### *Legal Matters*

The Company is subject to loss contingencies related to litigation, claims, investigations and legal and administrative cases and proceedings arising in the ordinary course of business. The Company evaluates these contingencies based on information currently available, including advice of counsel. The Company establishes accruals for those matters when a loss contingency is considered probable and the related amount is reasonably estimable. Any accruals are periodically reviewed and may be adjusted as circumstances change. A portion of the Company's exposure with respect to loss contingencies may be offset by applicable insurance coverage. In determining the amounts of any accruals or estimates of possible loss contingencies, the Company does not take into account the availability of insurance coverage. When it is practicable, the Company estimates loss contingencies for possible litigation and claims, whether or not there is an accrued probable loss. When the Company is able to estimate such probable losses, and when it estimates that it is reasonably possible it could incur losses in excess of amounts accrued, the Company is required to make a disclosure of the aggregate estimation. As available information changes, however, the matters for which the Company is able to estimate, as well as the estimates themselves, will be adjusted accordingly.

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Assessments of litigation and claims exposures are difficult due to many factors that involve inherent unpredictability. Those factors include the following: the varying stages of the proceedings, particularly in the early stages; unspecified, unsupported, or uncertain damages; damages other than compensatory, such as punitive damages; a matter presenting meaningful legal uncertainties, including novel issues of law; multiple defendants and jurisdictions; whether discovery has begun or is complete; whether meaningful settlement discussions have commenced; and whether the claim involves a class action and if so, how the class is defined. As a result of some of these factors, the Company may be unable to estimate reasonably possible losses with respect to some or all of the pending and threatened litigation and claims asserted against the Company.

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

On June 8, 2022, WR Investments, LP ("WR") filed claims against Hilltop Securities, et al. through FINRA Dispute Resolution, Midwest Region. WR alleges it suffered a \$13.0 million loss in its sale of subordinated bonds related to a portfolio of senior living facilities sold by an affiliate of WR. Hilltop Securities believes the claims are without merit and intends to vigorously defend against such claims. There can be no assurance, however, that Hilltop Securities will be successful. At present, Hilltop Securities is unable to estimate the probability or amount of potential losses, if any, related to these claims.

In September 2020, PrimeLending received an investigative inquiry from the United States Attorney for the Western District of Virginia regarding PrimeLending's float down option. The United States Attorney has issued grand jury subpoenas to PrimeLending and PlainsCapital Bank for additional materials regarding this matter. PrimeLending has, and PrimeLending and PlainsCapital Bank will, cooperate with requests for information with respect to this matter.

While the final outcome of litigation and claims exposures or of any Inquiries is inherently unpredictable, management is currently of the opinion that the outcome of pending and threatened litigation and inquiries will not, except related to specific matters disclosed above, have a material effect on the Company's business, consolidated financial position, results of operations or cash flows as a whole. However, in the event of unexpected future developments, it is reasonably possible that an adverse outcome in any matter, including the matters discussed above, could be material to the Company's business, consolidated financial position, results of operations or cash flows for any particular reporting period of occurrence.

*Indemnification Liability Reserve*

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

Generally, the mortgage origination segment first becomes aware that an agency, investor, or other party believes a loss has been incurred on a sold loan when it receives a written request from the claimant to repurchase the loan or reimburse the claimant's losses. Upon completing its review of the claimant's request, the mortgage origination segment

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

establishes a specific claims reserve for the loan if it concludes its obligation to the claimant is both probable and reasonably estimable.

An additional 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. Factors considered in the calculation of this reserve include, but are not limited to, the total volume of loans sold exclusive of specific claimant requests, actual claim inquiries, claim settlements and the severity of estimated losses resulting from future claims, and the mortgage origination segment's history of successfully curing defects identified in claim requests.

While the mortgage origination segment's sales contracts typically include borrower early payment default repurchase provisions, these provisions have not been a primary driver of claims to date, and therefore, are not a primary factor considered in the calculation of this reserve.

At June 30, 2023 and December 31, 2022, the mortgage origination segment's indemnification liability reserve totaled \$15.1 million and \$20.5 million, respectively. The provision for indemnification losses was \$0.5 million and \$0.8 million during the three months ended June 30, 2023 and 2022, respectively, and \$0.8 million and \$1.2 million during the six months ended June 30, 2023 and 2022, respectively.

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

	<b>Representation and Warranty Specific Claims</b>			
	<b>Activity - Origination Loan Balance</b>			
	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Balance, beginning of period	\$ 27,197	\$ 30,271	\$ 31,244	\$ 31,407
Claims made	16,594	18,216	31,009	28,058
Claims resolved with no payment	(4,237)	(3,454)	(9,785)	(7,974)
Repurchases	(11,092)	(16,318)	(21,000)	(22,776)
Indemnification payments	(895)	—	(3,901)	—
Balance, end of period	<u>\$ 27,567</u>	<u>\$ 28,715</u>	<u>\$ 27,567</u>	<u>\$ 28,715</u>
	<b>Indemnification Liability Reserve Activity</b>			
	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Balance, beginning of period	\$ 18,270	\$ 27,250	\$ 20,528	\$ 27,424
Additions for new sales	490	762	837	1,515
Repurchases	(3,525)	(4,211)	(5,885)	(4,775)
Early payment defaults	(133)	(51)	(231)	(122)
Indemnification payments	(44)	—	(191)	—
Change in reserves for loans sold in prior years	—	—	—	(292)
Balance, end of period	<u>\$ 15,058</u>	<u>\$ 23,750</u>	<u>\$ 15,058</u>	<u>\$ 23,750</u>
	<b>June 30,</b>	<b>December 31,</b>		
	<b>2023</b>	<b>2022</b>		
Reserve for Indemnification Liability:				
Specific claims	\$ 859	\$ 627		
Incurred but not reported claims	14,199	19,901		
Total	<u>\$ 15,058</u>	<u>\$ 20,528</u>		

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

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

#### **14. Financial Instruments with Off-Balance Sheet Risk**

##### *Banking*

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

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

In the aggregate, the Bank had outstanding unused commitments to extend credit of \$2.4 billion at June 30, 2023 and outstanding financial and performance standby letters of credit of \$61.7 million at June 30, 2023.

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

##### *Broker-Dealer*

In the normal course of business, the Hilltop Broker-Dealers execute, settle, and finance various securities transactions that may expose the Hilltop Broker-Dealers to off-balance sheet risk in the event that a customer or counterparty does not fulfill its contractual obligations. Examples of such transactions include the sale of securities not yet purchased by customers or for the accounts of the Hilltop Broker-Dealers, use of derivatives to support certain non-profit housing organization clients and to hedge changes in the fair value of certain securities, 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.

#### **15. Stock-Based Compensation**

Since 2012, the Company has issued stock-based incentive awards pursuant to the Hilltop Holdings Inc. 2012 Equity Incentive Plan (the "2012 Plan"). In July 2020, pursuant to stockholders' approval, the Company adopted the Hilltop Holdings Inc. 2020 Equity Incentive Plan (the "2020 Plan"). The 2020 Plan serves as successor to the 2012 Plan.

During the six months ended June 30, 2023 and 2022, Hilltop granted 9,957 and 10,748 shares of common stock, respectively, pursuant to the 2020 Equity Plan to certain non-employee members of the Company's board of directors for services rendered to the Company.



Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

*Restricted Stock Units*

The following table summarizes information about nonvested restricted stock unit (“RSU”) activity for the six months ended June 30, 2023 (shares in thousands).

	RSUs	
	Outstanding	Weighted Average Grant Date Fair Value
Balance, December 31, 2022	1,548	\$ 28.09
Granted	479	\$ 34.36
Vested/Released	(644)	\$ 21.65
Forfeited	(10)	\$ 30.29
Balance, June 30, 2023	1,373	\$ 33.22

Vested/Released RSUs include an aggregate of 122,321 shares withheld to satisfy employee statutory tax obligations during the six months ended June 30, 2023.

During the six months ended June 30, 2023, the Compensation Committee of the board of directors of the Company awarded certain executives and key employees an aggregate of 386,850 RSUs pursuant to the 2020 Equity Plan. Of the RSUs granted during the six months ended June 30, 2023, 295,992 that were outstanding at June 30, 2023, are subject to time-based vesting conditions and generally cliff vest on the third anniversary of the grant date. Of the RSUs granted during the six months ended June 30, 2023, 88,073 that were outstanding at June 30, 2023, provide for cliff vesting based upon the achievement of certain performance goals over a three-year period.

At June 30, 2023, in the aggregate, 998,648 of the outstanding RSUs are subject to time-based vesting conditions and generally cliff vest on the third anniversary of the grant date, and 374,299 outstanding RSUs cliff vest based upon the achievement of certain performance goals over a three-year period. At June 30, 2023, unrecognized compensation expense related to outstanding RSUs of \$23.3 million is expected to be recognized over a weighted average period of 1.49 years.

## 16. Regulatory Matters

### *Banking and Hilltop*

PlainsCapital, which includes the Bank and PrimeLending, and Hilltop are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory — and possibly additional discretionary — actions by regulators that, if undertaken, could have a direct, material effect on the consolidated financial statements. The regulations require PlainsCapital and Hilltop to meet specific capital adequacy guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company performs reviews of the classification and calculation of risk-weighted assets to ensure accuracy and compliance with the Basel III regulatory capital requirements as implemented by the Board of Governors of the Federal Reserve System. The capital classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require the companies to maintain minimum amounts and ratios (set forth in the following table) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of common equity Tier 1, Tier 1 and total capital (as defined) to risk-weighted assets (as defined).

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.

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

The following table shows PlainsCapital's and Hilltop's actual capital amounts and ratios in accordance with Basel III compared to the regulatory minimum capital requirements including conservation buffer ratio in effect at the end of the period (dollars in thousands). Based on actual capital amounts and ratios shown in the following table, PlainsCapital's ratios place it in the "well capitalized" (as defined) capital category under regulatory requirements. Actual capital amounts and ratios as of June 30, 2023 reflect PlainsCapital's and Hilltop's decision to elect the transition option as issued by the federal banking regulatory agencies in March 2020 that permits banking institutions to mitigate the estimated cumulative regulatory capital effects from CECL over a five-year transitional period.

	June 30, 2023		December 31, 2022		Minimum Capital Requirements Including Conservation Buffer Ratio	To Be Well Capitalized Ratio
	Amount	Ratio	Amount	Ratio	Ratio	Ratio
Tier 1 capital (to average assets):						
PlainsCapital	\$ 1,419,063	10.28 %	\$ 1,405,164	10.26 %	4.0 %	5.0 %
Hilltop	1,924,545	11.47 %	1,900,701	11.47 %	4.0 %	N/A
Common equity Tier 1 capital (to risk-weighted assets):						
PlainsCapital	1,419,063	14.51 %	1,405,164	14.98 %	7.0 %	6.5 %
Hilltop	1,924,545	17.63 %	1,900,701	18.23 %	7.0 %	N/A
Tier 1 capital (to risk-weighted assets):						
PlainsCapital	1,419,063	14.51 %	1,405,164	14.98 %	8.5 %	8.0 %
Hilltop	1,924,545	17.63 %	1,900,701	18.23 %	8.5 %	N/A
Total capital (to risk-weighted assets):						
PlainsCapital	1,525,074	15.59 %	1,492,576	15.91 %	10.5 %	10.0 %
Hilltop	2,230,993	20.44 %	2,187,652	20.98 %	10.5 %	N/A

*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 \$1,000,000 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. Momentum 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 \$250,000 or 6-2/3% of aggregate indebtedness.

At June 30, 2023, the net capital position of each of the Hilltop Broker-Dealers was as follows (in thousands).

	Hilltop Securities	Momentum Independent Network
Net capital	\$ 265,233	\$ 4,036
Less: required net capital	8,031	287
Excess net capital	\$ 257,202	\$ 3,749
Net capital as a percentage of aggregate debit items	66.1 %	
Net capital in excess of 5% aggregate debit items	\$ 245,154	

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 for regulatory purposes under the provisions of the Exchange Act are restricted and not available for general corporate purposes. At June 30, 2023 and December 31, 2022, the Hilltop Broker-Dealers held cash of \$50.7 million and \$67.7 million,

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

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 June 30, 2023.

#### *Mortgage Origination*

As a mortgage originator, PrimeLending and its subsidiaries are subject to minimum capital, 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 June 30, 2023, PrimeLending and its subsidiaries' net worth and liquidity exceeded the amounts required by both HUD and GNMA, as applicable.

### **17. Stockholders' Equity**

#### *Dividends*

During the six months ended June 30, 2023 and 2022, the Company declared and paid cash dividends of \$0.32 and \$0.30 per common share, or an aggregate of \$20.8 million and \$23.8 million, respectively.

On July 20, 2023, Hilltop's board of directors declared a quarterly cash dividend of \$0.16 per common share, payable on August 25, 2023, to all common stockholders of record as of the close of business on August 11, 2023.

#### *Stock Repurchases*

In January 2023, the Hilltop board of directors authorized a new stock repurchase program through January 2024, pursuant to which the Company is authorized to repurchase, in the aggregate, up to \$75.0 million of our outstanding common stock, inclusive of repurchases to offset dilution related to grants of stock-based compensation. During the six months ended June 30, 2023, Hilltop paid \$4.5 million to repurchase an aggregate of 144,403 shares of our common stock at an average price of \$31.15 per share pursuant to the stock repurchase program.

The Company's stock repurchase program, prior year repurchases and related accounting policy are discussed in detail in Note 1 and Note 23 to the consolidated financial statements included in the Company's 2022 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. Additionally, the Bank manages variability of cash flows associated with its variable rate debt in interest-related cash outflows with interest rate swap contracts. 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 futures contracts. 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, Hilltop Securities uses various derivative instruments, including U.S. Treasury bond futures and options, futures contracts, credit default swaps and municipal market data ("MMD") rate locks, to hedge changes in the fair value of its securities.

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

*Non-Hedging Derivative Instruments and the Fair Value Option*

As discussed in Note 3 to the consolidated financial statements, the Company has elected to measure substantially all mortgage loans held for sale at fair value under the provisions of the Fair Value Option. The election provides the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without applying 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. 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 7 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. Changes in the fair value of derivatives are presented in the following table (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Increase (decrease) in fair value of derivatives during period:				
PrimeLending	\$ 1,888	\$ (35,303)	\$ 6,785	\$ (13,251)
Hilltop Broker-Dealers	3,950	10,906	(17,230)	9,579
Bank	(4)	17	(17)	46

*Hedging Derivative Instruments*

The Company has entered into interest rate swap contracts to manage the exposure to changes in fair value associated with certain available for sale fixed rate collateralized mortgage-backed securities and fixed rate loans held for investment attributable to changes in the designated benchmark interest rate. Certain of these fair value hedges have been designated as a portfolio layer, which provides the Company the ability to execute a fair value hedge of the interest rate risk associated with a portfolio of similar prepayable assets whereby the last dollar amount estimated to remain in the portfolio of assets is identified as the hedged item. Additionally, the Company has outstanding interest rate swap contracts designated as cash flow hedges and utilized to manage the variability of cash flows associated with its variable rate borrowings.

Under each of its interest rate swap contracts designated as hedges, the Company receives a floating rate and pays a fixed rate on the outstanding notional amount. The Company assesses the hedge effectiveness both at the onset of the hedge and at regular intervals throughout the life of the derivative. To the extent that the derivative instruments are highly effective in offsetting the variability of the hedged cash flows or fair value, changes in the fair value of the derivatives designated as hedges of cash flows are included as a component of accumulated other comprehensive loss on our consolidated balance sheets and changes in the fair value of the derivatives designated as hedges of fair value are included in current earnings. Although the Company has determined at the onset of the hedges that the derivative instruments will be highly effective hedges throughout the term of the contract, any portion of derivative instruments subsequently determined to be ineffective will be recognized in earnings.

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

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

	June 30, 2023		December 31, 2022	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Derivative instruments (not designated as hedges):				
IRLCs	\$ 709,174	\$ 5,109	\$ 506,278	\$ 1,767
Commitments to purchase MBSs	1,627,284	(7,982)	819,681	2,435
Commitments to sell MBSs	2,930,771	11,259	2,188,964	10,711
Interest rate swaps	37,750	173	35,784	(1,421)
U.S. Treasury bond futures and options <sup>(1)</sup>	360,900	(1,723)	395,500	(449)
Interest rate and other futures <sup>(1)</sup>	245,200	—	2,612,000	—
Credit default swaps	1,000	(8)	3,000	(2)
Derivative instruments (designated as hedges):				
Interest rate swaps designated as cash flow hedges	\$ 410,000	\$ 21,845	\$ 430,000	\$ 21,703
Interest rate swaps designated as fair value hedges <sup>(2)</sup>	325,323	41,192	365,323	42,828

(1) Noted derivative instruments include contracts between the Hilltop Broker-Dealers and counterparties with changes in fair value of the contracts that are settled daily.

(2) The Company designated \$325.3 million and \$365.3 million as the hedged amount (from a closed portfolio of prepayable available for sale securities and loans held for investment with a carrying value of \$284.1 million and \$322.5 million as of June 30, 2023 and December 31, 2022, respectively), of which, a subset of these hedges are in portfolio layer hedging relationships. The cumulative basis adjustment included in the carrying value of the hedged items totaled \$41.2 million and \$42.8 million as of June 30, 2023 and December 31, 2022, respectively.

The Bank and PrimeLending held cash collateral advances, in other liabilities within the consolidated balance sheets, of \$76.4 million and \$65.0 million to offset net asset derivative positions on its commitments to sell MBSs and derivative instruments designated as hedges at June 30, 2023 and December 31, 2022, respectively. PrimeLending had advanced cash collateral totaling \$45 thousand and \$8.4 million to offset net liability positions on its commitments to sell MBSs at June 30, 2023 and December 31, 2022, respectively. In addition, PrimeLending and the Hilltop Broker-Dealers had advanced cash collateral totaling \$12.9 million and \$10.6 million on various derivative instruments at June 30, 2023 and December 31, 2022, respectively. The advanced cash collateral amounts are included in other assets within the consolidated balance sheets.

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 of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	
<b>June 30, 2023</b>						
Securities borrowed:						
Institutional counterparties	\$ 1,326,418	\$ —	\$ 1,326,418	\$ (1,282,256)	\$ —	\$ 44,162
Interest rate swaps:						
Institutional counterparties	63,210	—	63,210	(173)	(65,920)	(2,883)
Reverse repurchase agreements:						
Institutional counterparties	143,982	—	143,982	(141,773)	—	2,209
Forward MBS derivatives:						
Institutional counterparties	11,693	(203)	11,490	(3,445)	(10,460)	(2,415)
	<u>\$ 1,545,303</u>	<u>\$ (203)</u>	<u>\$ 1,545,100</u>	<u>\$ (1,427,647)</u>	<u>\$ (76,380)</u>	<u>\$ 41,073</u>
<b>December 31, 2022</b>						
Securities borrowed:						
Institutional counterparties	\$ 1,012,573	\$ —	\$ 1,012,573	\$ (964,517)	\$ —	\$ 48,056
Interest rate swaps:						
Institutional counterparties	64,729	—	64,729	—	(64,630)	99
Reverse repurchase agreements:						
Institutional counterparties	118,070	—	118,070	(115,302)	—	2,768
Forward MBS derivatives:						
Institutional counterparties	16,694	(3,410)	13,284	(9,957)	—	3,327
Treasury futures and options derivatives:						
Institutional counterparties	57	(506)	(449)	—	—	(449)
	<u>\$ 1,212,123</u>	<u>\$ (3,916)</u>	<u>\$ 1,208,207</u>	<u>\$ (1,089,776)</u>	<u>\$ (64,630)</u>	<u>\$ 53,801</u>

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		Net Amount
				Financial Instruments	Cash Collateral Pledged	
<b>June 30, 2023</b>						
Securities loaned:						
Institutional counterparties	\$ 1,229,368	\$ —	\$ 1,229,368	\$ (1,186,700)	\$ —	\$ 42,668
Credit default swaps:						
Institutional counterparties	8	—	8	(8)	—	—
Repurchase agreements:						
Institutional counterparties	401,537	—	401,537	(401,537)	—	—
Forward MBS derivatives:						
Institutional counterparties	8,213	—	8,213	(8,213)	—	—
Treasury futures and options derivatives:						
Institutional counterparties	1,732	(9)	1,723	—	(5,988)	(4,265)
	<u>\$ 1,640,858</u>	<u>\$ (9)</u>	<u>\$ 1,640,849</u>	<u>\$ (1,596,458)</u>	<u>\$ (5,988)</u>	<u>\$ 38,403</u>
<b>December 31, 2022</b>						
Securities loaned:						
Institutional counterparties	\$ 916,570	\$ —	\$ 916,570	\$ (871,037)	\$ —	\$ 45,533
Interest rate swaps:						
Institutional counterparties	1,619	—	1,619	(1,438)	—	181
Credit default swaps:						
Institutional counterparties	2	—	2	(2)	—	—
Repurchase agreements:						
Institutional counterparties	296,978	—	296,978	(319,897)	—	(22,919)
Forward MBS derivatives:						
Institutional counterparties	138	—	138	(138)	—	—
	<u>\$ 1,215,307</u>	<u>\$ —</u>	<u>\$ 1,215,307</u>	<u>\$ (1,192,512)</u>	<u>\$ —</u>	<u>\$ 22,795</u>

*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 ninety 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

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 June 30, 2023 and December 31, 2022.

	Remaining Contractual Maturities				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
<b>June 30, 2023</b>					
Repurchase agreement transactions:					
Asset-backed securities	292,497	4,282	52,729	52,029	401,537
Securities lending transactions:					
Corporate securities	113	—	—	—	113
Equity securities	1,229,255	—	—	—	1,229,255
Total	<u>\$ 1,521,865</u>	<u>\$ 4,282</u>	<u>\$ 52,729</u>	<u>\$ 52,029</u>	<u>\$ 1,630,905</u>
Gross amount of recognized liabilities for repurchase agreement and securities lending transactions in offsetting disclosure above					<u>\$ 1,630,905</u>
Amount related to agreements not included in offsetting disclosure above					<u>\$ —</u>

	Remaining Contractual Maturities				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
<b>December 31, 2022</b>					
Repurchase agreement transactions:					
Asset-backed securities	\$ 130,616	\$ 2,539	\$ 141,461	\$ 22,362	\$ 296,978
Securities lending transactions:					
Corporate securities	113	—	—	—	113
Equity securities	916,457	—	—	—	916,457
Total	<u>\$ 1,047,186</u>	<u>\$ 2,539</u>	<u>\$ 141,461</u>	<u>\$ 22,362</u>	<u>\$ 1,213,548</u>
Gross amount of recognized liabilities for repurchase agreement and securities lending transactions in offsetting disclosure above					<u>\$ 1,213,548</u>
Amount related to agreements not included in offsetting disclosure above					<u>\$ —</u>

## 20. Broker-Dealer and Clearing Organization Receivables and Payables

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

	June 30, 2023	December 31, 2022
Receivables:		
Securities borrowed	\$ 1,326,418	\$ 1,012,573
Securities failed to deliver	29,218	11,350
Trades in process of settlement	107,585	3,476
Other	10,956	10,656
	<u>\$ 1,474,177</u>	<u>\$ 1,038,055</u>
Payables:		
Securities loaned	\$ 1,229,368	\$ 916,570
Correspondents	35,065	22,760
Securities failed to receive	35,207	20,167
Other	7,006	6,973
	<u>\$ 1,306,646</u>	<u>\$ 966,470</u>



Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

**21. Segment and Related Information**

The Company has two primary business units, PCC (banking and mortgage origination) and Securities Holdings (broker-dealer). Under GAAP, the Company's business units are comprised of three reportable business segments organized primarily by the core products offered to the segments' respective customers: banking, broker-dealer and mortgage origination. 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. The broker-dealer segment includes the operations of Securities Holdings and the mortgage origination segment is composed of PrimeLending.

