STATE OF MISSISSIPPI
MS DEPT FINANCE & ADMINISTRATION
Oversight Appv Reqst

RESPONSES REQUIRED BY:
Submission Date : 09/03/2021 :
Submission Time 14:00:00 CST

RESPONSES OPENED ON:
Opening Date : 00/00/0000
Opening Time : 14:00:00 CST

VENDOR NO:
VENDOR NAME & ADDRESS:
(To be completed by Vendor)

Hilltop Securities Inc.
717 N. Harwood Street, Suite 3400
Dallas, Texas 75201

SUBMIT NON-ELECTRONIC RESPONSE:
TO :
501 NORTH WEST STREET
WOOLFOLK BUILDING SUITE 1301A
JACKSON MS 39201
US

DELIVERY POINT

RFx number : 3180001451
Smart number :
Buyer : Brittney Thompson
Buyer Phone :
Email :
BRITTNEY.THOMPSON@DFA.MS.GOV

NOTICE TO VENDOR:
The Mississippi Department of Finance and Administration (DFA), Office of Procurement and Contracts, has issued a Request for Proposals (RFP) for the purpose of securing a qualified vendor to provide Financial Advisor Services for the Master Lease Purchase Programs for (1) K-12 School Districts and Community and Junior College Districts and (2) State Agencies. Detailed information may be obtained at http://www.dfa.ms.gov/dfa-offices/procurement-contracts/ under the "Bid/RFP Notice" section or by contacting Saranne Smith at (601) 359-5078 or via email at procurement@dfa.ms.gov. Proposals must be submitted in writing no later than 2:00 PM CST, September 3, 2021. The DFA reserves the right to accept or reject any or all proposals, cancel the RFP, or issue another RFP.
The Mississippi Department of Finance and Administration (DFA), Office of Procurement and Contracts, has issued a Request for Proposals (RFP) for the purpose of securing a qualified vendor to provide Financial Advisor Services for the Master Lease Purchase Programs for (1) K-12 School Districts and Community and Junior College Districts and (2) State Agencies. Detailed information may be obtained at http://www.dfa.ms.gov/dfa-offices/procurement-contracts/ under the "Bid/RFP Notice" section or by contacting Saranne Smith at (601) 359-5078 or via email at procurement@dfa.ms.gov. Proposals must be submitted in writing no later than 2:00 PM CST, September 3, 2021. The DFA reserves the right to accept or reject any or all proposals, cancel the RFP, or issue another RFP.

Vendor Telephone Number	Title	Date
214.953.8774	Vice President	September 3, 2021

(Typed or printed) Name of Bidder	Signature of Authorized Bidder
Vickie Hall	

Proposal to Provide Financial Advisory Services RFx #3120002290
Master Lease Purchase Programs

State of Mississippi - Master Lease Programs

September 3, 2021

State of Mississippi - Master Lease Programs

HilltopSecurities
A Hilltop Holdings Company.

CONTACT:

Vickie Hall, Vice President

vickie.hall@hilltopsecurities.com

717 N. Harwood Street, Suite 3400, Dallas, Texas 75201

Phone: 214.953.8874

September 3, 2021
Proposal to Provide
Financial Advisory Services

Table of Contents

Tab 1 - Statement of Proposals

Hilltop Securities Inc. ("HilltopSecurities") has included its completed and signed Statement of Proposals Form in this ***Tab 1.***

Appendix A – Statement of Qualfications Cover Sheet

Firm Name: Hilltop Securities Inc.

Proposals are to be submitted as directed in ***Section 1.2.1***, ***Proposal Submission Period***, of this RFP, on or before Friday, September 3, 2021 by 2:00 PM CST.