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).

	<b>Banking</b>	<b>Broker-Dealer</b>	<b>Mortgage Origination</b>	<b>Corporate</b>	<b>All Other and Eliminations</b>	<b>Hilltop Consolidated</b>
<b>Three Months Ended June 30, 2023</b>						
Net interest income (expense)	\$ 100,986	\$ 13,201	\$ (5,901)	\$ (3,479)	\$ 13,459	\$ 118,266
Provision for (reversal of) credit losses	14,900	(64)	—	—	—	14,836
Noninterest income	11,189	100,040	90,079	3,081	(13,737)	190,652
Noninterest expense	57,436	94,853	98,660	16,301	(273)	266,977
Income (loss) before taxes	<u>\$ 39,839</u>	<u>\$ 18,452</u>	<u>\$ (14,482)</u>	<u>\$ (16,699)</u>	<u>\$ (5)</u>	<u>\$ 27,105</u>
<b>Six Months Ended June 30, 2023</b>						
Net interest income (expense)	\$ 205,756	\$ 27,064	\$ (10,109)	\$ (6,801)	\$ 24,061	\$ 239,971
Provision for (reversal of) credit losses	16,500	667	—	—	—	17,167
Noninterest income	22,379	190,675	158,909	5,786	(24,603)	353,146
Noninterest expense	113,563	185,198	187,413	31,814	(541)	517,447
Income (loss) before taxes	<u>\$ 98,072</u>	<u>\$ 31,874</u>	<u>\$ (38,613)</u>	<u>\$ (32,829)</u>	<u>\$ (1)</u>	<u>\$ 58,503</u>
<b>Three Months Ended June 30, 2022</b>						
Net interest income (expense)	\$ 101,259	\$ 12,578	\$ (1,291)	\$ (3,190)	\$ 2,700	\$ 112,056
Provision for (reversal of) credit losses	5,025	311	—	—	—	5,336
Noninterest income	12,467	87,651	140,082	2,080	(3,007)	239,273
Noninterest expense	57,331	90,817	133,169	17,561	(335)	298,543
Income (loss) before taxes	<u>\$ 51,370</u>	<u>\$ 9,101</u>	<u>\$ 5,622</u>	<u>\$ (18,671)</u>	<u>\$ 28</u>	<u>\$ 47,450</u>
<b>Six Months Ended June 30, 2022</b>						
Net interest income (expense)	\$ 193,329	\$ 24,096	\$ (3,127)	\$ (6,580)	\$ 4,329	\$ 212,047
Provision for (reversal of) credit losses	4,975	476	—	—	—	5,451
Noninterest income	25,237	148,341	283,276	3,846	(4,999)	455,701
Noninterest expense	115,761	171,464	268,027	30,354	(713)	584,893
Income (loss) before taxes	<u>\$ 97,830</u>	<u>\$ 497</u>	<u>\$ 12,122</u>	<u>\$ (33,088)</u>	<u>\$ 43</u>	<u>\$ 77,404</u>
<b>Goodwill</b>						
	<b>Banking</b>	<b>Broker-Dealer</b>	<b>Mortgage Origination</b>	<b>Corporate</b>	<b>All Other and Eliminations</b>	<b>Hilltop Consolidated</b>
<b>June 30, 2023</b>						
Goodwill	\$ 247,368	\$ 7,008	\$ 13,071	\$ —	\$ —	\$ 267,447
Total assets	<u>\$ 13,815,183</u>	<u>\$ 3,029,661</u>	<u>\$ 1,572,087</u>	<u>\$ 2,468,214</u>	<u>\$ (3,746,804)</u>	<u>\$ 17,138,341</u>
<b>December 31, 2022</b>						
Goodwill	\$ 247,368	\$ 7,008	\$ 13,071	\$ —	\$ —	\$ 267,447
Total assets	<u>\$ 13,420,110</u>	<u>\$ 2,672,709</u>	<u>\$ 1,249,284</u>	<u>\$ 2,465,513</u>	<u>\$ (3,548,334)</u>	<u>\$ 16,259,282</u>

Hilltop Holdings Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Unaudited)

**22. Earnings per Common Share**

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Basic earnings per share:				
Income attributable to Hilltop	\$ 18,133	\$ 33,260	\$ 43,933	\$ 55,510
Weighted average shares outstanding - basic	65,025	73,693	64,963	76,389
Basic earnings per common share:	<u>\$ 0.28</u>	<u>\$ 0.45</u>	<u>\$ 0.68</u>	<u>\$ 0.73</u>
Diluted earnings per share:				
Income attributable to Hilltop	\$ 18,133	\$ 33,260	\$ 43,933	\$ 55,510
Weighted average shares outstanding - basic	65,025	73,693	64,963	76,389
Effect of potentially dilutive securities	29	145	30	180
Weighted average shares outstanding - diluted	<u>65,054</u>	<u>73,838</u>	<u>64,993</u>	<u>76,569</u>
Diluted earnings per common share:	<u>\$ 0.28</u>	<u>\$ 0.45</u>	<u>\$ 0.68</u>	<u>\$ 0.73</u>

## 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 “Momentum Independent Network” refer to Momentum Independent Network Inc. (a wholly owned subsidiary of Securities Holdings), Hilltop Securities and Momentum 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.*

### 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,” “should,” “target,” “view” or “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 revenue, our liquidity and sources of funding, market trends, operations and business, taxes, the impact of natural disasters or public health emergencies, information technology expenses, cybersecurity incidents, capital levels, mortgage servicing rights (“MSR”) assets, stock repurchases, dividend payments, expectations concerning mortgage loan origination volume, servicer advances and interest rate compression, expected levels of refinancing as a percentage of total loan origination volume, projected losses on mortgage loans originated, total expenses, the effects of government regulation applicable to our operations, the appropriateness of, and changes in, our allowance for credit losses and provision for (reversal of) credit losses, expected future benchmark rates, 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 credit losses and the allowance for credit losses, as well as the effects of changes in the level of, and trends in, loan delinquencies and write-offs;
- effectiveness of our data security controls in the face of cyber attacks and any reputational risks following a cybersecurity incident;
- changes in general economic, market and business conditions in areas or markets where we compete, including changes in the price of crude oil;
- changes in the interest rate environment;
- risks associated with concentration in real estate related loans;
- the effects of our indebtedness on our ability to manage our business successfully, including the restrictions imposed by the indenture governing our indebtedness;

- disruptions to the economy and the U.S. banking system caused by recent bank failures, risks associated with uninsured deposits and responsive measures by federal or state governments or banking regulators, including increases in the cost of our deposit insurance assessments;
- 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 and mortgage origination segments from other banks and financial institutions as well as investment banking and financial advisory firms, mortgage bankers, asset-based non-bank lenders and government agencies;
- legal and regulatory proceedings;
- 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, 2022 (“2022 Form 10-K”), which was filed with the Securities and Exchange Commission (“SEC”) on February 17, 2023, this Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” 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 and mortgage origination 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, clearing, securities lending, structured finance and retail brokerage services throughout the United States.

The following historical consolidated data for the periods indicated has been derived from our historical consolidated financial statements included elsewhere in this Quarterly Report (dollars and shares in thousands, except per share data).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Statement of Operations Data:</b>				
Net interest income	\$ 118,266	\$ 112,056	\$ 239,971	\$ 212,047
Provision for credit losses	14,836	5,336	17,167	5,451
Total noninterest income	190,652	239,273	353,146	455,701
Total noninterest expense	266,977	298,543	517,447	584,893
Income before income taxes	27,105	47,450	58,503	77,404
Income tax expense	7,167	12,127	10,797	17,942
Net income	19,938	35,323	47,706	59,462
Less: Net income attributable to noncontrolling interest	1,805	2,063	3,773	3,952
Income attributable to Hilltop	<u>\$ 18,133</u>	<u>\$ 33,260</u>	<u>\$ 43,933</u>	<u>\$ 55,510</u>
<b>Per Share Data:</b>				
Diluted earnings per common share	\$ 0.28	\$ 0.45	\$ 0.68	\$ 0.73
Diluted weighted average shares outstanding	65,054	73,838	64,993	76,569
Cash dividends declared per common share	\$ 0.16	\$ 0.15	\$ 0.32	\$ 0.30
Dividend payout ratio <sup>(1)</sup>	57.37 %	33.33 %	47.32 %	41.10 %
Book value per common share (end of period)			\$ 31.71	\$ 31.43
Tangible book value per common share <sup>(2)</sup> (end of period)			\$ 27.45	\$ 27.08
<b>Balance Sheet Data:</b>				
Total assets			\$ 17,138,341	\$ 16,259,282
Cash and due from banks			1,584,709	1,579,512
Securities			3,071,213	3,289,530
Loans held for sale			1,333,044	982,616
Loans held for investment, net of unearned income			8,354,122	8,092,673
Allowance for credit losses			(109,306)	(95,442)
Total deposits			11,164,177	11,315,749
Notes payable			364,531	346,654
Total stockholders' equity			2,090,254	2,063,529
<b>Capital Ratios:</b>				
Common equity to assets ratio			12.04 %	12.53 %
Tangible common equity to tangible assets <sup>(2)</sup>			10.59 %	11.00 %

(1) Dividend payout ratio is defined as cash dividends declared per common share divided by basic earnings per common share.

(2) For a reconciliation to the nearest GAAP measure, see “—Reconciliation and Management’s Explanation of Non-GAAP Financial Measures.”

Consolidated income before income taxes during the three and six months ended June 30, 2023 included the following contributions from our reportable business segments.

- The banking segment contributed \$39.8 million and \$98.1 million of income before income taxes during the three and six months ended June 30, 2023;
- The broker-dealer segment contributed \$18.5 million and \$31.9 million of income before income taxes during the three and six months ended June 30, 2023; and
- The mortgage origination segment incurred \$14.5 million and \$38.6 million of losses before income taxes during the three and six months ended June 30, 2023.

During the six months ended June 30, 2023, we declared and paid total common dividends of \$20.8 million.

On July 20, 2023, our board of directors declared a quarterly cash dividend of \$0.16 per common share, payable on August 25, 2023 to all common stockholders of record as of the close of business on August 11, 2023.

In January 2023, our board of directors authorized a new stock repurchase program through January 2024, pursuant to which we are authorized to repurchase, in the aggregate, up to \$75.0 million of our outstanding common stock, inclusive of repurchases to offset dilution related to grants of stock-based compensation. During the six months ended June 30, 2023, we paid \$4.5 million to repurchase an aggregate of 144,403 shares of our common stock at an average price of \$31.15 per share pursuant to the stock repurchase program.

### ***Reconciliation and Management’s Explanation of Non-GAAP Financial Measures***

We present certain measures in our selected financial data that are not measures of financial performance recognized by accounting principles generally accepted in the United States (“GAAP”). “Tangible book value per common share” is defined as our total stockholders’ equity reduced by goodwill and other intangible assets, divided by total common shares outstanding. “Tangible common equity to tangible assets” is defined as our total stockholders’ equity reduced by goodwill and other intangible assets, divided by total assets reduced by goodwill and other intangible assets. These measures are important to investors interested in changes from period to period in tangible common equity per share exclusive of changes in intangible assets. For companies such as ours that have engaged in business combinations, purchase accounting can result in the recording of significant amounts of goodwill and other intangible assets related to those transactions. You should not view this disclosure as a substitute for results determined in accordance with GAAP, and our disclosure is not necessarily comparable to that of other companies that use non-GAAP measures. The following table reconciles these non-GAAP financial measures to the most comparable GAAP financial measures, “book value per common share” and “equity to total assets” (dollars in thousands, except per share data).

	<b>June 30,</b>	
	<b>2023</b>	<b>2022</b>
Book value per common share	\$ 31.71	\$ 31.43
Effect of goodwill and intangible assets per share	(4.26)	(4.35)
Tangible book value per common share	\$ 27.45	\$ 27.08
	<b>June 30,</b>	<b>December 31,</b>
	<b>2023</b>	<b>2022</b>
Hilltop stockholders’ equity	\$ 2,063,599	\$ 2,036,924
Less: goodwill and intangible assets, net	277,219	278,764
Tangible common equity	\$ 1,786,380	\$ 1,758,160
Total assets	\$ 17,138,341	\$ 16,259,282
Less: goodwill and intangible assets, net	277,219	278,764
Tangible assets	\$ 16,861,122	\$ 15,980,518
Equity to assets	12.04 %	12.53 %
Tangible common equity to tangible assets	10.59 %	11.00 %

## ***Recent Developments***

### **Economic Environment**

Beginning in 2022, and continuing through the first half of 2023, our operational and financial results have been volatile due to economic headwinds including tight housing inventories on mortgage volumes, declining deposit balances, rapid increases in market interest rates and a declining economic forecast. The impacts of such headwinds during the remainder of 2023 remain uncertain and will depend on several developments outside of our control including, among others, the timing and significance of further changes in U.S. treasury yields and mortgage interest rates, exposure to increasing funding costs, inflationary pressures associated with compensation, occupancy and software costs and labor market conditions, and the Russian-Ukraine conflict and its impact on supply chains.

In addition, the banking sector experienced increased uncertainty and concerns associated with liquidity positions primarily due to recent high-profile bank failures as depositors sought to reduce risks associated with uninsured deposits and withdraw such deposits from existing bank relationships. As a result, both regulatory scrutiny and market focus on liquidity increased. While immediate financial institution safety and soundness concerns have somewhat subsided, these failures underscore the importance of maintaining access to diverse sources of funding.

In light of the above events, we have continued our efforts to monitor deposit flows and balance sheet trends to ensure that our liquidity needs and financial flexibility are maintained. During 2023, we began increasing interest-bearing deposit rates to address rising market interest rates and intense competition for liquidity to combat deposit outflows. The Bank also accessed additional core deposits from our Hilltop Securities Federal Deposit Insurance Corporation (“FDIC”) insured sweep program and utilized its Federal Home Loan Bank (“FHLB”) borrowing capacity through the use of short-term borrowings. Further, to bolster our liquidity position, we increased brokered deposits at the Bank by approximately \$390 million during the second quarter of 2023. At June 30, 2023, we continued to access approximately \$500 million of additional core deposits from our Hilltop Securities FDIC insured sweep program and utilized \$500.0 million of its FHLB borrowing capacity.

Market conditions and external factors may unpredictably impact the competitive landscape for deposits such as those experienced during the first quarter of 2023. Additionally, the rising market interest rate environment has increased competition for liquidity and the premium at which liquidity is available to meet funding needs. An unexpected influx of withdrawals of deposits could adversely impact our ability to rely on organic deposits to primarily fund our operations, potentially requiring greater reliance on secondary sources of liquidity to meet withdrawal deposits or to fund continuing operations. These sources may include proceeds from FHLB advances, sales of investment securities and loans, federal fund lines of credit with correspondent banks, securities sold under agreements to repurchase, brokered time deposits, borrowings from the Federal Reserve and borrowings under lines of credit with other financial institutions. Refer to the discussions in the “Segment Results – Banking Segment” and “Liquidity and Capital Resources – Banking Segment” sections that follow for more details regarding the Bank’s deposits, available liquidity and borrowing capacity at June 30, 2023.

As a result of the March 2023 bank failures and in an effort to strengthen public confidence in the banking system and protect depositors, regulators announced that any losses to the Deposit Insurance Fund to support uninsured depositors will be recovered by a special assessment on banks, as required by law, which could increase the cost of our FDIC insurance assessments, depending on the final rule. Additionally, on March 12, 2023, the Treasury Department, Federal Reserve and FDIC jointly announced the Bank Term Funding Program (“BTFP”). The BTFP aims to enhance liquidity by allowing institutions to pledge certain securities at par value, and at a borrowing rate of ten basis points over the one-year overnight index swap rate. The BTFP is available to eligible U.S. federally insured depository institutions, with advances having a term of up to one year and no prepayment penalties. The future impact of these failures on the economy, financial institutions and their depositors, as well as a governmental regulatory response or actions resulting from the same, is uncertain at this time. To date, we have not leveraged the discount window at the Federal Reserve or the BTFP.

We expect uncertainties related to economic headwinds discussed above, the impact of interest rate movements on the shape and inversions of the yield curve, the increasing cost and challenge for deposits, as well as disruptions to the economy and the U.S. banking system caused by recent bank failures, to persist through the remainder of 2023.

## **Asset Valuation**

As discussed in more detail within “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2022 Form 10-K, at each reporting date between annual impairment tests, we consider potential indicators of impairment including the condition of the economy and financial services industry; government intervention and regulatory updates; the impact of recent events to financial performance and cost factors of the reporting unit; performance of our stock and other relevant events.

Given the potential impacts as a result of the operating performance of these reporting segments and overall economic conditions, actual results may differ materially from our current estimates as the scope of such impacts evolves or if the duration of business disruptions is longer than currently anticipated. We continue to monitor developments regarding overall economic conditions, market capitalization, and any other triggering events or circumstances that may indicate an impairment in the future.

In light of the recent and continuing macroeconomic challenges in the mortgage industry given tight housing inventories and mortgage interest rate levels, and specifically the inability of our mortgage origination segment to meet forecasted projections, we identified these collective factors as a triggering event during the second quarter of 2023. As a result, we performed an interim quantitative impairment test on the mortgage origination segment’s goodwill as of June 1, 2023 using revised forecasts and considering sensitivities of assumptions, the decline in its carrying value, and the resulting increase in the excess of its estimated fair value compared to the carrying value since October 1, 2022, concluded that it was more likely than not that the mortgage origination segment’s estimated fair value of goodwill exceeded its carrying value.

To the extent future operating performance of our reporting segments remain challenged and below forecasted projections during 2023, significant assumptions such as expected future cash flows or the risk-adjusted discount rate used to estimate fair value are adversely impacted, or upon the occurrence of what management would deem to be a triggering event that could, under certain circumstances, cause us to perform impairment tests on our goodwill and other intangible assets, an impairment charge may be recorded for that period. In the event that we conclude that all or a portion of our goodwill and other intangible assets are impaired, a non-cash charge for the respective amount of such impairment would be recorded to earnings. Such a charge would have no impact on tangible capital or regulatory capital.

## **Outlook**

Our balance sheet, operating results and certain metrics during 2023 reflected economic headwinds including tight housing inventories on mortgage volumes, declining deposit balances, rapid increases in U.S. treasury yields and mortgage interest rates, and a declining economic forecast. As noted within our 2022 Form 10-K, these headwinds, coupled with exposure to increasing funding costs, inflationary pressures associated with compensation, occupancy and software costs and labor market conditions, the Russian-Ukraine conflict and its impact on supply chains within our business segments during 2022 and the first half of 2023 have had, and are expected to continue to have, an adverse impact on our operating results during the remainder of 2023.

### ***Factors Affecting Results of Operations***

As a financial institution providing products and services through our banking, broker-dealer and mortgage origination segments, we are directly affected by general economic and market conditions, many of which are beyond our control and unpredictable. A key factor impacting our results of operations is changes in the level of interest rates in addition to twists in the shape of the yield curve with the magnitude and direction of the impact varying across the different lines of business. Other factors impacting our results of operations include, but are not limited to, fluctuations in volume and price levels of securities, inflation, political events, investor confidence, investor participation levels, legal, regulatory, and compliance requirements and competition. All of these factors have the potential to impact our financial position, operating results and liquidity. In addition, the recent economic and political environment has led to legislative and regulatory initiatives, both enacted and proposed, that could substantially change the regulation of the financial services industry and may significantly impact us.



## ***Factors Affecting Comparability of Results of Operations***

### **LIBOR Cessation**

As discussed in more detail within “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2022 Form 10-K, one week and two-month LIBOR ceased to be published on December 31, 2021, and all remaining USD LIBOR tenors ceased to be published or lost representativeness immediately after June 30, 2023.

Certain loans we originated bore interest at a floating rate based on LIBOR. We also paid interest on certain borrowings based on LIBOR, were counterparty to derivative agreements that were based on LIBOR and had contracts with payment calculations that used LIBOR as the reference rate.

In light of the LIBOR phase out, we took necessary actions, including the negotiation of certain of our agreements based on established alternative benchmark rates. Since the third quarter of 2020, PrimeLending has been originating conventional adjustable-rate mortgage, or ARM, loan products utilizing a SOFR rate with terms consistent with government-sponsored enterprise, or GSE, guidelines. In addition, the Bank’s management team has completed its efforts to amend LIBOR-based contractual terms and establish an alternative benchmark rate. To date, an immaterial amount of expenses have been incurred as a result of our efforts related to the transition of our systems and processes away from LIBOR.

### ***Segment Information***

The Company has two primary business units, PCC (banking and mortgage origination) and Securities Holdings (broker-dealer). Under GAAP, the Company’s units are comprised of three reportable business segments organized primarily by the core products offered to the segments’ respective customers: banking, broker-dealer and mortgage origination. 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 and mortgage origination segments. Operating results for the mortgage origination segment have historically been more volatile than operating results for the banking and broker-dealer segments.

The banking segment includes the operations of the Bank. 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, Momentum Independent Network and Hilltop Securities Asset Management, LLC. 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”). Momentum Independent Network is an introducing broker-dealer that is also registered with the SEC and FINRA. Hilltop Securities, Momentum Independent Network and Hilltop Securities Asset Management, 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.

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.

The eliminations of intercompany transactions are included in “All Other and Eliminations.” Additional information concerning our reportable segments is presented in Note 21, Segment and Related Information, in the notes to our consolidated financial statements.

The following table presents certain information about the 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 June 30,		Variance 2023 vs 2022		Six Months Ended June 30,		Variance 2023 vs 2022	
	2023	2022	Amount	Percent	2023	2022	Amount	Percent
Net interest income (expense):								
Banking	\$ 100,986	\$ 101,259	\$ (273)	(0)	\$ 205,756	\$ 193,329	\$ 12,427	6
Broker-Dealer	13,201	12,578	623	5	27,064	24,096	2,968	12
Mortgage Origination	(5,901)	(1,291)	(4,610)	(357)	(10,109)	(3,127)	(6,982)	(223)
Corporate	(3,479)	(3,190)	(289)	(9)	(6,801)	(6,580)	(221)	(3)
All Other and Eliminations	13,459	2,700	10,759	398	24,061	4,329	19,732	456
Hilltop Consolidated	\$ 118,266	\$ 112,056	\$ 6,210	6	\$ 239,971	\$ 212,047	\$ 27,924	13
Provision for (reversal of) credit losses:								
Banking	\$ 14,900	\$ 5,025	\$ 9,875	197	\$ 16,500	\$ 4,975	\$ 11,525	232
Broker-Dealer	(64)	311	(375)	(121)	667	476	191	40
Mortgage Origination	—	—	—	—	—	—	—	—
Corporate	—	—	—	—	—	—	—	—
All Other and Eliminations	—	—	—	—	—	—	—	—
Hilltop Consolidated	\$ 14,836	\$ 5,336	\$ 9,500	178	\$ 17,167	\$ 5,451	\$ 11,716	215
Noninterest income:								
Banking	\$ 11,189	\$ 12,467	\$ (1,278)	(10)	\$ 22,379	\$ 25,237	\$ (2,858)	(11)
Broker-Dealer	100,040	87,651	12,389	14	190,675	148,341	42,334	29
Mortgage Origination	90,079	140,082	(50,003)	(36)	158,909	283,276	(124,367)	(44)
Corporate	3,081	2,080	1,001	48	5,786	3,846	1,940	50
All Other and Eliminations	(13,737)	(3,007)	(10,730)	(357)	(24,603)	(4,999)	(19,604)	(392)
Hilltop Consolidated	\$ 190,652	\$ 239,273	\$ (48,621)	(20)	\$ 353,146	\$ 455,701	\$ (102,555)	(23)
Noninterest expense:								
Banking	\$ 57,436	\$ 57,331	\$ 105	0	\$ 113,563	\$ 115,761	\$ (2,198)	(2)
Broker-Dealer	94,853	90,817	4,036	4	185,198	171,464	13,734	8
Mortgage Origination	98,660	133,169	(34,509)	(26)	187,413	268,027	(80,614)	(30)
Corporate	16,301	17,561	(1,260)	(7)	31,814	30,354	1,460	5
All Other and Eliminations	(273)	(335)	62	19	(541)	(713)	172	24
Hilltop Consolidated	\$ 266,977	\$ 298,543	\$ (31,566)	(11)	\$ 517,447	\$ 584,893	\$ (67,446)	(12)
Income (loss) before taxes:								
Banking	\$ 39,839	\$ 51,370	\$ (11,531)	(22)	\$ 98,072	\$ 97,830	\$ 242	0
Broker-Dealer	18,452	9,101	9,351	103	31,874	497	31,377	6,313
Mortgage Origination	(14,482)	5,622	(20,104)	(358)	(38,613)	12,122	(50,735)	(419)
Corporate	(16,699)	(18,671)	1,972	11	(32,829)	(33,088)	259	1
All Other and Eliminations	(5)	28	(33)	(118)	(1)	43	(44)	(102)
Hilltop Consolidated	\$ 27,105	\$ 47,450	\$ (20,345)	(43)	\$ 58,503	\$ 77,404	\$ (18,901)	(24)

### Key Performance Indicators

We utilize several key indicators of financial condition and operating performance to evaluate the various aspects of our business. In addition to traditional financial metrics, such as revenue and growth trends, we monitor several other financial measures and non-financial operating metrics to help us evaluate growth trends, measure the adequacy of our capital based on regulatory reporting requirements, measure the effectiveness of our operations and assess operational efficiencies. These indicators change from time to time as the opportunities and challenges in our businesses change.

Specifically, performance ratios and asset quality ratios are typically used for measuring the performance of banking and financial institutions. We consider return on average stockholders' equity, return on average assets and net interest margin to be important supplemental measures of operating performance that are commonly used by securities analysts, investors and other parties interested in the banking and financial industry. The net recoveries (charge-offs) to average loans outstanding ratio is also considered a key measure for our banking segment as it indicates the performance of our loan portfolio.

In addition, we consider regulatory capital ratios to be key measures that are used by us, as well as banking regulators, investors and analysts, to assess our regulatory capital position and to compare our regulatory capital to that of other financial services companies. We monitor our capital strength in terms of both leverage ratio and risk-based capital ratios based on capital requirements administered by the federal banking agencies. The risk-based capital ratios are minimum supervisory ratios generally applicable to banking organizations, but banking organizations are widely expected to operate with capital positions well above the minimum ratios. Failure to meet minimum capital requirements can initiate certain mandatory actions by regulators that, if undertaken, could have a material effect on our financial condition or results of operations.

## ***How We Generate Revenue***

We generate revenue from net interest income and from noninterest income. Net interest income represents the difference between the income earned on our assets, including our loans and investment securities, and our cost of funds, including the interest paid on the deposits and borrowings that are used to support our assets. Net interest income is a significant contributor to our operating results. Fluctuations in interest rates, as well as the amounts and types of interest-earning assets and interest-bearing liabilities we hold, affect net interest income. Net interest income increased during the six months ended June 30, 2023, compared with the same period in 2022, primarily due to increases within our banking and broker-dealer segments, 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 that generated \$119.7 million and \$133.6 million in securities commissions and fees and investment and securities advisory fees and commissions, respectively, and \$46.4 million and \$13.9 million in gains from derivative and trading portfolio activities (included within other noninterest income), respectively, during the six months ended June 30, 2023 and 2022.
- (ii) *Income from mortgage operations.* Through PrimeLending, we generate noninterest income by originating and selling mortgage loans. During the six months ended June 30, 2023 and 2022, we generated \$158.7 million and \$282.9 million, respectively, in net gains from sale of loans, other mortgage production income (including income associated with retained mortgage servicing rights), and mortgage loan origination fees.

In the aggregate, we experienced a decrease in noninterest income during the six months ended June 30, 2023, compared to the same period in 2022, as noted in the segment results table previously presented, primarily due to a decrease of \$124.2 million in net gains from sale of loans, other mortgage production income and mortgage loan origination fees within our mortgage origination segment, partially offset by increases in gains from derivative and trading portfolio activities.

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***

Income applicable to common stockholders during the three months ended June 30, 2023 was \$18.1 million, or \$0.28 per diluted share, compared with \$33.3 million, or \$0.45 per diluted share, during the three months ended June 30, 2022. Income applicable to common stockholders during the six months ended June 30, 2023 was \$43.9 million, or \$0.68 per diluted share, compared with \$55.5 million, or \$0.73 per diluted share, during the six months ended June 30, 2022. Hilltop's financial results for the three and six months ended June 30, 2023, compared with the same periods in 2022, included significant decreases in year-over-year mortgage origination segment net gains from sales of loans and other mortgage production income, an increase in the provision for credit losses from a build in the allowance within the banking segment, and increases in net revenues within certain of the broker-dealer segment's business lines.

Certain items included in net income for the three and six months ended June 30, 2023 and 2022 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 FDIC-assisted 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, and the acquisition of The Bank of River Oaks in an all-cash transaction (collectively, the "Bank Transactions"). Income before income taxes during the three months ended June 30, 2023 and 2022 included net accretion on earning assets and liabilities of \$3.2 million and \$3.1 million, respectively, and amortization of identifiable intangibles of \$0.8 million and \$1.1 million, respectively, related to the Bank Transactions. During the six months ended June 30, 2023 and 2022, income before income taxes included net accretion on earning assets and liabilities of \$5.1 million and \$5.7 million, respectively, and amortization of identifiable intangibles of \$1.6 million and \$2.2 million, respectively, related to the Bank Transactions.

The information shown in the table below includes certain key performance indicators on a consolidated basis.

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Return on average stockholders' equity <sup>(1)</sup>	3.53 %	5.82 %	4.32 %	4.67 %
Return on average assets <sup>(2)</sup>	0.47 %	0.80 %	0.58 %	0.66 %
Net interest margin <sup>(3)(4)</sup>	3.03 %	2.75 %	3.15 %	2.55 %
Leverage ratio <sup>(5)</sup> (end of period)			11.47 %	10.53 %
Common equity Tier 1 risk-based capital ratio <sup>(6)</sup> (end of period)			17.63 %	17.24 %

- (1) Return on average stockholders' equity is defined as consolidated income attributable to Hilltop divided by average total Hilltop stockholders' equity.
- (2) Return on average assets is defined as consolidated net income divided by average assets.
- (3) Net interest margin is defined as net interest income divided by average interest-earning assets. We consider net interest margin as a key indicator of profitability, as it represents interest earned on our interest-earning assets compared to interest incurred.
- (4) 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 25 basis points and 18 basis points during the three months ended June 30, 2023 and 2022, respectively, and 27 basis points and 18 basis points during the six months ended June 30, 2023 and 2022, respectively.
- (5) The leverage ratio is a regulatory capital ratio and is defined as Tier 1 risk-based capital divided by average consolidated assets.
- (6) The common equity Tier 1 risk-based capital ratio is a regulatory capital ratio and is defined as common equity Tier 1 risk-based capital divided by risk weighted assets. Common equity includes common equity Tier 1 capital (common stockholders' equity and certain minority interests in the equity capital accounts of consolidated subsidiaries, but excluding goodwill and various intangible assets) and additional Tier 1 capital (certain qualifying minority interests not included in common equity Tier 1 capital, certain preferred stock and related surplus, and certain subordinated debt).

We present net interest margin and net interest income below on a taxable-equivalent basis. Net interest margin (taxable equivalent), a non-GAAP measure, is defined as taxable equivalent net interest income divided by average interest-earning assets. Taxable equivalent adjustments are based on the applicable corporate federal income tax rate of 21% for all periods presented. 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 June 30, 2023 and 2022, purchase accounting contributed 9 and 8 basis points, respectively, to our consolidated taxable equivalent net interest margin of 3.03% and 2.76%, respectively. During the six months ended June 30, 2023 and 2022, purchase accounting contributed 7 and 7 basis points respectively, to our consolidated taxable equivalent net interest margin of 3.15% and 2.56% respectively. The purchase accounting activity was primarily related to the accretion of discount of loans which totaled \$3.3 million and \$3.0 million during the three months ended June 30, 2023 and 2022, respectively, associated with the Bank Transactions. The purchase accounting activity was primarily related to the accretion of discount of loans which totaled \$5.2 million and \$5.5 million during the six months ended June 30, 2023 and 2022, respectively, associated with the Bank Transactions.

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

	Three Months Ended June 30,					
	2023			2022		
	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate
<b>Assets</b>						
Interest-earning assets						
Loans held for sale	\$ 1,043,526	\$ 14,125	5.41 %	\$ 1,375,395	\$ 14,302	4.16 %
Loans held for investment, gross <sup>(1)</sup>	8,033,095	124,272	6.21 %	7,838,090	84,426	4.32 %
Investment securities - taxable	2,776,375	26,719	3.85 %	2,779,458	17,288	2.49 %
Investment securities - non-taxable <sup>(2)</sup>	412,609	2,410	2.34 %	250,303	2,557	4.09 %
Federal funds sold and securities purchased under agreements to resell	123,219	2,190	7.13 %	193,851	481	1.00 %
Interest-bearing deposits in other financial institutions	1,711,945	21,273	4.98 %	2,602,154	4,984	0.77 %
Securities borrowed	1,477,502	18,515	4.96 %	1,273,368	10,498	3.26 %
Other	82,608	3,766	18.29 %	53,962	1,013	7.53 %
Interest-earning assets, gross <sup>(2)</sup>	15,660,879	213,270	5.46 %	16,366,581	135,549	3.32 %
Allowance for credit losses	(97,387)			(91,619)		
Interest-earning assets, net	15,563,492			16,274,962		
Noninterest-earning assets	1,355,997			1,516,266		
<b>Total assets</b>	<b>\$ 16,919,489</b>			<b>\$ 17,791,228</b>		
<b>Liabilities and Stockholders' Equity</b>						
Interest-bearing liabilities						
Interest-bearing deposits	\$ 7,736,582	\$ 54,726	2.84 %	\$ 7,768,772	\$ 5,456	0.28 %
Securities loaned	1,373,435	16,413	4.79 %	1,114,923	8,512	3.06 %
Notes payable and other borrowings	1,861,063	24,021	5.18 %	1,303,678	9,109	2.80 %
Total interest-bearing liabilities	10,971,080	95,160	3.48 %	10,187,373	23,077	0.91 %
Noninterest-bearing liabilities						
Noninterest-bearing deposits	3,540,643			4,552,424		
Other liabilities	320,706			731,635		
Total liabilities	14,832,429			15,471,432		
Stockholders' equity	2,060,677			2,292,816		
Noncontrolling interest	26,383			26,980		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 16,919,489</b>			<b>\$ 17,791,228</b>		
<b>Net interest income</b> <sup>(2)</sup>		<b>\$ 118,110</b>			<b>\$ 112,472</b>	
<b>Net interest spread</b> <sup>(2)</sup>			1.98 %			2.41 %
<b>Net interest margin</b> <sup>(2)</sup>			3.03 %			2.76 %

	Six Months Ended June 30,					
	2023			2022		
	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate
<b>Assets</b>						
Interest-earning assets						
Loans held for sale	\$ 930,090	\$ 24,849	5.34 %	\$ 1,421,440	\$ 26,266	3.70 %
Loans held for investment, gross <sup>(1)</sup>	7,964,263	236,927	6.03 %	7,838,566	162,870	4.21 %
Investment securities - taxable	2,794,951	52,321	3.74 %	2,774,183	32,869	2.37 %
Investment securities - non-taxable <sup>(2)</sup>	412,576	5,696	2.76 %	286,990	5,439	3.79 %
Federal funds sold and securities purchased under agreements to resell	143,298	4,558	6.41 %	175,683	617	0.71 %
Interest-bearing deposits in other financial institutions	1,596,774	37,388	4.72 %	2,857,841	6,412	0.45 %
Securities borrowed	1,448,809	35,583	4.88 %	1,363,765	19,315	2.82 %
Other	72,967	7,472	20.65 %	54,280	1,762	6.55 %
Interest-earning assets, gross <sup>(2)</sup>	15,363,728	404,794	5.31 %	16,772,748	255,550	3.07 %
Allowance for credit losses	(97,224)			(91,927)		
Interest-earning assets, net	15,266,504			16,680,821		
Noninterest-earning assets	1,346,506			1,459,242		
<b>Total assets</b>	<b>\$ 16,613,010</b>			<b>\$ 18,140,063</b>		
<b>Liabilities and Stockholders' Equity</b>						
Interest-bearing liabilities						
Interest-bearing deposits	\$ 7,489,442	\$ 90,550	2.44 %	\$ 7,984,102	\$ 9,649	0.24 %
Securities loaned	1,348,783	31,759	4.75 %	1,242,660	15,984	2.59 %
Notes payable and other borrowings	1,676,594	42,573	5.12 %	1,276,600	16,990	2.68 %
Total interest-bearing liabilities	10,514,819	164,882	3.16 %	10,503,362	42,623	0.82 %
Noninterest-bearing liabilities						
Noninterest-bearing deposits	3,664,512			4,530,166		
Other liabilities	355,214			681,989		
Total liabilities	14,534,545			15,715,517		
Stockholders' equity	2,051,966			2,398,015		
Noncontrolling interest	26,499			26,531		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 16,613,010</b>			<b>\$ 18,140,063</b>		
<b>Net interest income</b> <sup>(2)</sup>		<b>\$ 239,912</b>			<b>\$ 212,927</b>	
<b>Net interest spread</b> <sup>(2)</sup>			2.15 %			2.25 %
<b>Net interest margin</b> <sup>(2)</sup>			3.15 %			2.56 %

- 
- (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 \$0.1 million and \$0.4 million for the three months ended June 30, 2023 and 2022, respectively, and \$0.1 million and \$0.9 million for the six months ended June 30, 2023 and 2022, 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, such as securities borrowed in the broker-dealer segment and securities loaned 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 lines of credit extended to other operating segments by the banking segment, are eliminated from the consolidated financial statements.

On a consolidated basis, the changes in net interest income during the three and six months ended June 30, 2023, compared with the same periods in 2022, were primarily due to the effects of volume and rate changes within the mortgage warehouse lending, securities and deposits portfolios within the banking segment, decreased net yields on mortgage loans held for sale, partially offset by a decrease in the average warehouse line balance with an unaffiliate bank within the mortgage origination segment. Refer to the discussion in the "Banking Segment" section that follows 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 those items.

The provision for (reversal of) credit losses is determined by management as the amount necessary to maintain the allowance for credit losses at the amount of expected credit losses inherent within the loans held for investment portfolio. The amount of expense and the corresponding level of allowance for credit losses for loans are based on our evaluation of the collectability of the loan portfolio based on historical loss experience, reasonable and supportable forecasts, and other significant qualitative and quantitative factors. During the three and six months ended June 30, 2023, the provision for credit losses reflected a significant build in the allowance related to loan portfolio changes since the prior periods and a deteriorating outlook for commercial real estate markets. Refer to the discussion under the heading "Financial Condition – Allowance for Credit Losses on Loans" for more details regarding the significant assumptions and estimates involved in estimating credit losses.

Noninterest income decreased during the three months ended June 30, 2023, compared with the same period in 2022, primarily due to decreases in total mortgage loan sales volume and average loan sales margin within our mortgage origination segment, partially offset by net increases primarily within the broker-dealer segment's fixed income services and wealth management business lines. Noninterest income decreased during the six months ended June 30, 2023, compared with the same period in 2022, primarily due to the changes noted above within our mortgage origination segment, partially offset by net increases primarily within the broker-dealer segment's fixed income services, structured finance and wealth management business lines.

Noninterest expense decreased during the three months ended June 30, 2023, compared with the same period in 2022, primarily due to decreases in both variable and non-variable compensation and other segment costs within our mortgage origination segment associated with the decreased mortgage loan originations. Noninterest expense decreased during the six months ended June 30, 2023, compared with the same period in 2022, primarily due to the changes previously noted within our mortgage origination segment, partially offset by increases in both variable and non-variable compensation and other segment operating costs within our broker-dealer segment. We have experienced an increase in certain noninterest expenses during 2023 and 2022, compared with respective prior periods, including compensation, occupancy, and software costs, due to inflationary pressures. We expect such inflationary headwinds to continue and result in higher fixed costs through the remainder of 2023.

Effective income tax rates during the three months ended June 30, 2023 and 2022 were 26.4% and 25.6%, respectively, and for the six months ended June 30, 2023 and 2022, were 18.5% and 23.2% respectively. The effective tax rate for the second quarter of 2022 was higher than the applicable statutory rate primarily due to the impact of non-deductible compensation expense and other permanent adjustments, while the effective tax rate during the second quarter of 2023 was higher than the applicable statutory rate primarily due to the booking of additional taxes from a recent change in the source of funding for an acquired non-qualified, deferred compensation plan. During the six months ended June 30, 2023, the effective tax rate was lower than the applicable statutory rate primarily due to the impacts of excess tax benefits on share-based payment awards, investments in tax-exempt instruments and changes in accumulated tax reserves, partially offset by nondeductible expenses and the increase in taxes noted above.

## Segment Results

### Banking Segment

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

	<u>Three Months Ended June 30,</u>		<u>Variance</u>	<u>Six Months Ended June 30,</u>		<u>Variance</u>
	<u>2023</u>	<u>2022</u>	<u>2023 vs 2022</u>	<u>2023</u>	<u>2022</u>	<u>2023 vs 2022</u>
Net interest income	\$ 100,986	\$ 101,259	\$ (273)	\$ 205,756	\$ 193,329	\$ 12,427
Provision for (reversal of) credit losses	14,900	5,025	9,875	16,500	4,975	11,525
Noninterest income	11,189	12,467	(1,278)	22,379	25,237	(2,858)
Noninterest expense	57,436	57,331	105	113,563	115,761	(2,198)
Income before income taxes	<u>\$ 39,839</u>	<u>\$ 51,370</u>	<u>\$ (11,531)</u>	<u>\$ 98,072</u>	<u>\$ 97,830</u>	<u>\$ 242</u>

The decrease in income before income taxes during the three months ended June 30, 2023, compared with the same period in 2022, was primarily due to an increase in the provision for credit losses. While income before income taxes during the six months ended June 30, 2023, compared with the same period in 2022, was relatively flat, changes between periods included the combined impact of net interest income volume and rate changes within the loans held for investment, mortgage warehouse lending, investment securities and deposit portfolio, significantly offset by an increase in the provision for credit losses. 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.

Additionally, and as discussed in more detail below, given the ongoing competition for liquidity by some participants in our markets and as customers seek higher yields on deposits, the banking segment's cost of deposits has increased and we expect it will continue to increase during the remainder of 2023. The resulting net interest income spread compression has had, and is expected to continue to have, a negative impact on banking segment operating results.

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Efficiency ratio <sup>(1)</sup>	51.20 %	50.41 %	49.78 %	52.96 %
Return on average assets <sup>(2)</sup>	0.89 %	1.09 %	1.16 %	1.03 %
Net interest margin <sup>(3)</sup>	3.11 %	2.97 %	3.25 %	2.81 %
Net charge-offs to average loans outstanding <sup>(4)</sup>	(0.15)%	(0.07)%	(0.09)%	(0.04)%

(1) Efficiency ratio is defined as noninterest expenses divided by the sum of total noninterest income and net interest income for the period. We consider the efficiency ratio to be a measure of the banking segment's profitability.

(2) Return on average assets is defined as net income divided by average assets.

(3) Net interest margin is defined as net interest income divided by average interest-earning assets. We consider net interest margin as a key indicator of profitability, as it represents interest earned on interest-earning assets compared to interest incurred.

(4) Net charge-offs to average loans outstanding is defined as the greater of charge-offs during the reported period minus recoveries divided by average loans outstanding. We use the ratio to measure the credit performance of our loan portfolio.

The banking segment presents net interest margin and net interest income in the following discussion and table below on a taxable equivalent basis. Net interest margin (taxable equivalent), a non-GAAP measure, is defined as taxable equivalent net interest income divided by average interest-earning assets. Taxable equivalent adjustments are based on the applicable corporate federal income tax rate of 21% for all periods presented. 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 June 30, 2023 and 2022, purchase accounting contributed 11 and 10 basis points, respectively, to the banking segment's taxable equivalent net interest margin of 3.11% and 2.98%, respectively. During the six months ended June 30, 2023 and 2022, purchase accounting contributed 9 and 9 basis points, respectively, to the banking segment's taxable equivalent net interest margin of 3.25% and 2.81% respectively. These purchase accounting items are primarily related to accretion of discount of loans associated with the Bank Transactions presented in the Consolidated Operating Results section.