Firm Representative	Vickie Hall
Firm Representative Title	Vice President
Firm Representative Mailing Address	717 N. Harwood Suite 3400 **NOTE NEW MAILING ADDRESS**
Firm Representative Mailing City, State, Zip	Dallas, Texas 75201 **NOTE NEW MAILING ADDRESS**
Firm Representative Telephone	214.953.8874
Firm Representative E-Mail Address	vickie.hall@hilltopsecurities.com

Please identify the Office/Branch which will provide services for DFA if different from above:

Office Contact Person	info same as above
Office Contact Person Telephone Number	
Office Contact Person Email Address	
Office Contact Person Physical Address	
Office Contact Person City, State, Zip	
Office Contact Person Mailing Address	
Office Contact Person City, State, Zip	

Are you currently registered as a Supplier in MAGIC? __X__YES ____ NO

If known, what is your supplier number? VND202763101

Are you currently registered with PayMode? ____YES __X__ NO

By signing below, the firm representative certifies that he/she has authority to bind the firm, and further acknowledges and certifies on behalf of the firm:

1. That the Offeror will perform the services required at the prices stated in their proposal;
2. That the pricing submitted will remain firm for the contract term; and,
3. That, to the best of its knowledge and belief, the cost or pricing data submitted is accurate, complete, and current as of the submission date.
4. That the Offeror has submitted copies of the required insurance certificates to meet the Minimum Qualifications as stated in ***Section 3***, ***Minimum Qualifications***, and should the Offeror be awarded the contract, will add the State of Mississippi as an additional insured;
5. That the firm is licensed or authorized to provide the proposed services in the State of Mississippi.
6. The State of Mississippi utilizes the Mississippi Accountability System for Government Information and Collaboration (MAGIC) system to manage contracts. Additionally, electronic payments are issued through an electronic portal called PayMode. In order to do business with the State of Mississippi, all Suppliers must be registered with both systems. By submitting a proposal, the Offeror certifies that it is registered with both systems or if not already registered, that it will do so within seven (7) business days of being notified by DFA Office of Procurement and Contracts that it has been awarded a contract.

Signature: ______________________________
Vickie Hall

Date: September 3, 2021

717 N. Harwood Street, Suite 3400
Dallas, Texas 75201
214.953.8874 -- Direct

Vickie Hall
Vice President
vickie.hall@hilltopsecurities.com

Tab 2 - Procurement Methodology

September 3, 2021

Department of Finance and Administration
Office of Procurement and Contracts
501 North West Street
Suite 1301-A Woolfolk Building
Jackson, Mississippi 39201

Dear Selection Committee:

As required in RFx #3120002290, HilltopSecurities acknowledges that it has read and understands the provisions of Section 2, Procurement Methodology.

Hilltop Securities Inc. ("HilltopSecurities") greatly appreciates the opportunity to present the capabilities, resources, and experience of our firm to serve as financial advisor for the State's Master Lease Purchase Program for State Agencies and the State's Master Lease Purchase Program for School Districts and Community and Junior College Districts (collectively, the "Program"). We believe that we are uniquely qualified to address the needs of the Program based on our decades-long history in public finance, the breadth and depth of our available resources, and our proud tradition of excellence in service.

HilltopSecurities currently serves as the financial advisor to the State's existing master lease programs for (A) state agencies, (B) school districts and community college districts and (C) state universities. FirstSouthwest Leasing Company, a HilltopSecurities affiliate, serves as lessor for the three programs. Through association with a prior firm, one of the employees HilltopSecurities has been involved with the State Agency Program since its inception in the 1990s and with the District Program since its beginnings in 2001. The solid on-going relationships that we have developed over the years with Program participants facilitate communication and freely exchanged ideas and opinions.

Extensive Financial Advisory Experience. For the three-year period ending July 31, 2021, Ipreo MuniAnalytics ranked us as the number-two financial advisor in the nation based on number of issues with a total of 2,351 transactions representing in excess of $103.23 par amount. As the financial advisor for the State's bond issues, HilltopSecurities has assisted the State with 23 bond issues since 2010.

Broker-Dealer Advantage - Extensive Market Knowledge. HilltopSecurities is a registered broker-dealer with the Financial Industry Regulatory Authority, with its activities regulated by the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. We believe maintaining a trading and underwriting desk is essential to properly advise clients on market conditions. Our underwriting desk works with our financial advisors from the preliminary structuring of a transaction, updating scales and coupon structures to reflect market dynamics and providing real-time market information, through the final pricing. These capabilities provide a significant advantage to the State and further differentiates HilltopSecurities from other financial advisor firms that do not have actual market involvement and capabilities. Our active underwriting desk will ensure that the State's financing options are evaluated based on current market conditions; its securities priced and sold at market levels; and its objectives for the distribution of its securities are achieved to the fullest extent possible. As a broker/dealer, the firm maintains $445.75 million in equity capital as of June 30, 2021.

Team Concept. We implement the "team concept" to provide the best possible service to our clients. Under this concept, a variety of professionals with specialized expertise work together to meet a client's needs. Applying such philosophy to this engagement, HilltopSecurities assembled a team of professionals capable of meeting all the needs of the State. We assign sufficient senior staff to each engagement to ensure senior personnel are always available to assist our clients in achieving their financial objectives on a timely basis.

We very much appreciate the opportunity to present our credentials to provide financial advisory services to the State. We stand ready to assist the State if awarded this engagement and commit to assisting you in achieving the State's Master Lease Program objectives. Should you have any questions or desire additional information, please do not hesitate to contact me at (214) 953-8874.

Sincerely yours,

Vickie Hall
Vice President

Tab 3 - Minimum Qualifications Confirmation

1. Offerors must document a minimum of three (3) years of successful previous experience of being involved with the MLPPs for K-12 School Districts and Community and Junior College Districts and State Agencies or programs of similar scope and service as stated in this RFP.

As mentioned in our cover letter, Hilltop Securities Inc. ("HilltopSecurities") appreciates the opportunity to present the capabilities, resources, and experience of our firm to continue serving as financial advisor/lessor for the State's Master Lease Purchase Program for State Agencies and the State's Master Lease Purchase Program for School Districts and Community and Junior College Districts (collectively, the "Program"). We believe that we are uniquely qualified to address the needs of the Program based on our decades-long history in public finance, the breadth and depth of our available resources, and our proud tradition of excellence in service.

HilltopSecurities currently serves as the financial advisor to the State's existing master lease programs for (A) state agencies, (B) school districts and community college districts and (C) state universities. FirstSouthwest Leasing Company, a HilltopSecurities affiliate, serves as lessor for the three programs. Through association with a prior firm, Vickie Hall has been involved with the State Agency Program since its inception in the 1990s and with the District Program since its beginnings in 2002. The solid on-going relationships that we have developed over the years with Program participants facilitate communication and freely exchanged ideas and opinions.

Since January 2018, the firm has participated in the following Series for the Programs:

- **Series 2018A Master Lease Program for State Agencies and School Districts, dated 6/29/2018**
  - $3,415,000 Privately-Placed Lease Revenue Certificates of Participation (unrated)
  - Participating Users - Department of Revenue, Department of Agriculture & Commerce, Cleveland Municipal School District, North Panola School District
  - Aggregate Equipment Amount - $3,350,547
- **Series 2018B Master Lease Program for State Agencies and School Districts, dated 10/18/2018**
  - $3,685,000 Privately-Placed Lease Revenue Certificates of Participation (unrated)
  - Participating Users - Department of Transportation, Alcorn School District
  - Aggregate Equipment Amount - $3,624,250
- **Series 2019A Master Lease Program for State Agencies and School Districts, dated 7/18/2019**
  - $4,105,000 Privately-Placed Lease Revenue Certificates of Participation (unrated)
  - Participating Users - Department of Corrections, Board of Animal Health, Cleveland School District, Greene County School District
  - Aggregate Equipment Amount - $4,037,213.04
- **Series 2020A Master Lease Program for State Agencies and School Districts, dated 3/5/2020**
  - $1,305,000 Privately-Placed Lease Revenue Certificates of Participation (unrated)
  - Participating Users - Ellisville State School, Copiah-Lincoln Community College District
  - Aggregate Equipment Amount - $1,277,532
- **Series 2020B Master Lease Program for State Agencies, dated 12/17/2020**
  - $1,945,000 Privately-Placed Lease Revenue Certificates of Participation (unrated)
  - Participating Users - Ellisville State School, Boswell Regional Center, Board of Animal Health
  - Aggregate Equipment Amount - $1,906,712