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

	Three Months Ended June 30,					
	2023			2022		
	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate
<b>Assets</b>						
Interest-earning assets						
Loans held for investment, gross <sup>(1)</sup>	\$ 7,865,209	\$ 114,872	5.86 %	\$ 7,302,343	\$ 79,305	4.36 %
Subsidiary warehouse lines of credit	957,526	19,151	7.91 %	1,298,673	14,483	4.41 %
Investment securities - taxable	2,348,194	18,437	3.14 %	2,354,096	9,841	1.67 %
Investment securities - non-taxable <sup>(2)</sup>	113,734	995	3.50 %	106,178	929	3.50 %
Federal funds sold and securities purchased under agreements to resell	15,582	214	5.51 %	117,476	311	1.06 %
Interest-bearing deposits in other financial institutions	1,673,527	21,273	5.10 %	2,451,889	4,984	0.82 %
Other	67,580	789	4.68 %	36,824	99	1.08 %
Interest-earning assets, gross <sup>(2)</sup>	13,041,352	175,731	5.40 %	13,667,479	109,952	3.23 %
Allowance for credit losses	(96,385)			(91,155)		
Interest-earning assets, net	12,944,967			13,576,324		
Noninterest-earning assets	832,940			933,480		
<b>Total assets</b>	<b>\$ 13,777,907</b>			<b>\$ 14,509,804</b>		
<b>Liabilities and Stockholders' Equity</b>						
Interest-bearing liabilities						
Interest-bearing deposits	\$ 7,614,826	\$ 66,389	3.50 %	\$ 7,614,093	\$ 7,286	0.38 %
Notes payable and other borrowings	790,514	8,170	4.15 %	287,335	1,209	1.69 %
Total interest-bearing liabilities	8,405,340	74,559	3.56 %	7,901,428	8,495	0.43 %
Noninterest-bearing liabilities						
Noninterest-bearing deposits	3,665,643			4,850,513		
Other liabilities	137,640			141,979		
Total liabilities	12,208,623			12,893,920		
Stockholders' equity	1,569,284			1,615,884		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 13,777,907</b>			<b>\$ 14,509,804</b>		
<b>Net interest income</b> <sup>(2)</sup>		<b>\$ 101,172</b>			<b>\$ 101,457</b>	
<b>Net interest spread</b> <sup>(2)</sup>			1.84 %			2.80 %
<b>Net interest margin</b> <sup>(2)</sup>			3.11 %			2.98 %

	Six Months Ended June 30,					
	2023			2022		
	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate
<b>Assets</b>						
Interest-earning assets						
Loans held for investment, gross <sup>(1)</sup>	\$ 7,779,891	\$ 219,504	5.69 %	\$ 7,229,731	\$ 153,116	4.27 %
Subsidiary warehouse lines of credit	842,636	32,631	7.74 %	1,321,090	27,200	4.12 %
Investment securities - taxable	2,380,954	36,471	3.06 %	2,347,813	18,683	1.59 %
Investment securities - non-taxable <sup>(2)</sup>	113,813	2,005	3.52 %	107,508	1,862	3.46 %
Federal funds sold and securities purchased under agreements to resell	57,958	1,417	4.93 %	141,111	485	0.69 %
Interest-bearing deposits in other financial institutions	1,540,567	37,388	4.89 %	2,698,431	6,412	0.48 %
Other	55,597	1,231	4.46 %	36,812	22	0.12 %
Interest-earning assets, gross <sup>(2)</sup>	12,771,416	330,647	5.22 %	13,882,496	207,780	3.02 %
Allowance for credit losses	(96,005)			(91,481)		
Interest-earning assets, net	12,675,411			13,791,015		
Noninterest-earning assets	852,626			912,748		
<b>Total assets</b>	<b>\$ 13,528,037</b>			<b>\$ 14,703,763</b>		
<b>Liabilities and Stockholders' Equity</b>						
Interest-bearing liabilities						
Interest-bearing deposits	\$ 7,331,842	\$ 110,829	3.05 %	\$ 7,854,733	\$ 12,275	0.32 %
Notes payable and other borrowings	688,504	13,681	4.01 %	238,956	1,773	1.50 %
Total interest-bearing liabilities	8,020,346	124,510	3.13 %	8,093,689	14,048	0.35 %
Noninterest-bearing liabilities						
Noninterest-bearing deposits	3,799,278			4,826,177		
Other liabilities	145,452			127,952		
Total liabilities	11,965,076			13,047,818		
Stockholders' equity	1,562,961			1,655,945		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 13,528,037</b>			<b>\$ 14,703,763</b>		
<b>Net interest income</b> <sup>(2)</sup>		<b>\$ 206,137</b>			<b>\$ 193,732</b>	
<b>Net interest spread</b> <sup>(2)</sup>			2.09 %			2.67 %
<b>Net interest margin</b> <sup>(2)</sup>			3.25 %			2.81 %

(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 rates of 21% for all the periods presented. The adjustment to interest income was \$0.2 million and \$0.2 million for the three months ended June 30, 2023 and 2022, respectively, and \$0.4 million and \$0.4 million for the six months ended June 30, 2023 and 2022, respectively.



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, such as securities borrowed in the broker-dealer segment and securities loaned 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 lines of credit extended to other operating segments by the banking segment, 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).

	<u>Three Months Ended June 30,</u>			<u>Six Months Ended June 30,</u>		
	<u>2023 vs. 2022</u>			<u>2023 vs. 2022</u>		
	<u>Change Due To <sup>(1)</sup></u>			<u>Change Due To <sup>(1)</sup></u>		
	<u>Volume</u>	<u>Yield/Rate</u>	<u>Change</u>	<u>Volume</u>	<u>Yield/Rate</u>	<u>Change</u>
Interest income						
Loans held for investment, gross <sup>(2)</sup>	\$ 6,118	\$ 29,449	\$ 35,567	\$ 11,649	\$ 54,739	\$ 66,388
Subsidiary warehouse lines of credit <sup>(3)</sup>	(3,751)	8,419	4,668	(9,775)	15,206	5,431
Investment securities - taxable	(25)	8,621	8,596	261	17,527	17,788
Investment securities - non-taxable <sup>(4)</sup>	66	—	66	108	35	143
Federal funds sold and securities purchased under agreements to resell	(269)	172	(97)	(285)	1,217	932
Interest-bearing deposits in other financial institutions	(1,591)	17,880	16,289	(2,756)	33,732	30,976
Other	83	607	690	11	1,198	1,209
Total interest income <sup>(4)</sup>	<u>631</u>	<u>65,148</u>	<u>65,779</u>	<u>(787)</u>	<u>123,654</u>	<u>122,867</u>
Interest expense						
Deposits	\$ 1	\$ 59,102	\$ 59,103	\$ (830)	\$ 99,384	\$ 98,554
Notes payable and other borrowings	<u>2,120</u>	<u>4,841</u>	<u>6,961</u>	<u>3,344</u>	<u>8,564</u>	<u>11,908</u>
Total interest expense	<u>2,121</u>	<u>63,943</u>	<u>66,064</u>	<u>2,514</u>	<u>107,948</u>	<u>110,462</u>
Net interest income <sup>(4)</sup>	<u>\$ (1,490)</u>	<u>\$ 1,205</u>	<u>\$ (285)</u>	<u>\$ (3,301)</u>	<u>\$ 15,706</u>	<u>\$ 12,405</u>

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

(2) Changes in the yields earned on loans held for investment, gross included an increase of \$0.3 million and a decline \$0.3 million in accretion of discount on loans during the three and six months ended June 30, 2023, compared with the same periods in 2022. Accretion of discount on loans is expected to decrease in future periods as loans acquired in the Bank Transactions are repaid, refinanced or renewed.

(3) Subsidiary warehouse lines of credit extended to PrimeLending are eliminated from the consolidated financial statements.

(4) Annualized taxable equivalent.

With regard to net interest income, as of June 30, 2023, the banking segment maintained an asset sensitive rate risk position, meaning 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. During a period of rising interest rates, being asset sensitive tends to result in an increase in net interest income, but during a period of declining interest rates, tends to result in a decrease in net interest income.

Our portfolio includes loans that periodically reprice or mature prior to the end of an amortized term. The extent and timing of this impact on interest income will ultimately be driven by the timing, magnitude and frequency of interest rate and yield curve movements, as well as changes in market conditions and timing of management strategies. At June 30, 2023, approximately \$773 million of our floating rate loans held for investment remained at or below their applicable rate floor, exclusive of our mortgage warehouse lending program, of which approximately 80% are not scheduled to reprice for more than one year based upon agreed-upon terms. If interest rates rise further, yields on the portion of our loan portfolio that remain at applicable rate floors would rise more slowly than increases in market interest rates, unless such loans are refinanced or repaid. Competition for loan growth could also continue to put pressure on new loan origination rates. If interest rates were to fall, the impact on our interest income for certain variable-rate loans would be limited by these rate floors.

Additionally, within our banking segment, the composition of the deposit base and ultimate cost of funds on deposits and net interest income 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. Deposit products and pricing structures relative to the market are regularly evaluated to maintain competitiveness over time. During a period of rising interest rates, the cost of funds on deposits, and therefore, interest expense, tends to increase. Given the ongoing competition for liquidity by some participants in our markets and the recent banking industry disruption, and as customers seek higher yields on deposits, our cost of deposits increased during the three and six months ended June 30 2023 compared to the same periods of 2022 and we expect that the Bank's interest expense related to certain deposits will continue to increase during the remainder of 2023. The Bank's deposit base primarily includes a combination of commercial, wealth and public funds deposits, without a high level of industry concentration. At June 30, 2023, total estimated uninsured deposits were \$4.4 billion, or approximately 40% of total deposits, while estimated uninsured deposits, excluding collateralized deposits of \$350.7 million, were \$4.1 billion, or approximately 37% of total deposits.

Refer to the discussion in the "Liquidity and Capital Resources – Banking Segment" section that follows for more detail regarding the Bank's activities regarding deposits, available liquidity and borrowing capacity.

To help mitigate net interest income spread compression between our assets and liabilities as the Federal Reserve increases interest rates, management continues to execute certain derivative trades, as either cash flow hedges or fair value hedges, that benefit the banking segment as interest rates rise. 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.

The banking segment retained approximately \$60.4 million and \$104.3 million in mortgage loans originated by the mortgage origination segment during the three months ended June 30, 2023 and 2022, respectively, and \$126.4 million and \$213.0 million in mortgage loans originated by the mortgage origination segment during the six months ended June 30, 2023 and 2022, respectively. These loans are purchased by the banking segment at par. For origination services provided, the banking segment reimburses the mortgage origination segment for direct origination costs associated with these mortgage loans, in addition to payment of a correspondent fee. The correspondent fees are eliminated in consolidation. The determination of mortgage loan retention levels by the banking segment will be impacted by, among other things, an ongoing review of the prevailing mortgage rates, balance sheet positioning at Hilltop and the banking segment's outlook for commercial loan growth.

The banking segment's provision for (reversal of) credit losses has been subject to significant year-over-year and quarterly changes primarily attributable to the effects of changes in economic outlook, macroeconomic forecast assumptions and the resulting impact on reserves. Specifically, during the three and six months ended June 30, 2023, the provision for credit losses reflected a significant build in the allowance related to loan portfolio changes since the prior period and a deteriorating outlook for commercial real estate markets. The net impact to the allowance of changes associated with collectively evaluated loans during the three and six months ended June 30, 2023 included a provision for credit losses of \$12.9 million and \$14.5 million, respectively, while individually evaluated loans included a provision for credit losses of \$1.9 million and \$2.0 million, respectively. The change in the allowance for credit losses during the three and six months ended June 30, 2023 were also impacted by net charge-offs of \$2.9 million and \$3.3 million, respectively. During the three and six months ended June 30, 2022, the banking segment's increases in the allowance reflected a deteriorating U.S. economic outlook since the prior period, partially offset by decreases in specific reserves and positive risk rating grade migration. The net impact to the allowance of changes associated with collectively evaluated loans during the three and six months ended June 30, 2022 included a provision for credit losses of \$6.6 million and \$6.4 million, respectively, while individually evaluated loans included a reversal of credit losses of \$1.6 million and \$1.5 million, respectively. The changes in the allowance for credit losses during the three and six months ended June 30, 2022 were also impacted by net charge-offs of \$1.2 million and \$1.5 million, respectively. The changes in the allowance for credit losses during the noted periods also reflected other factors including, but not limited to, loan growth, loan mix and changes in risk grades and qualitative factors from the prior quarter. Refer to the discussion in the "Financial Condition – Allowance for Credit Losses on Loans" section that follows for more details regarding the significant assumptions and estimates involved in estimating credit losses.

The banking segment's noninterest income decreased during the three and six months ended June 30, 2023, compared to the same periods in 2022, primarily due to a decline in service charges on depositor accounts and wealth management fee income.

The banking segment's noninterest expense decreased during the six months ended June 30, 2023, compared to the same period in 2022, primarily due to decreases in compensation-related and allowance for unfunded commitments expenses, partially offset by an increase in FDIC assessment expenses.

### Broker-Dealer Segment

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

	<u>Three Months Ended June 30,</u>		<u>Variance</u>	<u>Six Months Ended June 30,</u>		<u>Variance</u>
	<u>2023</u>	<u>2022</u>	<u>2023 vs 2022</u>	<u>2023</u>	<u>2022</u>	<u>2023 vs 2022</u>
<b>Net interest income:</b>						
Wealth management:						
Securities lending	\$ 2,102	\$ 1,986	\$ 116	\$ 3,824	\$ 3,331	\$ 493
Clearing services	1,477	1,989	(512)	2,958	4,110	(1,152)
Structured finance	1,752	1,640	112	4,377	3,451	926
Fixed income services	704	5,500	(4,796)	2,722	10,613	(7,891)
Other	7,166	1,463	5,703	13,183	2,591	10,592
Total net interest income	13,201	12,578	623	27,064	24,096	2,968
<b>Noninterest income:</b>						
Securities commissions and fees by business line <sup>(1)</sup> :						
Fixed income services	6,457	7,476	(1,019)	13,077	18,674	(5,597)
Wealth management:						
Retail	23,543	19,011	4,532	44,547	37,623	6,924
Clearing services	9,654	6,362	3,292	20,428	11,482	8,946
Structured finance	2,015	2,640	(625)	3,921	4,585	(664)
Other	999	1,009	(10)	1,667	1,959	(292)
Total	42,668	36,498	6,170	83,640	74,323	9,317
Investment and securities advisory fees and commissions by business line:						
Public finance services	21,591	21,554	37	39,541	40,150	(609)
Fixed income services	2,058	1,553	505	3,004	3,378	(374)
Wealth management:						
Retail	7,819	8,141	(322)	15,180	16,480	(1,300)
Clearing services	430	462	(32)	823	948	(125)
Structured finance	81	201	(120)	219	566	(347)
Other	58	91	(33)	118	185	(67)
Total	32,037	32,002	35	58,885	61,707	(2,822)
Other:						
Structured finance	16,074	15,757	317	31,083	16,391	14,692
Fixed income services	8,469	4,340	4,129	15,317	(2,618)	17,935
Other	792	(946)	1,738	1,750	(1,462)	3,212
Total	25,335	19,151	6,184	48,150	12,311	35,839
Total noninterest income	100,040	87,651	12,389	190,675	148,341	42,334
Net revenue <sup>(2)</sup>	113,241	100,229	13,012	217,739	172,437	45,302
<b>Noninterest expense:</b>						
Variable compensation <sup>(3)</sup>	34,798	37,471	(2,673)	65,619	64,096	1,523
Non-variable compensation and benefits	30,492	27,023	3,469	62,100	56,223	5,877
Segment operating costs <sup>(4)</sup>	29,499	26,634	2,865	58,146	51,621	6,525
Total noninterest expense	94,789	91,128	3,661	185,865	171,940	13,925
<b>Income (loss) before income taxes</b>	<b>\$ 18,452</b>	<b>\$ 9,101</b>	<b>\$ 9,351</b>	<b>\$ 31,874</b>	<b>\$ 497</b>	<b>\$ 31,377</b>

(1) Securities commissions and fees includes income of \$13.1 million and \$1.7 million during the three months ended June 30, 2023 and 2022, respectively, and \$22.8 million and \$2.4 million during the six months ended June 30, 2023 and 2022, respectively, that is eliminated in consolidation.

(2) Net revenue is defined as the sum of total net interest income and total noninterest income. We consider net revenue to be a key performance measure in the evaluation of the broker-dealer segment's financial position and operating performance as we believe it is the primary revenue performance measure used by investors and analysts. Net revenue provides for some level of comparability of trends across the financial services industry as it reflects both noninterest income, including investment and securities advisory fees and commissions, as well as net interest income. Internally, we assess the broker-dealer segment's performance on a revenue basis for comparability with our banking segment.

(3) Variable compensation represents performance-based commissions and incentives.

(4) Segment operating costs include provision for credit losses associated with the broker-dealer segment within other noninterest expenses.

The increase in net revenue and income before income taxes for the three and six months ended June 30, 2023 as compared to the same periods in 2022 was primarily related to the combined impacts of the rising interest rate environment and a more favorable housing environment in certain areas of the country, which was evidenced by improved results period-over-period within our various business lines. All the broker-dealer business lines experienced an increase in net revenues when compared to the six months ended June 30, 2022, except the public finance business line. Specifically, the broker-dealer segment's structured finance business line experienced an increase in net revenues due to increased production volumes, improved buyside demand for securitized products, and support from certain state legislatures for down payment assistance programs. The wealth management business line's net revenue improvement was driven by improved customer balance revenues, which included increases in FDIC sweep revenue, despite weaker retail division transactional production. The increase in net revenues in the broker-dealer segment's fixed income services business line during the six months ended June 30, 2023, compared to the previous period in 2022, was primarily due to improved trading revenues in both taxable and municipal products off-set by a decrease in net interest

income from the increase in the cost to carry inventory positions. The decrease in net revenues in the broker-dealer segment's public finance business line was due to the unfavorable national issuance trends in the six months ended June 30, 2023 compared to the same period in 2022.

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 client transactions, which could be adversely impacted by interest rate volatility. Rapid or significant changes in interest rates could adversely affect the broker-dealer segment's bond trading, sales, 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. The broker-dealer segment is also exposed to interest rate risk through its structured finance business line, which is dependent on mortgage loan production that tends to be adversely impacted by increasing interest rates and may result in valuation-related adjustments.

The broker-dealer segment experienced lower-than-forecasted operating results during 2022 given trends related to the combination of rapid or significant changes in interest rates, the sharp decline in mortgage loan origination volumes, customer sensitivity to interest rates and resulting demand for certain products. Such trends have resulted in a challenging environment associated with the broker-dealer segment's short- and long-term financial condition and resulting in variability in its operating results. In the event future operating performance remains challenged and below our forecasted projections, there are negative changes to long-term growth rates or discount rates increase, the fair value of the broker-dealer segment reporting unit may decline and we may be required to record a goodwill impairment charge. These conditions will continue to be considered during future impairment evaluations of reporting unit goodwill.

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. The slight increase in net interest income during the three and six months ended June 30, 2023, compared with the same periods in 2022, were primarily due to the increase in net interest income from structured finance and securities lending divisions, partially offset by the decline in net interest income within the fixed income services business line due to the increased cost to carry those inventories and the clearing services division of the wealth management business line due to the decrease in the net interest earned from correspondent margin loans, inventory and deposit balances.

Noninterest income increased during the three and six months ended June 30, 2023, compared with the same periods in 2022, primarily due to increases in securities commissions and fees and other noninterest income, partially offset by the decrease in investment and securities advisory fees and commissions for the six months ended June 30, 2023.

Securities commissions and fees increased during the three and six months ended June 30, 2023, compared with the same periods in 2022, primarily due to an increase in FDIC sweep revenue given higher short-term interest rates, partially offset by a decrease in fixed income and retail commissions. As FDIC sweep revenues are closely correlated to short-term interest rates, changes in short-term interest rates may affect these revenues. FDIC sweep program revenues earned on deposits placed with the banking segment are eliminated in consolidation.

Investment and securities advisory fees and commissions decreased during the six months ended June 30, 2023, compared with the same period in 2022, primarily due to decreases in fees earned from managed assets and municipal advisory and underwriting transactions. Public finance national issuance volume declined approximately 20% in the six months ended June 30, 2023, compared with the same period in 2022. Investment and securities advisory fees and commissions increased slightly during the three months ended June 2023, compared with the same period in 2022, primarily due to the fees earned from the increase in assets under management within our treasury management division of our public finance business line and the net trading gains from underwriting transactions in our fixed income services business line. These increases were partially offset by a decline in our traditional public finance advisory fees and in our wealth management business line from fees earned from managed assets.

The increase in other noninterest income during the three and six months ended June 30, 2023, compared with the same periods in 2022, were primarily due to increases in trading gains earned from structured finance and fixed income trading activities. Specifically, mortgage originations increased 133% and 55% for the three and six months ended June 30, 2023, respectively, and customer demand improved when compared with the same periods in 2022. Increased fixed

income trading gains were driven by mortgage-backed securities and credit trading for the three months ended June 30, 2023 and municipal and credit trading for the six months ended June 30, 2023. Also contributing to the overall increase in noninterest income was an increase in the value of the broker-dealer segment's deferred compensation plan's assets of \$1.2 million and \$2.3 million for the three and six months ended June 30, 2023, respectively, when compared with the same periods in 2022. With the expected rise in interest rates continuing throughout 2023, we anticipate continued volatility in trading revenues.

The increase in noninterest expenses during the three and six months ended June 30, 2023, compared with the same periods in 2022, were due to increases in segment compensation and operating costs. For the three months ended June 30, 2023, the increase in segment compensation is primarily due to increases in deferred compensation expenses from both the restricted stock plan and the broker-dealer segment's deferred compensation plan as well as overall increases in fixed compensation, offset by the decrease in commissions earned from trading activity in our wealth management and fixed income business lines. For the six months ended June 30, 2023, the increase in segment compensation was primarily due to the impact of changes in variable compensation on improved results, increases in deferred compensation expenses from both the restricted stock plan and the broker-dealer segment's deferred compensation plan as well as overall increases in fixed compensation. The remaining increase in noninterest expenses during the three and six months ended June 30, 2023, compared with the same periods in 2022 were attributable to an increase in software expenses, travel expenses, quotation costs and legal fees.