Mississippi Institutions of Higher Learning

HilltopSecurities also has served as the financial advisor/lessor for the Mississippi Institutions of Higher Learning Master Lease Program for State Universities. MIHL created its Program under separate statutory authorization and the MIHL Program is substantially similar to the State's Programs. The last publicly-offered rated series of the MIHL Program was Series 2011A; subsequently the various universities joined in the State Agency Program as Participating Users. In July of 2020, the MIHL Board revitalized its separate program and entered into a financial advisory contract with HilltopSecurities for the issuance of the Series 2020 Certificates of Participation.

- **Tax-Exempt Series 2020A Master Lease Program for State Universities, dated 7/10/2020**
  - $5,670,000 Privately-Placed Lease Revenue Certificates of Participation (unrated)
  - Participating Users - University of Mississippi Medical Center
  - Aggregate Equipment Amount - $5,591,349
- **Taxable Series 2020B Master Lease Program for State Universities, dated 7/10/2020**
  - $1,735,000 Privately-Placed Lease Revenue Certificates of Participation (unrated)
  - Participating Users - University of Mississippi Medical Center
  - Aggregate Equipment Amount - $1,700,000

2. Offerors must provide references from at least three (3) customers to whom the Offeror has provided functions similar to the scope described in this RFP, see Section 6 References.

HilltopSecurities has provided references in ***Section 6, References.***

3. Offeror represents that it will maintain workers' compensation insurance which shall inure to the benefit of all Offeror's personnel provided hereunder, comprehensive general liability or professional liability insurance, with minimum limits of $1,000,000.00 per occurrence and fidelity bond insurance with minimum limits of $1,000,000.00. All general liability, professional liability and fidelity bond insurance will provide coverage to the DFA as an additional insured. The DFA reserves the right to request from carriers, certificates of insurance regarding the required coverage. Insurance carriers must be licensed or hold a Certificate of Authority from the Mississippi Department of Insurance.

HilltopSecurities maintains professional liability coverage for an aggregate limit of $15,000,000 ($5 million first tier, $5 million second tier, and $5 million third tier), covering claims made in connection with its professional services. Our level of liability insurance is an amount that we consider sufficient to hold harmless, indemnify and defend DFA for losses, costs, and expenses arising from claims resulting from the alleged negligence of HilltopSecurities, our officers, employees, and subcontractors. Covered professional services include the purchase or sale of securities as approved by HilltopSecurities. The policy carries a $1 million deductible. The current policy expires in April 2022. HilltopSecurities at a minimum intends to maintain such coverage during the term of service listed in DFA's RFP.

In addition to our professional liability insurance, the combined single limit of our firm's automobile liability insurance is $1 million, and HilltopSecurities maintains workers' compensation and employer's liability insurance with a limit of $1 million. We also maintain commercial general liability insurance with an aggregate limit of $2 million. We also carry umbrella insurance on the above policies. The firm's current general liability policy is effective through April 2022.

4. The Offeror shall be in compliance with Mississippi Code Annotated § 79-4-15.01 regarding authorization to transact business in Mississippi.

HilltopSecurities (Business ID 1078896) is registered and in good standing with the Mississippi Secretary of State.

5. The Offeror must be registered with both the U.S. Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) and provide documentation as proof to the Municipal Series Licensed Registrations and/or any applicable certificates.

HilltopSecurities is registered with both the MSRB and SEC and in full compliance with the requirements associated with such registration (MSRB ID: A1290; Dealer SEC ID: 8-45123; Municipal Advisor SEC ID: 867-00632, CRD Number: 6220). We have included a copy of the firm's MSRB Form A12 in this ***Tab 3***.