Selected information concerning the broker-dealer segment, including key performance indicators, follows (dollars in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Total compensation as a % of net revenue <sup>(1)</sup>	57.7 %	64.3 %	58.7 %	69.8 %
Pre-tax margin <sup>(2)</sup>	16.3 %	9.1 %	14.6 %	0.3 %
FDIC insured program balances at the Bank (end of period)			\$ 1,464,127	\$ 758,485
Other FDIC insured program balances (end of period)			\$ 639,107	\$ 1,447,421
Customer funds on deposit, including short credits (end of period)			\$ 252,746	\$ 413,229
Public finance services:				
Number of issues <sup>(3)</sup>	265	283	419	514
Aggregate amount of offerings <sup>(3)</sup>	\$ 12,737,408	\$ 11,170,660	\$ 21,855,809	\$ 18,192,940
Structured finance:				
Lock production/TBA volume	\$ 1,580,022	\$ 677,488	\$ 2,767,848	\$ 1,787,396
Fixed income services:				
Total volumes	\$ 59,566,067	\$ 62,551,045	\$ 107,063,941	\$ 125,210,898
Net inventory (end of period)			\$ 621,811	\$ 457,205
Wealth management (Retail and Clearing services groups):				
Retail employee representatives (end of period) <sup>(3)</sup>			94	99
Independent registered representatives (end of period)			191	173
Correspondents (end of period)			109	112
Correspondent receivables (end of period)			\$ 115,487	\$ 145,262
Customer margin balances (end of period)			\$ 243,590	\$ 317,508
Wealth management (Securities lending group):				
Interest-earning assets - stock borrowed (end of period)			\$ 1,326,418	\$ 1,013,025
Interest-bearing liabilities - stock loaned (end of period)			\$ 1,229,368	\$ 851,192

(1) Total compensation includes the sum of non-variable compensation and benefits and variable compensation. We consider total compensation as a percentage of net revenue to be a key performance measure and indicator of segment profitability.

(2) Pre-tax margin is defined as income before income taxes divided by net revenue. We consider pre-tax margin to be a key performance measure given its use as a profitability metric representing the percentage of net revenue earned that results in a profit.

(3) Noted balances during all prior periods include certain reclassifications to conform to current period presentation.

## Mortgage Origination Segment

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

	Three Months Ended June 30,		Variance	Six Months Ended June 30,		Variance
	2023	2022	2023 vs 2022	2023	2022	2023 vs 2022
Net interest income (expense)	\$ (5,901)	\$ (1,291)	\$ (4,610)	\$ (10,109)	\$ (3,127)	\$ (6,982)
Noninterest income	90,079	140,082	(50,003)	158,909	283,276	(124,367)
Noninterest expense	98,660	133,169	(34,509)	187,413	268,027	(80,614)
Income (loss) before income taxes	\$ (14,482)	\$ 5,622	\$ (20,104)	\$ (38,613)	\$ 12,122	\$ (50,735)

The mortgage lending business is subject to variables that can impact loan origination volume, including seasonal transaction volumes and interest rate fluctuations. Historically, the mortgage origination segment has experienced increased loan origination volume from purchases of homes during the spring and summer months, 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. While changes in mortgage interest rates have historically had a lesser impact on home purchases volume than on refinancing volume, increases in mortgage interest rates that began in 2022 and have continued into 2023 have also continued to negatively impact home purchase volume through the first half of 2023. See details regarding loan origination volume in the table below.

Recent trends, as well as typical historical patterns in loan origination volume from purchases of homes or from refinancings because of movements in mortgage interest rates, may not be indicative of future loan origination volumes. During 2022 and continuing through the first half of 2023, certain events have adversely impacted total mortgage market origination volumes because of their effect on the economy, including inflation and rising interest rates, the Federal Reserve's actions and communications, and geopolitical threats. These events have also adversely impacted the willingness and ability of the mortgage origination segment's customers to conduct mortgage transactions. Specifically, current home inventory shortages and affordability challenges, in addition to supply chain problems, are impacting customers' abilities to purchase homes. In addition, continued mortgage industry excess capacity has adversely impacted PrimeLending's individual loan origination volume. The increase in interest rates that began during 2022, which has led to a sharp reduction in national refinancing volume and a reduction of willing and eligible home buyers, has resulted in competitive mortgage pricing pressure, leading to a decline in combined net gains from mortgage loan sales and mortgage loan origination fees through March 31, 2023. However, between March 31, 2023 and June 30, 2023, combined net gains from loan sales and mortgage loan origination fees were relatively unchanged. Currently, we anticipate that lower seasonal transaction volumes and the continuation of the mortgage loan production and operating results trends experienced by the mortgage origination segment during 2022 and the first half of 2023 will continue through the remainder of 2023. Given these expectations, PrimeLending continues to evaluate its cost structure to address the current mortgage environment.

We believe that ongoing initiatives are critical to improving PrimeLending's short- and long-term financial condition and operating results. As noted under the section titled "Asset Valuation" earlier in this Item 2, the mortgage origination segment experienced operating losses during the second half of 2022 which have continued as expected into the first quarter of 2023 due to conditions discussed in detail within this discussion of segment results. However, during the second quarter of 2023, the mortgage origination segment's operating losses continued and did not meet our forecasted projections. In light of the recent and continuing macroeconomic challenges in the mortgage industry given tight housing inventories and mortgage interest rate levels, and specifically the inability of our mortgage origination segment to meet forecasted projections, we identified these collective factors as a triggering event during the second quarter of 2023. As a result, we performed an interim quantitative impairment test as of June 1, 2023 using revised forecasts and concluded that it was more likely than not that the mortgage origination segment's estimated fair value of goodwill exceeded its carrying value. However, in the event future operating performance remains challenged, the fair value of the mortgage origination reporting unit may decline and we may be required to record a goodwill impairment charge. These conditions will continue to be considered during future impairment evaluations of reporting unit goodwill.

As a GNMA approved lender, we are subject to certain HUD reporting requirements, including timely reporting if a quarter's operating loss exceeds more than 20% of its previous quarter or year-end net worth ("the operating loss ratio"). If this occurs, certain additional financial reporting submissions are required. During the first quarter of 2023, the operating loss ratio was 21.2%, which was reported to HUD. During the second quarter of 2023, the operating loss ratio decreased to 15.8%.

In addition, as a FNMA and FHLMC approved lender, we are subject to certain minimum capital, net worth and liquidity requirements established by FNMA and FHLMC. These agencies may also monitor additional financial performance trends at their discretion.

Income (loss) before income taxes decreased significantly during the three and six months ended June 30, 2023, compared with the same periods in 2022. The decrease was primarily the result of a decrease in interest rate lock commitments (“IRLCs”) related to a decrease in mortgage loan applications, a decrease in the average value of individual IRLCs and an increase in interest expense. The impact of these trends was partially offset by an increase in average loan origination fees and a decrease in noninterest expense as discussed in more detail below.

During 2022 and continuing into the second quarter of 2023, the U.S. 10-Year Treasury Rate and mortgage interest rates increased significantly. Average interest rates during the three and six months ended June 30, 2023, exceeded average interest rates during the same periods in 2022, and refinancing volume as a percentage of total origination volume decreased during the three and six months ended June 30, 2023, as compared to the same periods in 2022. Although we anticipate a lower percentage of refinancing volume relative to total loan origination volume during the year ending in December 31, 2023, as compared to the year ended December 31, 2022, a higher refinance percentage could be driven by a slowing of purchase volume due to the negative impact on new and existing home sales resulting from existing home inventory shortages, affordability challenges, and supply chain problems related to new home construction, and/or an increase in all-cash buyers.

The mortgage origination segment primarily originates its mortgage loans through a retail channel, with limited lending through its affiliated business arrangements (“ABAs”). For the six months ended June 30, 2023, funded volume through ABAs was approximately 12% of the mortgage origination segment’s total loan volume. During March 2023, all members of one ABA mutually agreed to dissolve the entity, effective June 2023. Currently, PrimeLending owns a greater than 50% membership interest in three ABAs. In addition, during July 2023, all members of one of the three remaining ABAs mutually agreed to dissolve the entity, effective September 2023. We expect total production within the ABA channel to approximate 15% of loan volume of the mortgage origination segment during the remainder of 2023.

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

	Three Months Ended June 30,				Variance 2023 vs 2022	Six Months Ended June 30,				Variance 2023 vs 2022
	2023		2022			2023		2022		
	Amount	% of Total	Amount	% of Total		Amount	% of Total	Amount	% of Total	
Mortgage Loan Originations - units	7,868		12,090		(4,222)	13,651		24,309		(10,658)
Mortgage Loan Originations - volume:										
Conventional	\$ 1,543,272	62.95 %	\$ 2,523,426	66.25 %	\$ (980,154)	\$ 2,635,107	62.97 %	\$ 5,036,525	66.50 %	\$ (2,401,418)
Government	554,565	22.62 %	705,741	18.53 %	(151,176)	989,114	23.64 %	1,349,055	17.81 %	(359,941)
Jumbo	100,051	4.08 %	362,810	9.52 %	(262,759)	163,536	3.91 %	750,652	9.91 %	(587,116)
Other	253,762	10.35 %	217,243	5.70 %	36,519	396,646	9.48 %	437,471	5.78 %	(40,825)
	<u>\$ 2,451,650</u>	<u>100.00 %</u>	<u>\$ 3,809,220</u>	<u>100.00 %</u>	<u>\$ (1,357,570)</u>	<u>\$ 4,184,403</u>	<u>100.00 %</u>	<u>\$ 7,573,703</u>	<u>100.00 %</u>	<u>\$ (3,389,300)</u>
Home purchases	\$ 2,301,007	93.86 %	\$ 3,342,103	87.74 %	\$ (1,041,096)	\$ 3,912,502	93.50 %	\$ 6,095,134	80.48 %	\$ (2,182,632)
Refinancings	150,643	6.14 %	467,117	12.26 %	(316,474)	271,901	6.50 %	1,478,569	19.52 %	(1,206,668)
	<u>\$ 2,451,650</u>	<u>100.00 %</u>	<u>\$ 3,809,220</u>	<u>100.00 %</u>	<u>\$ (1,357,570)</u>	<u>\$ 4,184,403</u>	<u>100.00 %</u>	<u>\$ 7,573,703</u>	<u>100.00 %</u>	<u>\$ (3,389,300)</u>
Texas	\$ 640,384	26.12 %	\$ 805,767	21.15 %	\$ (165,383)	\$ 1,137,227	27.18 %	\$ 1,594,803	21.06 %	\$ (457,576)
California	215,237	8.78 %	320,923	8.42 %	(105,686)	359,840	8.60 %	724,692	9.57 %	(364,852)
South Carolina	137,816	5.62 %	179,894	4.72 %	(42,078)	225,100	5.38 %	342,816	4.52 %	(117,716)
Florida	120,971	4.93 %	186,320	4.89 %	(65,349)	211,210	5.05 %	383,744	5.07 %	(172,534)
Arizona	119,399	4.87 %	167,930	4.41 %	(48,531)	206,869	4.94 %	357,335	4.72 %	(150,466)
New York	100,180	4.09 %	151,409	3.97 %	(51,229)	170,370	4.07 %	293,162	3.87 %	(122,792)
Missouri	90,219	3.68 %	121,100	3.18 %	(30,881)	145,333	3.47 %	241,260	3.18 %	(95,927)
North Carolina	74,014	3.02 %	127,683	3.35 %	(53,669)	129,422	3.09 %	235,644	3.11 %	(106,222)
Ohio	76,348	3.11 %	172,317	4.52 %	(95,969)	128,805	3.08 %	313,261	4.14 %	(184,456)
Maryland	62,794	2.56 %	98,902	2.60 %	(36,108)	107,303	2.56 %	195,235	2.58 %	(87,932)
All other states	814,288	33.22 %	1,476,975	38.79 %	(662,687)	1,362,924	32.58 %	2,891,751	38.18 %	(1,528,827)
	<u>\$ 2,451,650</u>	<u>100.00 %</u>	<u>\$ 3,809,220</u>	<u>100.00 %</u>	<u>\$ (1,357,570)</u>	<u>\$ 4,184,403</u>	<u>100.00 %</u>	<u>\$ 7,573,703</u>	<u>100.00 %</u>	<u>\$ (3,389,300)</u>
Mortgage Loan Sales - volume:										
Third parties	\$ 2,055,295	97.14 %	\$ 3,768,589	97.31 %	\$ (1,713,294)	\$ 3,650,829	96.65 %	\$ 7,528,495	97.25 %	\$ (3,877,666)
Banking segment	60,411	2.86 %	104,346	2.69 %	(43,935)	126,397	3.35 %	213,036	2.75 %	(86,639)
	<u>\$ 2,115,706</u>	<u>100.00 %</u>	<u>\$ 3,872,935</u>	<u>100.00 %</u>	<u>\$ (1,757,229)</u>	<u>\$ 3,777,226</u>	<u>100.00 %</u>	<u>\$ 7,741,531</u>	<u>100.00 %</u>	<u>\$ (3,964,305)</u>

We consider the mortgage origination segment's total loan origination volume to be a key performance measure. Loan origination volume is central to the segment's ability to generate income by originating and selling mortgage loans, resulting in net gains from the sale of loans, mortgage loan origination fees, and other mortgage production income. Total loan origination volume is a measure utilized by management, our investors, and analysts in assessing market share and growth of the mortgage origination segment.

The mortgage origination segment's total loan origination volume decreased 35.6% and 44.8% during the three and six months ended June 30, 2023, compared to the same periods in 2022, while income before income taxes decreased 357.6% and 418.5%, respectively, during those same periods. The decrease in income before income taxes during the three and six months ended June 30, 2023, were primarily due to decreases in net gains from sale of mortgage loans and to a much lesser extent, decreases in mortgage loan origination fees, compared with the same periods in 2022. These trends were partially offset by decreases in variable compensation, and to a lesser extent, decreases in non-variable compensation and benefits expense and segment operating costs during the three and six months ended June 30, 2023, compared to the same periods in 2022.

The information shown in the table below includes certain additional key performance indicators for the mortgage origination segment.

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Net gains from mortgage loan sales (basis points):				
Loans sold to third parties	207	260	201	291
Impact of loans retained by banking segment	(6)	(7)	(7)	(8)
As reported	201	253	194	283
Variable compensation as a percentage of total compensation	51.1 %	56.4 %	46.4 %	55.6 %
Mortgage servicing rights asset (\$000's) (end of period) <sup>(1)</sup>			\$ 95,101	\$ 121,688

(1) Reported on a consolidated basis and therefore does not include mortgage servicing rights assets related to loans serviced for the banking segment, which are eliminated in consolidation.

Net interest expense was comprised of interest income earned on loans held for sale offset by interest incurred on warehouse lines of credit primarily held with the Bank, and related intercompany financing costs. The year-over-year change in net interest expense between the three and six months ended June 30, 2023 and 2022 reflected the effects of decreased net yields on mortgage loans held for sale, partially offset by a decrease in the average warehouse line balance between each of the periods compared.

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

	<u>Three Months Ended June 30,</u>		<u>Variance</u> <u>2023 vs 2022</u>	<u>Six Months Ended June 30,</u>		<u>Variance</u> <u>2023 vs 2022</u>
	<u>2023</u>	<u>2022</u>		<u>2023</u>	<u>2022</u>	
Net gains from sale of loans	\$ 42,488	\$ 98,110	\$ (55,622)	\$ 73,364	\$ 218,934	\$ (145,570)
Mortgage loan origination fees and other related income	41,440	42,378	(938)	70,217	74,440	(4,223)
Other mortgage production income:						
Change in net fair value and related derivative activity:						
IRLCs and loans held for sale	(197)	(16,770)	16,573	9,493	(37,191)	46,684
Mortgage servicing rights asset	(1,943)	7,443	(9,386)	(9,811)	9,636	(19,447)
Servicing fees	8,291	8,921	(630)	15,646	17,457	(1,811)
Total noninterest income	\$ 90,079	\$ 140,082	\$ (50,003)	\$ 158,909	\$ 283,276	\$ (124,367)

The decreases in net gains from sale of loans during the three and six months ended June 30, 2023, compared with the same periods in 2022, were primarily the result of decreases of 45.4% and 51.2% in total loan sales volume, in addition to decreases in average loan sales margin during both periods. Since PrimeLending sells substantially all mortgage loans it originates to various investors in the secondary market, the decreases in loan sales volume during the three and six months ended June 30, 2023 were consistent with decreases in loan origination volume during the periods. The decreases in average loan sales margins during the three and six months ended June 30, 2023 were primarily attributable to competitive pricing pressure resulting from home inventory shortages, a reduction in national refinancing volume and continued mortgage industry excess capacity.

The decrease in mortgage loan origination fees during the six months ended June 30, 2023, compared with the same period in 2022, was primarily the result of a decrease in loan origination volume, partially offset by an increase in average mortgage loan origination fees. Fluctuations in mortgage loan origination fees are not always aligned with fluctuations in loan origination volume since customers may opt to pay PrimeLending discount fees on their mortgage loans in exchange for a lower interest rate.



We consider the mortgage origination segment's net gains from sale of loans margin, in basis points, to be a key performance measure. Net gains from sale of loans margin is defined as net gains from sale of loans divided by loan sales volume. The net gains from sale of loans is central to the segment's generation of income and may include loans sold to third parties and loans sold to and retained by the banking segment. For origination services provided, the mortgage origination segment was reimbursed direct origination costs associated with loans retained by the banking segment, in addition to payment of a correspondent fee. The reimbursed origination costs and correspondent fees are included in the mortgage origination segment operating results, and the correspondent fees are eliminated in consolidation. Loan volumes to be originated on behalf of and retained by the banking segment are evaluated each quarter. Loans sold to and retained by the banking segment during the three months ended June 30, 2023 and 2022 were \$60.4 million and \$104.3 million, respectively, and \$126.4 million and \$213.0 million during the six months ended June 30, 2023 and 2022, respectively. Loan volumes to be originated on behalf of and retained by the banking segment are expected to be impacted by, among other things, an ongoing review of the prevailing mortgage rates, balance sheet positioning at Hilltop and the banking segment's outlook for commercial loan growth.

Noninterest income included changes 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 ("net fair value of IRLCs and loans held for sale"). The increases in net fair value of IRLCs and loans held for sale during the three and six months ended June 30, 2023, were primarily the result of an increase in the total volume of individual IRLCs and loans held for sale between December 31, 2022 and June 30, 2023.

The mortgage origination segment sells substantially all mortgage loans it originates to various investors in the secondary market. In addition, the mortgage origination segment originates loans on behalf of the Bank. 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, refinancing and market activity, and balance sheet positioning at Hilltop. During the three and six months ended June 30, 2023, PrimeLending retained servicing on approximately 17% and 27%, respectively, of loans sold, compared with approximately 20% and 16%, respectively, of loans sold during the same periods in 2022. A reduction in third-party mortgage servicers purchasing mortgage servicing rights may result in PrimeLending increasing the rate of retained servicing on mortgage loans sold during the remainder of 2023. 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 and retained by 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 and MBS commitments, to mitigate interest rate risk associated with its MSR asset. Changes in the net fair value of the MSR asset and the related derivatives are associated with normal customer payments, changes in discount rates, prepayment speed assumptions and customer payoffs. The operating results of the mortgage origination segment were impacted during the three and six months ended June 30, 2023 by an increase of \$4.0 million and a decrease of \$6.8 million, respectively, in the net fair value of the MSR asset, of which \$5.5 million of the decrease during the six months ended June 30, 2023, was primarily driven by market sales trends during the first quarter of 2023. The remaining fluctuations in the net fair value of the MSR asset during the respective periods were primarily due to the net gains driven by net changes in long-term U.S. Treasury bond rates and customer payoffs during the three and six months ended June 30, 2023, and losses of \$5.9 million and \$3.1 million generated by the derivatives used to hedge the MSR. In addition to gains and losses generated by changes in the net fair value of the MSR asset, net servicing income of \$3.8 million and \$6.8 million, respectively, were recognized during the three and six months ended June 30, 2023. On June 2, 2023, the mortgage origination segment sold MSR assets of \$19.1 million, which represented \$991.0 million of its serviced loan volume at the time. There were no MSR assets sold during the three and six months ended June 30, 2022.

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

	<u>Three Months Ended June 30,</u>		<u>Variance</u>	<u>Six Months Ended June 30,</u>		<u>Variance</u>
	<u>2023</u>	<u>2022</u>	<u>2023 vs 2022</u>	<u>2023</u>	<u>2022</u>	<u>2023 vs 2022</u>
Variable compensation	\$ 36,249	\$ 56,525	\$ (20,276)	\$ 61,822	\$ 112,767	\$ (50,945)
Non-variable compensation and benefits	34,733	43,681	(8,948)	71,515	90,187	(18,672)
Segment operating costs	21,776	25,052	(3,276)	42,654	49,027	(6,373)
Lender paid closing costs	1,387	3,809	(2,422)	2,562	7,461	(4,899)
Servicing expense	4,515	4,102	413	8,860	8,585	275
Total noninterest expense	<u>\$ 98,660</u>	<u>\$ 133,169</u>	<u>\$ (34,509)</u>	<u>\$ 187,413</u>	<u>\$ 268,027</u>	<u>\$ (80,614)</u>

Total employees' compensation and benefits accounted for the majority of noninterest expenses incurred during all periods presented. Historically, variable compensation comprises the majority of total employees' compensation and benefits expenses, but during the six months ended June 30, 2023, non-variable compensation was greater than variable compensation. 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.

While total loan origination volume decreased 35.6% and 44.8% during the three and six months ended June 30, 2023, respectively, compared to the same periods in 2022, the aggregate non-variable compensation and benefits of the mortgage origination segment decreased by 20.5% and 20.7% during the same periods, respectively. These decreases during the three and six months ended June 30, 2023, compared to the same periods in 2022, were primarily due to a decrease in salaries associated with a reduction in underwriting and loan fulfillment, operations and corporate staff in response to the decreases in loan origination volume that started at the end of 2021, and has continued through the second quarter of 2023. Severance costs, included in non-variable compensation above, incurred because of this continued initiative were \$0.2 million and \$0.9 million, respectively, during the three and six months ended June 30, 2023. These actions are expected to favorably impact annualized pre-tax expenses by approximately \$9 million. PrimeLending remains committed to evaluating staffing levels and maintaining an appropriate cost structure to address the dynamic mortgage loan origination trends. Segment operating costs decreased during the three and six months ended June 30, 2023, compared to the same periods in 2022, primarily due to decreases in occupancy and equipment expense, professional fees, and software expense.

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, 2014 and June 30, 2023, the mortgage origination segment sold mortgage loans totaling \$143.8 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 2014, it does not anticipate experiencing significant losses in the future on loans originated prior to 2014 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, 2014 and June 30, 2023 (dollars in thousands).

	Original Loan Balance		Loss Recognized	
	Amount	% of Loans Sold	Amount	% of Loans Sold
Claims resolved with no payment	\$ 225,271	0.16 %	\$ —	- %
Claims resolved because of a loan repurchase or payment to an investor for losses incurred <sup>(1)</sup>	273,177	0.19 %	19,910	0.01 %
	<u>\$ 498,448</u>	<u>0.35 %</u>	<u>\$ 19,910</u>	<u>0.01 %</u>

(1) Losses incurred include refunded purchased servicing rights.