MSRB Registration - Form A-12: Preview

FIRM/SOLE PROPRIETORSHIP IDENTIFIERS

MSRB ID: A1290
Firm Name: Hilltop Securities Inc.
Dealer SEC ID: 8-45123
Municipal Advisor SEC ID: 867-00632
CRD Number: 6220
Legal Entity Identifier: 549300IXU82PMU6XZT45

Written notice to FINRA or Bank Regulator (Fed, OCC or FDIC) as applicable

Document: HTS DE Certified Amended and Restated COI 10.5.2015.pdf

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BUSINESS INFORMATION

Firm Address: 1201 Elm Street, Suite #3500
City: Dallas State: TX Zip: 75270
Firm Website: hilltopsecurities.com

TYPE OF ORGANIZATION

Organization Type: Corporation City: Dallas State: TX

BUSINESS ACTIVITIES

Municipal Advisor

- Issuance Advice
- Guaranteed Investment Contracts Advice
- Investment Advice - Proceeds of Municipal Securities
- Investment Advice - Funds of Municipal Entity
- Municipal Derivatives Advice
- Solicitation of Business - Investment Advisory
- Municipal Escrow Investment Advice
- Municipal Escrow Investment Brokerage
- Solicitation of Business - Other than Investment Advisory
- Municipal Advisor/Underwriter Selection Advice
- Other (specify):

- GENERAL CONSULT NOT RELATED TO SECURITIES OFFERING

Broker/Dealer - MFS

- 529 Plan Sales
- Local Government Investment Pool Distributor/Sales

Broker/Dealer - Sales/Trading

- Retail Sales
- Institutional Sales
- Trading â€“ Proprietary
- Trading â€“ Inter-Dealer
- Online Brokerage

Broker/Dealer - Other

- Underwriting
- Clear and settle transactions as an NSCC participant
- Remarket VRDOs

DESIGNATED CONTACTS

Master Account Administrator

Name	Phone	Email
RENEE CHAVERA	(214) 859-9324	renee.chavera@hilltopsecurities.com

Primary Regulatory Contact

Name	Phone	Email
Mike Hilltop Securities Inc. Cogliano	(214) 859-6687	mike.cogliano@hilltopsecurities.com

Billing Contact

Name	Phone	Email
Serana Robertson	(214) 859-9311	AccountsPayable@hilltopsecurities.com

Compliance Contact

Name	Phone	Email
RAY HUIE	(214) 859-1721	ray.huie@hilltopsecurities.com

Primary Data Quality Contact

Name	Phone	Email
ROSEANNA M JIMENEZ	(214) 859-9370	rose.jimenez@hilltopsecurities.com

Optional Regulatory Contact

Name	Phone	Email
Brett Weaver	(214) 953-8883	brett.weaver@hilltopsecurities.com

Optional Data Quality Contact

Name	Phone	Email
Michael D McAllister	(214) 859-6713	Michael.Mcallister@hilltopsecurities.com

Optional Technical Contact

Name	Phone	Email
Michael D McAllister	(214) 859-6713	Michael.Mcallister@hilltopsecurities.com

TRADE REPORTING IDENTIFIERS

Executing Broker Symbol (EBS) assigned by NASDAQ

EBS	Broker's Broker	Error Feedback Email
FSWC	No	tradereporting@hilltopsecurities.com
SWST	No	MSRBReportingAlerts@swst.com

Participant ID assigned by NSCC

Participant	Error Feedback Email
0279	Tradereporting@hilltopsecurities.com

SUBMISSION AND FEEDBACK

Identify the manner in which transactions will be reported

- þ Report own trades using message-based trade portal operated by National Securities Clearing Corporation (NSCC) and RTTM Web
- e Trades will be reported by another dealer acting as agent
- e RTRS Web only