For each loan, the mortgage origination segment concludes its obligation to a claimant is both probable and reasonably estimable, the mortgage origination segment has established a specific claims indemnification liability reserve.

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. Factors considered in the calculation of this reserve include, but are not limited to, the total volume of loans sold exclusive of specific claimant requests, actual claim inquiries, claim settlements and the severity of estimated losses resulting from future claims, and the mortgage origination segment's history of successfully curing defects identified in claim requests.

Although management considers the total indemnification liability reserve to be appropriate, there may be changes in the reserve over time to address incurred losses due to unanticipated adverse changes in the economy and historical loss patterns, discrete events adversely affecting specific borrowers or industries, and/or actions taken by institutions or investors. The impact of such matters is considered in the reserving process when probable and estimable. Since the end of the first quarter of 2023, PrimeLending has experienced an increase in agency claim inquiries relative to historical trending. While no adjustment has been made to the factors considered in the calculation of the indemnification liability reserve as a result of this trend as of June 30, 2023, PrimeLending will continue to monitor this trend and assess its potential impact on the indemnification liability reserve.

At June 30, 2023 and December 31, 2022, the mortgage origination segment's total indemnification liability reserve totaled \$15.1 million and \$20.5 million, respectively. The related provision for indemnification losses was \$0.5 million and \$0.8 million during the three months ended June 30, 2023 and 2022, respectively, and \$0.8 million and \$1.2 million during the six months ended June 30, 2023 and 2022, respectively.

## Corporate

The following table presents certain financial information regarding the operating results of corporate (in thousands).

	Three Months Ended June 30,		Variance 2023 vs 2022	Six Months Ended June 30,		Variance 2023 vs 2022
	2023	2022		2023	2022	
Net interest income (expense)	\$ (3,479)	\$ (3,190)	\$ (289)	\$ (6,801)	\$ (6,580)	\$ (221)
Noninterest income	3,081	2,080	1,001	5,786	3,846	1,940
Noninterest expense	16,301	17,561	(1,260)	31,814	30,354	1,460
Loss before income taxes	<u>\$ (16,699)</u>	<u>\$ (18,671)</u>	<u>\$ 1,972</u>	<u>\$ (32,829)</u>	<u>\$ (33,088)</u>	<u>\$ 259</u>

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. These merchant banking activities currently include investments within various industries, including power generation, consumer services, industrial equipment manufacturing and animal health, with an aggregate carrying value of approximately \$44 million at June 30, 2023.

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 earned during the three and six months ended June 30, 2023 was primarily comprised of dividend income from merchant banking investment activities, in addition to interest income earned on intercompany notes.

Interest expense during each of the three months ended June 30, 2023 and 2022 included recurring quarterly interest expense of \$5.0 million incurred on our \$150.0 million aggregate principal amount of 5% senior notes due 2025 (“Senior Notes”), on our \$50 million aggregate principal amount of subordinated notes due 2030 (“2030 Subordinated Notes”) and on our \$150 million aggregate principal amount of subordinated notes due 2035 (“2035 Subordinated Notes,” the 2030 Subordinated Notes and the 2035 Subordinated Notes, collectively, the “Subordinated Notes”).

Noninterest income during each period included activity related to our investment in a real estate development in Dallas’ University Park, which also serves as headquarters for both Hilltop and the Bank, and net noninterest income associated with activity within our merchant bank subsidiary.

Noninterest expenses were primarily comprised of employees’ compensation and benefits, occupancy expenses and professional fees, including corporate governance, legal and transaction costs. During the three months ended June 30, 2023, noninterest expenses decreased, compared with the same period in 2022, primarily due to decreases in professional fees. During the six months ended June 30, 2023, noninterest expenses increased, compared to the same period in 2022, primarily due to inflationary increases associated with employees’ compensation and benefits as well as increases in professional fees.

### ***Financial Condition***

The following discussion contains a more detailed analysis of our financial condition at June 30, 2023, as compared with December 31, 2022.

#### **Securities Portfolio**

At June 30, 2023, 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, as well as 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 classified as available for sale may, from time to time, be bought and sold in response to changes in market interest rates, changes in securities’ prepayment risk, increases in loan demand, general liquidity needs and to take advantage of market conditions that create more economically attractive returns. Such securities 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.

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

	<b>June 30, 2023</b>	<b>December 31, 2022</b>
<b>Trading securities, at fair value</b>		
U.S. Treasury securities	\$ 7,481	\$ 10,466
U.S. government agencies:		
Bonds	20,545	20,878
Residential mortgage-backed securities	262,410	214,100
Collateralized mortgage obligations	83,564	182,717
Corporate debt securities	56,739	42,685
States and political subdivisions	229,705	260,271
Private-label securitized product	29,627	9,265
Other	6,578	14,650
	<u>696,649</u>	<u>755,032</u>
<b>Securities available for sale, at fair value</b>		
U.S. Treasury securities	4,490	19,144
U.S. government agencies:		
Bonds	172,495	202,257
Residential mortgage-backed securities	373,939	406,358
Commercial mortgage-backed securities	175,129	175,499
Collateralized mortgage obligations	764,870	818,894
States and political subdivisions	35,946	36,614
	<u>1,526,869</u>	<u>1,658,766</u>
<b>Securities held to maturity, at amortized cost</b>		
U.S. government agencies:		
Residential mortgage-backed securities	289,806	301,583
Commercial mortgage-backed securities	180,109	180,942
Collateralized mortgage obligations	299,519	314,705
States and political subdivisions	78,003	78,302
	<u>847,437</u>	<u>875,532</u>
<b>Equity securities, at fair value</b>	<u>258</u>	<u>200</u>
<b>Total securities portfolio</b>	<u>\$ 3,071,213</u>	<u>\$ 3,289,530</u>

We had net unrealized losses of \$131.2 million and \$129.8 million at June 30, 2023 and December 31, 2022, respectively, related to the available for sale investment portfolio, and net unrealized losses of \$92.3 million and \$90.2 million at June 30, 2023 and December 31, 2022, respectively, associated with the securities held to maturity portfolio. Equity securities included net unrealized gains of \$0.2 million and \$0.1 million at June 30, 2023 and December 31, 2022, respectively. In future periods, we expect changes in prevailing market interest rates, coupled with changes in the aggregate size of the investment portfolio, to be significant drivers of changes in the unrealized losses or gains in these portfolios, and therefore accumulated other comprehensive income (loss).

We transferred certain agency-issued securities from the available-for-sale to held-to-maturity portfolio on March 31, 2022 having a book value of approximately \$782 million and a market value of approximately \$708 million. As of the date of transfer, the related pre-tax net unrecognized losses of approximately \$74 million within the accumulated other comprehensive loss balance are being amortized over the remaining term of the securities using the effective interest method. This transfer was completed after careful consideration of our intent and ability to hold these securities to maturity. Factors used in assessing the ability to hold these securities to maturity were future liquidity needs and sources of funding.

### *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 June 30, 2023, the banking segment's securities portfolio of \$2.4 billion was comprised of trading securities of \$0.1 million, available for sale securities of \$1.5 billion, held to maturity securities of \$847.4 million and equity securities of \$0.2 million, in addition to \$11.7 million of other investments included in other assets within the consolidated balance sheets.

### *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 to the statement of operations. Accordingly, the securities portfolio of the Hilltop Broker-Dealers included trading securities of \$696.6 million at June 30, 2023. 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 obligation may exceed the amount recognized in the financial statements. These securities, which are carried at fair value and reported as securities sold, not yet purchased in the consolidated balance sheets, had a value of \$74.8 million at June 30, 2023.

### *Corporate*

At June 30, 2023, the corporate portfolio included other investments, including those associated with merchant banking, of \$35.9 million in other assets within the consolidated balance sheets.

### *Allowance for Credit Losses for Available for Sale Securities and Held to Maturity Securities*

We have evaluated available for sale debt securities that are in an unrealized loss position and have determined that any declines in value are unrelated to credit loss and related to changes in market interest rates since purchase. None of the available for sale debt securities held were past due at June 30, 2023. In addition, as of June 30, 2023, we had evaluated our held to maturity debt securities, considering the current credit ratings and recognized losses, and determined the potential credit loss to be minimal. With respect to these securities, we considered the risk of credit loss to be negligible, and therefore, no allowance was recognized on the debt securities portfolio at June 30, 2023.

### **Loan Portfolio**

Consolidated loans held for investment are detailed in the table below, classified by portfolio segment (in thousands).

	<b>June 30, 2023</b>	<b>December 31, 2022</b>
Commercial real estate	\$ 3,275,910	\$ 3,245,873
Commercial and industrial	1,797,639	1,639,980
Construction and land development	1,083,103	980,896
1-4 family residential	1,811,362	1,767,099
Consumer	26,664	27,602
Broker-dealer	359,444	431,223
Loans held for investment, gross	<u>8,354,122</u>	<u>8,092,673</u>
Allowance for credit losses	(109,306)	(95,442)
Loans held for investment, net of allowance	<u>\$ 8,244,816</u>	<u>\$ 7,997,231</u>

### *Banking Segment*

The loan portfolio constitutes the primary 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 credit losses, were \$9.1 billion and \$8.5 billion at June 30, 2023 and December 31, 2022, respectively. At June 30, 2023, the banking segment's loan portfolio included warehouse lines of credit extended to PrimeLending and its ABAs of \$1.6 billion, of which \$1.2 billion was drawn. At December 31, 2022, amounts drawn on the available warehouse lines of credit was \$0.9 billion. Amounts advanced against the warehouse lines 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 June 30, 2023, 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, non-construction residential real estate loans, and construction and land

development loans, which represented 41.0%, 22.7% and 13.6%, respectively, of the banking segment's total loans held for investment at June 30, 2023. The banking segment's loan concentrations were within regulatory guidelines at June 30, 2023.

In addition, the Bank's loan portfolio includes collateralized loans extended to businesses that depend on the energy industry, including those within the exploration and production, field services, pipeline construction and transportation sectors. Crude oil prices remain uncertain given future supply and demand for oil are influenced by the Russia-Ukraine conflict, return to business travel, new energy policies and government regulation, and the pace of transition towards renewable energy resources. At June 30, 2023, the Bank's energy loan exposure was approximately \$60 million of loans held for investment with unfunded commitment balances of approximately \$21 million. The allowance for credit losses on the Bank's energy portfolio was \$0.1 million, or 0.2% of loans held for investment at June 30, 2023.

The following table provides information regarding the maturities of the banking segment's gross loans held for investment, net of unearned income (in thousands).

	<b>June 30, 2023</b>				<b>Total</b>
	<b>Due Within One Year</b>	<b>Due From One To Five Years</b>	<b>Due from Five To Fifteen Years</b>	<b>Due After Fifteen Years</b>	
Commercial real estate	\$ 800,650	\$ 1,409,222	\$ 1,001,798	\$ 64,240	\$ 3,275,910
Commercial and industrial	2,525,862	320,360	150,084	—	2,996,306
Construction and land development	865,804	166,827	46,403	4,069	1,083,103
1-4 family residential	125,817	402,020	474,227	809,298	1,811,362
Consumer	13,768	12,457	423	16	26,664
Total	<u>\$ 4,331,901</u>	<u>\$ 2,310,886</u>	<u>\$ 1,672,935</u>	<u>\$ 877,623</u>	<u>\$ 9,193,345</u>
Fixed rate loans	\$ 2,018,960	\$ 1,762,899	\$ 1,392,293	\$ 877,623	\$ 6,051,775
Floating rate loans	2,312,941	547,987	280,642	—	3,141,570
Total	<u>\$ 4,331,901</u>	<u>\$ 2,310,886</u>	<u>\$ 1,672,935</u>	<u>\$ 877,623</u>	<u>\$ 9,193,345</u>

In the table above, commercial and industrial includes amounts advanced against the warehouse lines of credit extended to PrimeLending. Floating rate loans that have reached their applicable rate floor or ceiling are classified as fixed rate loans rather than floating rate loans. As of June 30, 2023, floating rate loans totaling \$773.2 million had reached their applicable rate floor and were expected to reprice, subject to their scheduled repricing timing and frequency terms. An additional \$2.5 million of floating rate loans would be adjustable if published rates increase by a sufficient amount to move past their floored levels. The majority of floating rate loans carry an interest rate tied to a SOFR rate or The Wall Street Journal Prime Rate, as published in The Wall Street Journal.

#### *Broker-Dealer Segment*

The loan portfolio of the broker-dealer segment consists primarily of margin loans to customers and correspondents that are due within one year. The interest rate on margin accounts is computed on the settled margin balance at a fixed rate established by management. 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 credit losses, were \$358.5 million and \$431.0 million at June 30, 2023 and December 31, 2022, respectively. This decrease from December 31, 2022 to June 30, 2023 was primarily attributable to a decrease of \$41.4 million, or 26%, in receivables from correspondents, and a decrease of \$30.7 million, or 11%, in customer margin accounts.

### *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).

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Loans held for sale:		
Unpaid principal balance	\$ 1,177,140	\$ 850,277
Fair value adjustment	3,187	5,420
	<u>\$ 1,180,327</u>	<u>\$ 855,697</u>
IRLCs:		
Unpaid principal balance	\$ 709,174	\$ 506,278
Fair value adjustment	5,109	1,767
	<u>\$ 714,283</u>	<u>\$ 508,045</u>

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 June 30, 2023 and December 31, 2022 were \$1.4 billion and \$1.2 billion, respectively, while the related estimated fair values were \$8.0 million and \$3.3 million, respectively.

#### **Allowance for Credit Losses on Loans**

For additional information regarding the allowance for credit losses, refer to the section captioned "Critical Accounting Estimates" set forth in Part II, Item 7 of our 2022 Form 10-K.

#### *Loans Held for Investment*

The Bank has lending policies in place with the goal of establishing an asset portfolio that will provide a return on stockholders' equity sufficient to maintain capital to assets ratios that meet or exceed established regulations. Loans are underwritten with careful consideration of the borrower's financial condition, the specific purpose of the loan, the primary sources of repayment and any collateral pledged to secure the loan. As discussed in more detail within the section captioned "Financial Condition – Allowance for Credit Losses on Loans" set forth in Part II, Item 7 of our 2022 Form 10-K, the Bank's underwriting procedures address financial components based on the size and complexity of the credit, while the Bank's loan policy provides specific underwriting guidelines by portfolio segment, including commercial and industrial, real estate, construction and land development, and consumer loans.

The allowance for credit losses for loans held for investment represents management's best estimate of all expected credit losses over the expected contractual life of our existing portfolio. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the then-existing loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for credit losses in those future periods. Such future changes in the allowance for credit losses are expected to be volatile given dependence upon, among other things, the portfolio composition and quality, as well as the impact of significant drivers, including prepayment assumptions and macroeconomic conditions and forecasts.

Significant judgment is required to estimate the severity and duration of the current economic uncertainties, as well as its potential impact on borrower defaults and loss severity. In particular, macroeconomic conditions and forecasts are rapidly changing and remain highly uncertain.

One of the most significant judgments involved in estimating our allowance for credit losses relates to the macroeconomic forecasts used to estimate credit losses over the reasonable and supportable forecast period. To determine the allowance for credit losses as of June 30, 2023, we utilized a single macroeconomic alternative scenario, or S7, published by Moody's Analytics in June 2023. During our previous quarterly macroeconomic assessment as of March 31, 2023, we also utilized a single macroeconomic alternative scenario, or S7, published by Moody's Analytics in March 2023.



The following table summarizes the U.S. Real Gross Domestic Product (“GDP”) growth rates and unemployment rate assumptions used in our economic forecast to determine our best estimate of expected credit losses.

	As of				
	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022
GDP growth rates:					
Q2 2022					2.6%
Q3 2022				1.3%	2.0%
Q4 2022			0.8%	0.4%	0.6%
Q1 2023		2.5%	0.1%	0.3%	0.9%
Q2 2023	1.4%	0.4%	(1.4)%	(1.8)%	1.0%
Q3 2023	0.1%	0.4%	(2.5)%	(2.2)%	(1.0)%
Q4 2023	0.3%	(3.1)%	(2.4)%	(2.2)%	(3.0)%
Q1 2024	(3.1)%	(2.2)%	0.4%	0.7%	
Q2 2024	(2.7)%	(1.1)%	1.1%		
Q3 2024	(0.9)%	2.1%			
Q4 2024	2.0%				
Unemployment rates:					
Q2 2022					3.6%
Q3 2022					3.5%
Q4 2022			3.7%	3.7%	3.6%
Q1 2023		3.5%	4.0%	4.0%	3.6%
Q2 2023	3.5%	3.7%	4.6%	4.6%	3.6%
Q3 2023	3.8%	4.0%	5.3%	5.5%	5.0%
Q4 2023	4.0%	4.7%	6.0%	6.2%	6.4%
Q1 2024	4.9%	5.6%	5.9%	6.0%	
Q2 2024	5.6%	6.0%	5.6%		
Q3 2024	6.0%	5.7%			
Q4 2024	5.8%				

As of June 30, 2023, our economic forecast was updated since March 31, 2023 based on recent updates to broader economic, fiscal, and monetary policy data. A bi-partisan bill was passed to suspend the U.S. debt ceiling limit until 2025. Real GDP growth during the second quarter of 2023 increased less than the prior quarter’s outlook at an annualized rate of 2.0% due to less inventory investment and government spending. In response to these developments, we updated our assumptions for the rest of 2023. We expect a mild U.S. recession to begin in the first quarter of 2024 and recovery from the fourth quarter of 2024. Persistently strong wage growth indicated still tight labor market conditions and the unemployment rate increased modestly to 3.7% at quarter end. The current quarter’s economic forecast assumes the federal funds rate remains elevated at a target range from 5.00% to 5.25% through the fourth quarter of 2023, with higher rates for longer duration further challenging the outlook for certain commercial real estate sectors. The scenario now reflects peak-to-trough commercial real estate price declines of approximately -21% from approximately -16% since the prior quarter’s forecast, with office properties being the most impacted, followed by the retail properties.

As of December 31, 2022, our economic forecast was updated from September 30, 2022 to reflect higher interest rate expectations and slower real GDP growth during the reasonable and supportable period. The Federal Reserve increased the federal funds rate target twice during the quarter to 4.25% to 4.50% and the quarter’s economic forecast assumed an average federal funds rate of 5.3% by the second quarter of 2023. As interest rates increased, inflation rates have decreased from historical highs as the goods sector improves; however, we still observed supply chain disruptions especially in the services sector. Unemployment rate forecasts were updated based on then recent economic data as tight labor market conditions continued.

During the three and six months ended June 30, 2023, the provision for credit losses reflected a significant build in the allowance related to loan portfolio changes since the prior quarter and a deteriorating outlook for commercial real estate markets. The net impact to the allowance of changes associated with collectively evaluated loans during the three and six months ended June 30, 2023 included a provision for credit losses on collectively evaluated loans at the Bank of \$12.9 million and \$14.5 million, respectively, while the net impact to the allowance of changes associated with individually evaluated loans during the three and six months ended June 30, 2023 included a provision for credit losses of \$1.9 million and \$2.7 million, respectively. The changes in the allowance for credit losses during the noted periods were primarily attributable to the Bank and also reflected other factors including, but not limited to, loan mix, and changes in

loan balances and qualitative factors from the prior quarter. The changes in the allowance during the three and six months ended June 30, 2023 were also impacted by net charge-offs of \$2.9 million and \$3.3 million, respectively.

During 2022, and continuing through the first half of 2023, the impact of changes in the U.S. economic outlook and resulting impact on collectively evaluated loans has resulted in a net build in the allowance at June 30, 2023, compared to both December 31, 2022 and December 31, 2021. The resulting allowance for credit losses as a percentage of our total loan portfolio, excluding margin loans in the broker-dealer segment and banking segment mortgage warehouse lending programs, was 1.41% and 1.27% as of June 30, 2023 and December 31, 2022. While changes in the U.S. economic outlook have been reflected in our current allowance at June 30, 2023, uncertainties that include, among others, the uncertain timing, duration and significance of further increases in market interest rates and a worsening macroeconomic forecast could adversely impact borrower cash flows and result in further increases in the allowance during future periods. While all industries could experience adverse impacts, certain of our loan portfolio industry sectors and subsectors, including real estate collateralized by office buildings, have an increased level of risk.

The respective distribution of the allowance for credit losses as a percentage of our total loan portfolio, excluding margin loans in the broker-dealer segment and banking segment mortgage warehouse lending programs, are presented in the following table (dollars in thousands).

<b>June 30, 2023</b>	<b>Total Loans Held For Investment</b>	<b>Total Allowance for Credit Losses</b>	<b>Allowance For Credit Losses as a % of Total Loans Held For Investment</b>
Commercial real estate <sup>(1)</sup>	\$ 3,275,910	\$ 71,462	2.18 %
Commercial and industrial <sup>(2)</sup>	1,467,257	17,149	1.17 %
Construction and land development <sup>(3)</sup>	1,083,103	7,395	0.68 %
Total commercial loans	5,826,270	96,006	1.65 %
1-4 family residential	1,811,362	11,618	0.64 %
Consumer	26,664	615	2.31 %
Total retail loans	1,838,026	12,233	0.67 %
Total commercial and retail loans	7,664,296	108,239	1.41 %
Broker-dealer	359,444	901	0.25 %
Mortgage warehouse lending	330,382	166	0.05 %
Total loans held for investment	\$ 8,354,122	\$ 109,306	1.31 %

(1) Included within commercial real estate portfolio are loans within the office and retail portfolio industry subsectors. At June 30, 2023, the office and retail loans held for investment balances of approximately \$826 million and \$384 million, respectively, had an allowance for credit losses of approximately \$30 million and \$7 million, respectively, and an allowance for credit losses as a % of total loans held for investment of 3.7% and 1.9%, respectively.

(2) Commercial and industrial portfolio amounts reflect balances excluding banking segment mortgage warehouse lending.

(3) Included within construction and land development portfolio are loans within the office and retail portfolio industry subsectors. At June 30, 2023, the office and retail loans held for investment balances of approximately \$38 million and \$27 million, respectively, had an allowance for credit losses of approximately \$0.4 million and \$0.4 million, respectively, and an allowance for credit losses as a % of total loans held for investment of 1.1% and 1.4%, respectively.

#### *Allowance Model Sensitivity*

Our allowance model was designed to capture the historical relationship between economic and portfolio changes. As such, evaluating shifts in individual portfolio attributes or macroeconomic variables in isolation may not be indicative of past or future performance. It is difficult to estimate how potential changes in any one factor or input might affect the overall allowance for credit losses because we consider a wide variety of factors and inputs in the allowance for credit losses estimate. Changes in the factors and inputs considered may not occur at the same rate and may not be consistent across all geographies or product types, and changes in factors and inputs may be directionally inconsistent, such that improvement in one factor may offset deterioration in others.

However, to consider the sensitivity of credit loss estimates to alternative macroeconomic forecasts, we compared the Company's allowance for credit loss estimates as of June 30, 2023, excluding margin loans in the broker-dealer segment, and the banking segment mortgage warehouse programs, with modeled results using both upside ("S1") and downside ("S3") economic scenario forecasts published by Moody's Analytics.

Compared to our economic forecast, the upside scenario assumes the economic impacts from military conflicts between Russia and Ukraine and global supply chain concerns recede faster than expected. Real GDP is expected to grow 3.6% in the third quarter of 2023, 3.4% in the fourth quarter of 2023, 3.2% in the first quarter of 2024, and 3.2% in the second quarter of 2024. Average unemployment rates are expected to decline to 3.0% by the fourth quarter of 2023 before reverting to historical data. Inflation is expected to trend back toward the Federal Reserve's target sooner than expected and we expect the federal funds rate to peak at 5.1% during 2023.

Compared to our economic forecast, the downside scenario assumes the Federal Reserve's efforts to resolve recent bank failures are not successful at restoring consumer and business confidence, causing banks to tighten lending standards while the Fed keeps the federal funds rate elevated due to inflation concerns. The military conflict between Russia and Ukraine persists longer than anticipated and global supply chain issues worsen causing weaker manufacturing, increased good shortages, and the economy to fall back into recession. Real GDP is expected to decrease 3.0% in the third quarter of 2023, 3.0% in the fourth quarter of 2023, and 3.1% in the first quarter of 2024. Average unemployment rates are expected to increase to 7.8% by the third quarter of 2024, but improve to 6.3% by year-end 2025 and revert back to historical average rates over time. The Federal Reserve reduces the federal funds rate by year end to support the economy to a 1.1% target by the second quarter of 2025. Disagreements in Congress prevent any additional fiscal measures to stem the recession.

The impact of applying all of the assumptions of the upside economic scenario during the reasonable and supportable forecast period would have resulted in a decrease in the allowance for credit losses of approximately \$37 million or a weighted average expected loss rate of 1.0% as a percentage of our total loan portfolio, excluding margin loans in the broker-dealer segment and the banking segment mortgage warehouse lending programs.

The impact of applying all of the assumptions of the downside economic scenario during the reasonable and supportable forecast period would have resulted in an increase in the allowance for credit losses of approximately \$46 million or a weighted average expected loss rate of 2.1% as a percentage of our total loan portfolio, excluding margin loans in the broker-dealer segment and the banking segment mortgage warehouse lending programs.

This analysis relates only to the modeled credit loss estimates and is not intended to estimate changes in the overall allowance for credit losses as they do not reflect any potential changes in the adjustment to the quantitative calculation, which would also be influenced by the judgment management applies to the modeled lifetime loss estimates to reflect the uncertainty and imprecision of these modeled lifetime loss estimates based on then-current circumstances and conditions.

Our allowance for credit losses reflects our best estimate of current expected credit losses, which is highly dependent on several assumptions, including the macroeconomic outlook, inflationary pressures and labor market conditions, the Russia-Ukraine conflict and its impact on supply chains, and uncertain impacts from recent bank failures. Future allowance for credit losses may vary considerably for these reasons.

## Allowance Activity

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

<b>Loans Held for Investment</b>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Balance, beginning of period	\$ 97,354	\$ 91,185	\$ 95,442	\$ 91,352
Provision for credit losses	14,836	5,336	17,167	5,451
Recoveries of loans previously charged off:				
Commercial real estate	20	11	31	43
Commercial and industrial	88	727	780	1,634
Construction and land development	—	—	—	—
1-4 family residential	35	35	52	48
Consumer	46	28	85	131
Broker-dealer	—	—	—	—
Total recoveries	<u>189</u>	<u>801</u>	<u>948</u>	<u>1,856</u>
Loans charged off:				
Commercial real estate	—	—	977	—
Commercial and industrial	3,020	1,892	3,079	3,101
Construction and land development	—	—	—	—
1-4 family residential	—	33	73	48
Consumer	53	99	122	212
Broker-dealer	—	—	—	—
Total charge-offs	<u>3,073</u>	<u>2,024</u>	<u>4,251</u>	<u>3,361</u>
Net charge-offs	<u>(2,884)</u>	<u>(1,223)</u>	<u>(3,303)</u>	<u>(1,505)</u>
Balance, end of period	<u>\$ 109,306</u>	<u>\$ 95,298</u>	<u>\$ 109,306</u>	<u>\$ 95,298</u>
Average total loans for the period	<u>\$ 8,033,095</u>	<u>\$ 7,838,090</u>	<u>\$ 7,964,263</u>	<u>\$ 7,838,566</u>
Total loans held for investment (end of period)			<u>\$ 8,354,122</u>	<u>\$ 7,930,619</u>
<b>Ratios:</b>				
Net charge-offs to average total loans held for investment <sup>(1)</sup>	<u>(0.14)%</u>	<u>(0.06)%</u>	<u>(0.17)%</u>	<u>(0.04)%</u>
Non-accrual loans to total loans held for investment (end of period)			<u>0.42 %</u>	<u>0.40 %</u>
Allowance for credit losses on loans held for investment to:				
Total loans held for investment (end of period)			<u>1.31 %</u>	<u>1.20 %</u>
Non-accrual loans held for investment (end of period)			<u>310.57 %</u>	<u>301.16 %</u>

(1) Net charge-offs to average total loans held for investment ratio presented on a consolidated basis for all periods given relative immateriality of resulting measure by loan portfolio segment.

Total non-accrual loans increased by \$9.4 million from December 31, 2022 to June 30, 2023. This change in non-accrual loans was impacted by loans secured by residential real estate within our mortgage origination segment, which were classified as loans held for sale, of \$3.8 million and \$4.8 million at June 30, 2023 and December 31, 2022, respectively.

In addition to changes in non-accrual loans classified as loans held for sale, the increase in non-accrual loans during 2023 was primarily due to the addition of two commercial and industrial relationships to non-accrual status, partially offset by decreases in commercial real estate owner occupied loans and 1-4 family residential loans.

As previously discussed in detail within this section, the allowance for credit losses has fluctuated from period to period, which impacted the resulting ratios noted in the table above. The distribution of the allowance for credit 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 table below (dollars in thousands).

Allocation of the Allowance for Credit Losses	June 30, 2023		December 31, 2022	
	Reserve	% of	Reserve	% of
		Gross Loans		Gross Loans
Commercial real estate	\$ 71,462	39.21 %	\$ 63,255	40.11 %
Commercial and industrial	17,315	21.53 %	16,035	20.26 %
Construction and land development	7,395	12.96 %	6,051	12.12 %
1-4 family residential	11,618	21.68 %	9,313	21.84 %
Consumer	615	0.32 %	554	0.34 %
Broker-dealer	901	4.30 %	234	5.33 %
Total	<u>\$ 109,306</u>	<u>100.00 %</u>	<u>\$ 95,442</u>	<u>100.00 %</u>

The following table summarizes historical levels of the allowance for credit losses on loans held for investment, distributed by portfolio segment (in thousands).

	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022
Commercial real estate	\$ 71,462	\$ 61,521	\$ 63,255	\$ 63,200	\$ 63,719
Commercial and industrial	17,315	16,615	16,035	16,108	19,836
Construction and land development	7,395	5,999	6,051	4,768	4,996
1-4 family residential	11,618	11,691	9,313	6,612	5,554
Consumer	615	563	554	574	542
Broker-dealer	901	965	234	521	651
	<u>\$ 109,306</u>	<u>\$ 97,354</u>	<u>\$ 95,442</u>	<u>\$ 91,783</u>	<u>\$ 95,298</u>

#### *Unfunded Loan Commitments*

In order to estimate the allowance for credit losses on unfunded loan commitments, the Bank uses a process similar to that used in estimating the allowance for credit losses on the funded portion. The allowance is based on the estimated exposure at default, multiplied by the lifetime probability of default grade and loss given default grade for that particular loan segment. The Bank estimates expected losses by calculating a commitment usage factor based on industry usage factors. The commitment usage factor is applied over the relevant contractual period. Loss factors from the underlying loans to which commitments are related are applied to the results of the usage calculation to estimate any liability for credit losses related for each loan type. Letters of credit are not currently reserved because they are issued primarily as credit enhancements and the likelihood of funding is low.

Changes in the allowance for credit losses for loans with off-balance sheet credit exposures are shown below (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Balance, beginning of period	\$ 6,805	\$ 6,487	\$ 7,784	\$ 5,880
Other noninterest expense	1,187	444	208	1,051
Balance, end of period	<u>\$ 7,992</u>	<u>\$ 6,931</u>	<u>\$ 7,992</u>	<u>\$ 6,931</u>

During the three and six months ended June 30, 2022, the increases in the reserve for unfunded commitments were primarily due to increases in both loan expected loss rates and available commitment balances. During the three and six months ended June 30, 2023, the increases in the reserve for unfunded commitments were primarily due to increases in expected loss rates.

#### *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 purchased credit deteriorated (“PCD”) loans because PCD loans exhibited evidence of more than insignificant 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 \$3.6 million of potential problem loans at June 30, 2023, compared with four credit relationships totaling \$4.0 million of potential problem loans at December 31, 2022.

### *Non-Performing Assets*

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

	<u>June 30, 2023</u>	<u>December 31, 2022</u>	<u>Variance</u>
Loans accounted for on a non-accrual basis:			
Commercial real estate	\$ 3,552	\$ 4,269	\$ (717)
Commercial and industrial	21,442	9,095	12,347
Construction and land development	593	198	395
1-4 family residential	13,360	15,941	(2,581)
Consumer	9	14	(5)
Broker-dealer	—	—	—
	<u>\$ 38,956</u>	<u>\$ 29,517</u>	<u>\$ 9,439</u>
Troubled debt restructurings included in accruing loans held for investment <sup>(1)</sup>	—	803	(803)
Non-performing loans <sup>(1)</sup>	<u>\$ 38,956</u>	<u>\$ 30,320</u>	<u>\$ 8,636</u>
Non-performing loans as a percentage of total loans <sup>(1)</sup>	<u>0.40 %</u>	<u>0.33 %</u>	<u>0.07 %</u>
Other real estate owned	<u>\$ 3,481</u>	<u>\$ 2,325</u>	<u>\$ 1,156</u>
Other repossessed assets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Non-performing assets <sup>(1)</sup>	<u>\$ 42,437</u>	<u>\$ 32,645</u>	<u>\$ 9,792</u>
Non-performing assets as a percentage of total assets <sup>(1)</sup>	<u>0.25 %</u>	<u>0.20 %</u>	<u>0.05 %</u>
Loans past due 90 days or more and still accruing	<u>\$ 130,036</u>	<u>\$ 92,099</u>	<u>\$ 37,937</u>

(1) Effective January 1, 2023, we adopted Accounting Standards Update (“ASU”) 2022-02 which eliminated the recognition and measurement guidance on troubled debt restructurings for creditors. Therefore, we no longer present troubled debt restructurings as a component of non-performing loans and assets.

At June 30, 2023, non-accrual loans included 34 commercial and industrial relationships with loans secured by notes receivable, recreational vehicles, accounts receivable and equipment. Non-accrual loans at June 30, 2023 also included \$3.8 million of loans secured by residential real estate which were classified as loans held for sale. At December 31, 2022, non-accrual loans included 40 commercial and industrial relationships with loans secured by accounts receivable, automobiles, equipment and notes receivable. Non-accrual loans at December 31, 2022 also included \$4.8 million of loans secured by residential real estate which were classified as loans held for sale.

OREO increased from December 31, 2022 to June 30, 2023, primarily due to additions totaling \$3.0 million, partially offset by disposals and valuation adjustments totaling \$1.9 million. At both June 30, 2023 and December 31, 2022, OREO was primarily comprised of commercial properties.

Loans past due 90 days or more and still accruing at June 30, 2023 and December 31, 2022, were primarily comprised of loans held for sale and guaranteed by U.S. government agencies, including GNMA related loans subject to repurchase within our mortgage origination segment. As of June 30, 2023, \$56.9 million of loans subject to repurchase under a forbearance agreement had delinquencies on or after April 2020.

### **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 titled “Liquidity and Capital Resources — Banking Segment” below, is constantly changing due to the banking segment’s needs and market conditions. Currently, the banking segment is facing intense competition for its deposit base as customers seek higher yields on deposits.

Consistent with the consolidated trend in average rates paid on interest-bearing deposits noted in the table below, the banking segment's average rate paid on interest-bearing deposits during the three and six months ended June 30, 2023 was 3.50% and 3.05%, respectively, compared to 2.56% during the three months ended March 31, 2023 and 0.38% during the three months ended June 30, 2022. We expect that the Bank's costs related to interest-bearing deposits will continue to increase during the remainder of 2023.

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

	Six Months Ended June 30,			
	2023		2022	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Noninterest-bearing demand deposits	\$ 3,664,512	0.00 %	\$ 4,530,166	0.00 %
Interest-bearing deposits:				
Demand	6,246,926	2.50 %	6,698,325	0.22 %
Savings	297,066	0.97 %	344,009	0.05 %
Time	945,450	2.47 %	941,768	0.47 %
	<u>7,489,442</u>	<u>2.44 %</u>	<u>7,984,102</u>	<u>0.24 %</u>
Total deposits	<u>\$ 11,153,954</u>	<u>1.64 %</u>	<u>\$ 12,514,268</u>	<u>0.16 %</u>

At June 30, 2023, total estimated uninsured deposits were \$4.4 billion, or approximately 40% of total deposits, while estimated uninsured deposits, excluding collateralized deposits of \$350.7 million, were \$4.1 billion, or approximately 37% of total deposits. Total estimated uninsured deposits were \$4.1 billion, or approximately 36%, of total deposits as of December 31, 2022.

The following table presents the scheduled maturities of the portion of our time deposits that are in excess of the FDIC insurance limit of \$250,000 as of June 30, 2023 (in thousands).

Months to maturity:	
3 months or less	\$ 65,985
3 months to 6 months	27,859
6 months to 12 months	267,456
Over 12 months	52,953
	<u>\$ 414,253</u>

## Borrowings

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

	June 30, 2023		December 31, 2022		Variance
	Balance	Average Rate Paid	Balance	Average Rate Paid	
Short-term borrowings	\$ 1,628,637	4.64 %	\$ 970,056	2.27 %	\$ 658,581
Notes payable	364,531	4.31 %	346,654	4.33 %	17,877
	<u>\$ 1,993,168</u>	<u>4.57 %</u>	<u>\$ 1,316,710</u>	<u>2.86 %</u>	<u>\$ 676,458</u>

Short-term borrowings consisted of federal funds purchased, securities sold under agreements to repurchase, borrowings at the FHLB, short-term bank loans and commercial paper. The increase in short-term borrowings at June 30, 2023, compared with December 31, 2022, primarily reflected increases in federal funds purchased and FHLB borrowings by the banking segment and securities sold under agreements to repurchase by the broker-dealer segment. Notes payable at June 30, 2023 was comprised of \$149.4 million related to the Senior Notes, net of loan origination fees, Subordinated Notes, net of origination fees, of \$197.5 million and mortgage origination segment borrowings of \$17.6 million.

## 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 stock repurchases. At June 30, 2023, Hilltop had \$189.4 million in cash and cash equivalents, an increase of \$16.9 million from \$172.5 million at

December 31, 2022. This increase in cash and cash equivalents included the receipt of \$51.9 million of dividends from subsidiaries, partially offset by cash outflows of \$20.8 million in cash dividends declared, \$4.5 million in stock repurchases 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.

#### *Economic Environment*

As previously discussed, operational and financial headwinds during 2022 and continuing through the first half of 2023 have had, and are expected to continue to have, an adverse impact on our operating results during the remainder of 2023. The impacts of noted headwinds during the remainder of 2023 are highly uncertain and will depend on several developments outside of our control, including, among others, the timing and significance of changes in U.S. treasury yields and mortgage interest rates, exposure to increasing funding costs, inflationary pressures associated with compensation, occupancy and software costs and labor market conditions, and the Russian-Ukraine conflict and its impact on supply chains. In addition, during March 2023, the banking sector experienced increased uncertainty and concerns associated with its liquidity positions primarily due to recent bank failures as depositors sought to reduce risks associated with uninsured deposits and withdraw such deposits from existing bank relationships. As demonstrated during the extreme volatility and disruptions in the capital and credit markets beginning in March 2020 resulting from the recent pandemic crisis and its negative impact on the economy, we will continue to monitor the economic environment and evaluate appropriate actions to enhance our financial flexibility, protect capital, minimize losses and ensure target liquidity levels.

#### *Dividend Declaration*

On July 20, 2023, our board of directors declared a quarterly cash dividend of \$0.16 per common share, payable on August 25, 2023 to all common stockholders of record as of the close of business on August 11, 2023.

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.

#### *Stock Repurchases*

In January 2023, our board of directors authorized a new stock repurchase program through January 2024, pursuant to which we are authorized to repurchase, in the aggregate, up to \$75.0 million of our outstanding common stock, inclusive of repurchases to offset dilution related to grants of stock-based compensation. During the six months ended June 30, 2023, Hilltop paid \$4.5 million to repurchase an aggregate of 144,403 shares of our common stock at an average price of \$31.15 per share pursuant to the stock repurchase program.

#### *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 June 30, 2023, \$150.0 million of our Senior Notes was outstanding.

#### *Subordinated Notes due 2030 and 2035*

On May 7, 2020, we completed a public offering of \$50 million aggregate principal amount of 2030 Subordinated Notes and \$150 million aggregate principal amount of 2035 Subordinated Notes. The price to the public for the Subordinated Notes was 100% of the principal amount of the Subordinated Notes. The net proceeds from the offering, after deducting underwriting discounts and fees and expenses of \$3.4 million, were \$196.6 million.

The 2030 Subordinated Notes and the 2035 Subordinated Notes will mature on May 15, 2030 and May 15, 2035, respectively. We may redeem the Subordinated Notes, in whole or in part, from time to time, subject to obtaining Federal Reserve approval, beginning with the interest payment date of May 15, 2025 for the 2030 Subordinated Notes



and beginning with the interest payment date of May 15, 2030 for the 2035 Subordinated Notes at a redemption price equal to 100% of the principal amount of the Subordinated Notes being redeemed plus accrued and unpaid interest to but excluding the date of redemption.

The 2030 Subordinated Notes bear interest at a rate of 5.75% per year, payable semi-annually in arrears commencing on November 15, 2020. The interest rate for the 2030 Subordinated Notes will reset quarterly beginning May 15, 2025 to an interest rate, per year, equal to the then-current benchmark rate, which is expected to be three-month term SOFR rate, plus 5.68%, payable quarterly in arrears. The 2035 Subordinated Notes bear interest at a rate of 6.125% per year, payable semi-annually in arrears commencing on November 15, 2020. The interest rate for the 2035 Subordinated Notes will reset quarterly beginning May 15, 2030 to an interest rate, per year, equal to the then-current benchmark rate, which is expected to be three-month term SOFR rate plus 5.80%, payable quarterly in arrears. At June 30, 2023, \$200.0 million of our Subordinated Notes was outstanding.

### *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.

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 following table shows PlainsCapital's and Hilltop's actual capital amounts and ratios in accordance with Basel III compared to the regulatory minimum capital requirements including conservation buffer ratio in effect at June 30, 2023 (dollars in thousands). Based on actual capital amounts and ratios shown in the following table, PlainsCapital's ratios place it in the "well capitalized" (as defined) capital category under regulatory requirements. Actual capital amounts and ratios as of June 30, 2023 reflect PlainsCapital's and Hilltop's decision to elect the transition option as issued by the federal banking regulatory agencies in March 2020 that permits banking institutions to mitigate the estimated cumulative regulatory capital effects from CECL over a five-year transitional period.

	<u>June 30, 2023</u>		<b>Minimum Capital Requirements Including Conservation Buffer</b>	<b>To Be Well Capitalized</b>
	<u>Amount</u>	<u>Ratio</u>	<u>Ratio</u>	<u>Ratio</u>
Tier 1 capital (to average assets):				
PlainsCapital	\$ 1,419,063	10.28 %	4.0 %	5.0 %
Hilltop	1,924,545	11.47 %	4.0 %	N/A
Common equity Tier 1 capital (to risk-weighted assets):				
PlainsCapital	1,419,063	14.51 %	7.0 %	6.5 %
Hilltop	1,924,545	17.63 %	7.0 %	N/A
Tier 1 capital (to risk-weighted assets):				
PlainsCapital	1,419,063	14.51 %	8.5 %	8.0 %
Hilltop	1,924,545	17.63 %	8.5 %	N/A
Total capital (to risk-weighted assets):				
PlainsCapital	1,525,074	15.59 %	10.5 %	10.0 %
Hilltop	2,230,993	20.44 %	10.5 %	N/A

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 1, of our 2022 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 corporate treasury 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.

The above sources of liquidity allow the banking segment to meet increased liquidity demands without adversely affecting daily operations. The Bank's borrowing capacity through access to secured funding sources is summarized in the following table (in millions). Available liquidity noted below does not include borrowing capacity available through the discount window at the Federal Reserve.

	June 30, 2023	December 31, 2022
FHLB capacity	\$ 3,945	\$ 4,139
Investment portfolio (available)	1,688	1,606
Fed deposits (excess daily requirements)	1,424	1,332
	<u>\$ 7,057</u>	<u>\$ 7,077</u>

As previously discussed, the banking sector experienced increased uncertainty and concerns associated with its liquidity positions primarily due to recent high-profile bank failures as depositors sought to reduce risks associated with uninsured deposits and withdraw such deposits from existing bank relationships. As a result, both regulatory scrutiny and market focus on liquidity increased. These failures underscore the importance of maintaining access to diverse sources of funding. In light of these events, we have continued our efforts to monitor deposit flows and balance sheet trends to ensure that our liquidity needs are maintained. During 2023, we began increasing interest-bearing deposit rates to address rising market interest rates and intense competition for liquidity to combat deposit outflows. The Bank also accessed and included additional core deposits on its balance sheet at June 30, 2023 of approximately \$500 million from our Hilltop Securities FDIC-insured sweep program and utilized \$500.0 million of its FHLB borrowing capacity noted above through the use of short-term borrowings.

Further, to bolster our liquidity position, we increased brokered deposits at the Bank by approximately \$390 million during the second quarter of 2023. To date, we have not leveraged the discount window at the Federal Reserve or the BTFP.

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. An economic recovery and improved commercial real estate investment outlook may result in an outflow of deposits at an accelerated pace as customers utilize such available funds for expanded operations and investment opportunities. The Bank regularly evaluates its deposit products and pricing structures relative to the market to maintain competitiveness over time. Currently, the Bank is facing significant competition from bank and non-bank competitors for its deposit base and expects that its interest expense on certain deposits will continue to increase during 2023 as customers seek higher yields on deposits.

The Bank's 15 largest depositors, excluding Hilltop and Hilltop Securities, collectively accounted for 8.68% of the Bank's total deposits, and the Bank's five largest depositors, excluding Hilltop and Hilltop Securities, collectively accounted for 4.19% of the Bank's total deposits at June 30, 2023. 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.

### *Broker-Dealer Segment*

The Hilltop Broker-Dealers rely on their equity capital, short-term bank borrowings, interest-bearing and noninterest-bearing client credit balances, correspondent deposits, securities lending arrangements, repurchase agreement financing, commercial paper issuances and other payables to finance their assets and operations, subject to their respective compliance with broker-dealer net capital and customer protection rules. At June 30, 2023, Hilltop Securities had credit arrangements with two unaffiliated banks, with maximum aggregate commitments of up to \$425.0 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 committed revolving credit facilities with two unaffiliated banks, with aggregate availability of up to \$200.0 million. At June 30, 2023, Hilltop Securities had \$78.0 million in borrowings under its credit arrangements and had no borrowings under its credit facilities.

Hilltop Securities uses the net proceeds (after deducting related issuance expenses) from the sale of two commercial paper programs for general corporate purposes, including working capital and the funding of a portion of its securities inventories. The commercial paper notes (“CP Notes”) may be issued with maturities of 14 days to 270 days from the date of issuance. The CP Notes are issued under two separate programs, Series 2019-1 CP Notes and Series 2019-2 CP Notes, in maximum aggregate amounts of \$300 million and \$200 million, respectively. As of June 30, 2023, the weighted average maturity of the CP Notes was 141 days at a rate of 5.99% with a weighted average remaining life of 73 days. At June 30, 2023, the aggregate amount outstanding under these secured arrangements was \$209.1 million, which was collateralized by securities held for Hilltop Securities accounts valued at \$230.7 million.

### *Mortgage Origination Segment*

PrimeLending funds the mortgage loans it originates through a warehouse line of credit maintained with the Bank, which had a total commitment of \$1.5 billion, of which \$1.2 billion was drawn at June 30, 2023. PrimeLending sells substantially all mortgage loans it originates to various investors in the secondary market, historically with 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 drawn at June 30, 2023.

PrimeLending owns a 100% membership interest in PrimeLending Ventures Management, LLC (“Ventures Management”) which holds a controlling ownership interest in and is the managing member of certain ABAs. At June 30, 2023, these ABAs had combined available lines of credit totaling \$90.0 million, \$30.0 million of which was with a single unaffiliated bank, and the remaining \$60.0 million of which was with the Bank. At June 30, 2023, Ventures Management had outstanding borrowings of \$33.9 million, \$16.3 million of which was with the Bank.

### *Other Material Contractual Obligations, Off-Balance Sheet Arrangements, Commitments and Guarantees*

Since December 31, 2022, there have been no material changes in other material contractual obligations disclosed within the section captioned “Other Material Contractual Obligations, Off-Balance Sheet Arrangements, Commitments and Guarantees” set forth in Part II, Item 7 of our 2022 Form 10-K.

Additionally, 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.

### *Banking Segment*

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 \$2.4 billion at June 30, 2023 and outstanding financial and performance standby letters of credit of \$61.7 million at June 30, 2023.

#### *Broker-Dealer Segment*

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.

#### *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. Historically, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. However, inflation rose sharply at the end of 2021 and has continued to rise through the first half of 2023 at levels not seen for over 40 years. Inflationary pressures are currently expected to remain elevated throughout the remainder of 2023. Furthermore, a prolonged period of inflation could cause our costs, including compensation, occupancy and software costs, to increase, which could adversely affect our results of operations and financial condition.

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.

#### *Critical Accounting Estimates*

We have identified certain accounting estimates which involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on our financial condition or results of operations. Our accounting policies are more fully described in Note 1 to the consolidated financial statements. Actual amounts and values as of the balance sheet dates may be materially different than the amounts and values reported due to the inherent uncertainty in the estimation process. Also, future amounts and values could differ materially from those estimates due to changes in values and circumstances after the balance sheet date. The critical accounting estimates, as summarized below, which we believe to be the most critical in preparing our consolidated financial statements relate to allowance for credit losses, mortgage servicing rights asset, goodwill and identifiable intangible assets, mortgage loan indemnification liability and acquisition accounting. Since December 31, 2022, there have been no changes in critical accounting estimates as further described under “Critical Accounting Estimates” in our 2022 Form 10-K.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Our assessment of market risk as of June 30, 2023 indicates there are no material changes in the quantitative and qualitative disclosures from those previously reported in our 2022 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 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. To help mitigate net interest income spread compression between our assets and liabilities as the Federal Reserve increases interest rates, management continues to execute certain derivative trades, as either cash flow hedges or fair value hedges, that benefit the banking segment as interest rates rise. 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.

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.

As illustrated in the table below, the banking segment is currently 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).

	June 30, 2023					Total
	3 Months or Less	> 3 Months to 1 Year	> 1 Year to 3 Years	> 3 Years to 5 Years	> 5 Years	
<b>Interest sensitive assets:</b>						
Loans	\$ 4,604,282	\$ 1,233,519	\$ 1,834,751	\$ 870,154	\$ 650,991	\$ 9,193,697
Securities	548,274	201,812	458,949	316,866	1,056,786	2,582,687
Federal funds sold and securities purchased under agreements to resell	1,445,240	—	—	—	—	1,445,240
Other interest sensitive assets	26,318	—	—	—	29,635	55,953
Total interest sensitive assets	6,624,114	1,435,331	2,293,700	1,187,020	1,737,412	13,277,577
<b>Interest sensitive liabilities:</b>						
Interest bearing checking	\$ 6,202,571	\$ —	\$ —	\$ —	\$ —	\$ 6,202,571
Savings	281,699	—	—	—	—	281,699
Time deposits	190,025	789,918	103,663	15,040	—	1,098,646
Notes payable and other borrowings	938,943	113	366	484	1,997	941,903
Total interest sensitive liabilities	7,613,238	790,031	104,029	15,524	1,997	8,524,819
Interest sensitivity gap	\$ (989,124)	\$ 645,300	\$ 2,189,671	\$ 1,171,496	\$ 1,735,415	\$ 4,752,758
Cumulative interest sensitivity gap	\$ (989,124)	\$ (343,824)	\$ 1,845,847	\$ 3,017,343	\$ 4,752,758	
Percentage of cumulative gap to total interest sensitive assets	(7.45)%	(2.59)%	13.90 %	22.73 %	35.80 %	

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 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 50 to 100 basis points 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 a range of changes in interest rates on net interest income and on economic value of equity for the banking segment at June 30, 2023 (dollars in thousands).

Change in Interest Rates (basis points)	Changes in Net Interest Income		Changes in Economic Value of Equity	
	Amount	Percent	Amount	Percent
+200	\$ 30,755	6.91 %	\$ 143,464	7.85 %
+100	\$ 16,496	3.70 %	\$ 95,904	5.25 %
-50	\$ (8,408)	(1.89)%	\$ (72,188)	(3.95)%
-100	\$ (17,109)	(3.84)%	\$ (157,201)	(8.60)%
-200	\$ (36,998)	(8.31)%	\$ (358,671)	(19.63)%

The projected changes in net interest income and economic value of equity to changes in interest rates at June 30, 2023 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. The projected changes in net interest income are being impacted by the heightened level of cash balances, which represent a significant portion of the Bank's sensitivity given simulation analysis assumptions/limitations. As a result, the timing and magnitude of future changes in interest rates and any runoff of deposits, and related decline in cash, may impact projected changes in net interest income as noted in the table above. Given projected impacts on net interest income associated with the expected transition into the next phase of the interest rate cycle in 2023, we are evaluating our current GAP position, which may result in a repositioning of the banking segment towards a more neutral or liability sensitive balance sheet.

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 during a

period of changing rates. If interest rates were to fall, the impact on our interest income would be limited by these rate floors. In addition, declining interest rates may negatively affect our cost of funds on deposits. The extent of this impact will ultimately be driven by the timing, magnitude and frequency of interest rate and yield curve movements, as well as changes in market conditions and timing of management strategies. If interest rates were to rise, yields on the portion of our portfolio that remain at applicable rate floors 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.

### *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 funding sources, which include customer and correspondent cash balances, bank borrowings, repurchase agreements and securities lending activities, also expose the broker-dealer to interest rate risk. Movement in short-term interest rates could reduce the positive spread between the broker-dealer segment's interest income and interest expense.

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 and receivables are indexed and can vary daily. Our funding sources are generally short term with interest rates that can vary daily.

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).

	<b>June 30, 2023</b>				
	<b>1 Year or Less</b>	<b>&gt; 1 Year to 5 Years</b>	<b>&gt; 5 Years to 10 Years</b>	<b>&gt; 10 Years</b>	<b>Total</b>
<b>Trading securities, at fair value</b>					
Municipal obligations	\$ 356	\$ 17,889	\$ 59,388	\$ 152,072	\$ 229,705
U.S. government and government agency obligations	15,595	(24,790)	(11,602)	346,933	326,136
Corporate obligations	6,986	29,349	16,177	8,048	60,560
Total debt securities	<u>22,937</u>	<u>22,448</u>	<u>63,963</u>	<u>507,053</u>	<u>616,401</u>
Corporate equity securities	—	—	—	—	—
Other	5,410	—	—	—	5,410
	<u>\$ 28,347</u>	<u>\$ 22,448</u>	<u>\$ 63,963</u>	<u>\$ 507,053</u>	<u>\$ 621,811</u>
<b>Weighted average yield</b>					
Municipal obligations	0.12 %	4.01 %	3.53 %	4.35 %	4.11 %
U.S. government and government agency obligations	5.49 %	4.51 %	4.28 %	6.18 %	5.91 %
Corporate obligations	6.30 %	3.82 %	3.06 %	4.61 %	3.97 %

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.

### *Mortgage Origination Segment*

Within our mortgage origination segment, our principal market exposure is to interest rate risk due to the impact on our mortgage-related assets and commitments, including mortgage loans held for sale, IRLCs and MSR. Changes in interest rates could also materially and adversely affect our volume of mortgage loan originations.

IRLCs represent an agreement to extend credit to a mortgage loan applicant, whereby the interest rate on the loan is set prior to funding. Our mortgage loans held for sale, which we hold in inventory while awaiting sale into the secondary market, and our IRLCs are subject to the effects of changes in mortgage interest rates from the date of the commitment through the sale of the loan into the secondary market. As a result, we are exposed to interest rate risk and related price risk during the period from the date of the lock commitment until (i) the lock commitment cancellation or expiration date or (ii) the date of sale into the secondary mortgage market. Loan commitments generally range from 20 to 60 days, and our average holding period of the mortgage loan from funding to sale is approximately 30 days. An integral component of our interest rate risk management strategy is our execution of forward commitments to sell MBSs to minimize the impact on earnings resulting from significant fluctuations in the fair value of mortgage loans held for sale and IRLCs caused by changes in interest rates.

We have expanded, and may continue to expand, our residential mortgage servicing operations within our mortgage origination segment. As a result of our mortgage servicing business, we have a portfolio of retained MSR. One of the principal risks associated with MSR is that in a declining interest rate environment, they will likely lose a substantial portion of their value as a result of higher than anticipated prepayments. Moreover, if prepayments are greater than expected, the cash we receive over the life of the mortgage loans would be reduced. The mortgage origination segment uses derivative financial instruments, including U.S. Treasury bond futures and options, futures contracts and forward MBS commitments, as a means to mitigate market risk associated with MSR assets. No hedging strategy can protect us completely, and hedging strategies may fail because they are improperly designed, improperly executed and documented or based on inaccurate assumptions and, as a result, could actually increase our risks and losses. The increasing size of our MSR portfolio may increase our interest rate risk and, correspondingly, the volatility of our earnings, especially if we cannot adequately hedge the interest rate risk relating to our MSR.

The goal of our interest rate risk management strategy within our mortgage origination segment is not to eliminate interest rate risk, but to manage it within appropriate limits. To mitigate the risk of loss, we have established policies and procedures, which include guidelines on the amount of exposure to interest rate changes we are willing to accept.

### *Consolidated*

At June 30, 2023, total debt obligations on our consolidated balance sheet, excluding short-term borrowings and unamortized debt issuance costs and premiums, were \$367.6 million, and included \$350 million in debt obligations subject to fixed interest rates, with the remainder of indebtedness subject to variable interest rates. If interest rates were to increase by one eighth of one percent (0.125%), the increase in interest expense on the variable rate debt would not have a significant impact on our future consolidated earnings or cash flows.

As noted above within the discussion for each business segment, on a consolidated basis, our primary component of market risk is sensitivity to changes in interest rates. Consequently, and in large part due to the significance of our banking segment, our consolidated earnings depend to a significant extent on our net interest income. Refer to the discussion in the “Banking Segment” section above that provides more details regarding sources of interest rate risk and asset/liability management policies and procedures employed to manage our interest-earning assets and interest-bearing liabilities, and potential future repositioning of our GAP position, thereby attempting to control the volatility of net interest income, without having to incur unacceptable levels of risk.

The table below shows the estimated impact of a range of changes in interest rates on net interest income on a consolidated basis at June 30, 2023 (dollars in thousands).

Change in Interest Rates (basis points)	Changes in Net Interest Income	
	Amount	Percent
+200	\$ 60,832	11.55 %
+100	\$ 31,516	5.99 %
-50	\$ (15,906)	(3.02)%
-100	\$ (32,132)	(6.10)%
-200	\$ (66,986)	(12.72)%



The projected changes in net interest income to changes in interest rates at June 30, 2023 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. The projected changes in net interest income are being impacted by the heightened level of cash balances, which represent a significant portion of our asset sensitivity given simulation analysis assumptions/limitations. As a result, the timing and magnitude of future changes in interest rates including runoff of deposits, and related decline in cash, may impact projected changes in net interest income as noted in the table above.

#### **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 the period covered by this report, 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 second fiscal quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## 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.

The following risk factor represents a material change to the risk factors disclosed under “Item 1A. Risk Factors” of our 2022 Form 10-K. For additional information concerning our risk factors, please refer to “Item 1A. Risk Factors” of our 2022 Form 10-K.

***Adverse developments affecting the financial services industry, such as recent bank failures or concerns involving liquidity, may have a material effect on the Company’s operations.***

Recent events relating to the failures of certain banking entities have caused general uncertainty and concern regarding the liquidity adequacy of the banking sector as a whole. Although we were not directly affected by these bank failures, the resulting speed and ease in which news, including social media commentary, led depositors to withdraw or attempt to withdraw their funds from these and other financial institutions as well as caused the stock prices of many financial institutions to become volatile. In the future, events such as these bank failures could have an adverse effect on our financial condition and results of operations, either directly or through an adverse impact on certain of our customers.

In response to these failures and the resulting market reaction, the Secretary of the Treasury approved actions enabling the FDIC to complete its resolutions of the failed banks in a manner that fully protects depositors by utilizing the Deposit Insurance Fund, including the use of Bridge Banks to assume all of the deposit obligations of the failed banks, while leaving unsecured lenders and equity holders of such institutions exposed to losses. In addition, the Federal Reserve Bank announced it would make available additional funding to eligible depository institutions under a Bank Term Funding Program to help assure banks have the ability to meet the needs of all their depositors. In an effort to strengthen public confidence in the banking system and protect depositors, regulators announced that any losses to the Deposit Insurance Fund to support uninsured depositors will be recovered by a special assessment on banks, as required by law, which could increase the cost of our FDIC insurance assessments. However, it is uncertain whether these steps by the government will be sufficient to reduce the risk of additional bank failures in the future or resultant significant depositor withdrawals at other institutions. As a result of this uncertainty, we face the potential for reputational risk, deposit outflows, increased costs and competition for liquidity, and increased credit risk which, individually or in the aggregate, could have a material adverse effect on our business, financial condition and results of operations.

***Our operational systems and networks have been, and will continue to be, subject to an increasing risk of continually evolving cybersecurity or other technological risks, which could result in a loss of customer business, financial liability, regulatory penalties, damage to our reputation or the disclosure of confidential information.***

We rely heavily on communications and information systems to conduct our business and maintain the security of confidential information and complex transactions, which subjects us to an increasing risk of cyber incidents from these activities due to a combination of new technologies and the increasing use of the Internet to conduct financial transactions, as well as a potential failure, interruption or breach in the security of these systems, including those that could result from attacks or planned changes, upgrades and maintenance of these systems. Such cyber incidents could result in failures or disruptions in our customer relationship management, securities trading, general ledger, deposits, computer systems, electronic underwriting servicing or loan origination systems; or unauthorized disclosure of confidential and non-public information maintained within our systems. We also utilize relationships with third parties to aid in a significant portion of our information systems, communications, data management and transaction processing. These third parties with which we do business may also be sources of cybersecurity or other technological risks, including operational errors, system interruptions or breaches, unauthorized disclosure of confidential information and misuse of intellectual property, and have experienced cyber attacks. If our third-party service providers encounter any of these issues, we could be exposed to disruption of service, reputation damages, and litigation risk, any of which could have a material adverse effect on our business.

On June 27, 2023, a third-party vendor of the Bank confirmed that data specific to the Bank’s customers was likely obtained in a security incident targeting the vendor’s instance of the MOVEit Transfer Application (the “Vendor Incident”). As a result of this Vendor Incident, an unauthorized party likely obtained information in the vendor’s

possession about substantially all of the Bank's customers, including social security numbers and account numbers. On July 11, 2023, Hilltop Securities was notified by the same vendor that certain of its data also was likely obtained in the Vendor Incident; however, based on the review conducted to date, we do not have indication that protected or confidential information was present within the information obtained related to Hilltop Securities. Given the widespread use of the MOVEit Transfer Application, additional vendors of ours may have been impacted. We are in the process of evaluating the full scope of the costs and impact of the Vendor Incident, however we do not expect the costs to have a material impact to the Company's future consolidated financial statements. We have incurred, and may continue to incur, expenses related to this incident, and we remain subject to risks and uncertainties as a result of the incident, including litigation and additional regulatory scrutiny.

The continued occurrence of cybersecurity incidents across a range of industries has resulted in increased legislative and regulatory scrutiny over cybersecurity and calls for additional data privacy laws and regulations at both the state and federal levels. For example, in 2018, the State of California adopted the California Consumer Privacy Act of 2018, which imposes requirements on companies operating in California and provides consumers with a private right of action if covered companies suffer a data breach related to their failure to implement reasonable security measures. These laws and regulations could result in increased operating expenses or increase our exposure to the risk of litigation or regulatory inquiries or proceedings.

Although we devote significant resources to maintain and regularly upgrade our systems and networks to safeguard critical business applications, there is no guarantee that these measures or any other measures can provide absolute security. Our computer systems, software and networks may be adversely affected by cyber incidents such as unauthorized access; loss or destruction of data (including confidential client information); account takeovers; unavailability of service; computer viruses or other malicious code; cyber attacks; and other events. In addition, our protective measures may not promptly detect intrusions, and we may experience losses or incur costs or other damage related to intrusions that go undetected or go undetected for significant periods of time, at levels that adversely affect our financial results or reputation. Further, because the methods used to cause cyber attacks change frequently, or in some cases cannot be recognized until launched, we may be unable to implement preventative measures or proactively address these methods until they are discovered. Cyber threats may derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. For example, during the second quarter of 2018, we became the victim of a "spear phishing" attack on one of our employees in which we suffered a \$4.0 million wire fraud loss and sensitive customer information was stolen. As a result of this attack, we incurred costs to provide identity protection services, including credit monitoring, to customers who may have been impacted and other legal and professional services, and may also incur expenses in the future including legal and professional expenses and claims for damages. Additional challenges are posed by external extremist parties, including foreign state actors, in some circumstances, as a means to promote political ends. If one or more of these events occurs, it could result in the disclosure of confidential client or customer information, damage to our reputation with our clients, customers and the market, customer dissatisfaction, additional costs such as repairing systems or adding new personnel or protection technologies, regulatory penalties, fines, remediation costs, exposure to litigation and other financial losses to both us and our clients and customers. Such events could also cause interruptions or malfunctions in our operations. We maintain cyber risk insurance, but this insurance may not be sufficient to cover all of our losses from any future breaches of our systems.

We continue to evaluate our cybersecurity program and will consider incorporating new practices as necessary to meet the expectations of regulatory agencies in light of such cybersecurity guidance and regulatory actions and settlements for cybersecurity-related failures and violations by other industry participants. Such procedures include management-level engagement and corporate governance, risk management and assessment, technical controls, incident response planning, vulnerability testing, vendor management, intrusion detection monitoring, patch management and staff training. Even with these procedures, we cannot assure you that we will be fully protected from a cybersecurity incident, the occurrence of which could adversely affect our reputation and financial condition.

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

The following table details our repurchases of shares of common stock during the three months ended June 30, 2023.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 1 - April 30, 2023	—	\$ —	—	\$ 70,501,138
May 1 - May 31, 2023	—	—	—	70,501,138
June 1 - June 30, 2023	—	—	—	70,501,138
Total	—	\$ —	—	

(1) In January 2023, our board of directors authorized a new stock repurchase program through January 2024, pursuant to which we are authorized to repurchase, in the aggregate, up to \$75.0 million of our outstanding common stock, inclusive of repurchases to offset dilution related to grants of stock-based compensation.

## Item 5. Other Information

Pursuant to Item 408(a) of Regulation S-K, none of our directors or executive officers adopted, terminated or modified a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement during the three months ended June 30, 2023.

## Item 6. Exhibits.

Exhibit Number	Description of Exhibit
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 – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive File (formatted as Inline XBRL and contained in Exhibit 101)

\* Filed herewith.

\*\* Furnished herewith.

## 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: July 24, 2023

By: /s/ William B. Furr

William B. Furr

Chief Financial Officer

(Principal Financial Officer and duly authorized officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

I, Jeremy B. Ford, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hilltop Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 24, 2023

By: /s/ Jeremy B. Ford

Jeremy B. Ford  
President and Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, William B. Furr, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hilltop Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 24, 2023

By: /s/ William B. Furr  
William B. Furr  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 2023 (the “Report”) of Hilltop Holdings Inc. (the “Company”), the undersigned hereby certify in their capacities as President and Chief Executive Officer and Chief Financial Officer, respectively, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to their knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Report.

Date: July 24, 2023

By: /s/ Jeremy B. Ford

Jeremy B. Ford  
President and Chief Executive Officer

Date: July 24, 2023

By: /s/ William B. Furr

William B. Furr  
Chief Financial Officer

*The foregoing certification is furnished as an exhibit to the Report and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.*