Method of receiving error feedback

- e Email - Review trade status emails sent to the email address(es) identified in the Trade Reporting Identifiers section
- e Messaging - Process MT509 messages containing trade status information (Note: DTCC participants only)
- þ RTRS Web - Review trade status information using RTRS Web

Tab 4 - Scope of Services Confirmation

1. Basic Program. Advisor shall be expected to assist the DFA using a Competitive Bid Process, whether public or private placement, for obtaining tax-exempt funding for the FA's MLPP, including the preparation of basic financing documents, offering documents, and supporting documentation, in a manner which will result in financing offerings which are acceptable to financial markets and institutions and must not have a negative impact upon any other aspect of the State's financing opportunities. All documents and forms used shall be documents approved and adopted August 6, 2008 by the State Bond Commission.

Confirmed.

2. Process. Advisor shall be expected to develop and administer the entire process from needs recognition to final payment with all applicable documentation. Advisor will also be expected to provide the DFA with checklists of occurrences which the DFA should consider throughout the process. It is understood that the process described herein is representative of a process of funding which utilizes Certificates of Participation (COPs). Offerors may submit proposals for other forms of financing and/or COP financing procedures in which some or all of the following requirements may not be applicable. Offerors are expected to fully describe in their proposals, which, if any, of the following procedures will not be complied with, and what procedures will be substituted to achieve the apparent intent of the requirement. It should be clear from these requirements that the DFA does not intend to perform many functions inhouse but rather that Advisor will be expected to perform a vast majority of the required activities.

Confirmed.

3. The awarded Advisor shall periodically survey K-12 School Districts, Community and Junior College Districts and State Agencies to determine immediate and projected equipment needs. The equipment needs are required to be submitted to the DFA, OPTFM and Contractor using the approved Equipment Lease/Purchase Planning Form on an as needed basis, consolidate the equipment lease-purchase requirements of one or more Districts and the equipment lease purchase requirements of one or more State Agencies. This shall include, but not be limited to, developing program descriptions for use by the Districts and State Agencies, a description of information needed prior to receiving funds, and a generic calendar of events for use by the Districts and State Agencies in understanding the Programs. All documents developed by Advisor related to the entire MLPPs shall be provided in a Word format, and transmitted electronically, to enable the Office to use the documents on all future issues of this and future Programs.

Confirmed.

4. Advisor shall manage and coordinate the pre-financing process with the participating Districts and State Agencies.

Confirmed.

5. Advisor shall educate potential participants (Districts, State Agencies, vendors, etc.) to ensure the potential participants have a sound working knowledge of the program, its structure, and applicable accounting and purchasing procedures. It should be noted that this often requires multiple one-on-one meetings and phone conversations with various individuals throughout the Districts and State Agencies. This educational plan includes, but is not limited to:

a. Assisting and educating the Districts and State Agencies in order that the Districts and State Agencies gain an understanding of the Programs' procurement and acquisition process.

Confirmed.

b. Having staff available for statewide travel to meet with Districts and State Agencies and to make presentations to department personnel, as well as attend statewide conferences of purchasing officials.

Confirmed.

6. Advisor shall consolidate the information received from the Districts and State Agencies. Advisor will analyze the character of collateral, useful life of equipment, timing of equipment delivery, cost elements of equipment, and will review vendor contracts and timing of vendor payments.

Confirmed.

7. If the acquisition involves software, Advisor shall examine the software license to determine, among other things, if a perpetual license is created so that a security interest in the software can be obtained.

Confirmed.

8. Upon District and State Agency requests, Advisor shall create preliminary amortization schedules, usually necessary for budgetary purposes. This schedule is often used by the Districts and State Agencies to determine the economic feasibility of acquiring the equipment through financing.

Confirmed.

9. Advisor shall create a spreadsheet with breakdowns by District and State Agency of equipment description, equipment cost, anticipated delivery, and acceptance dates.

Confirmed.

10. Advisor shall contact the Department of Finance and Administration, Office of Purchasing and Travel with results of District and State Agency communications and make recommendations as to the timing of the next issue or, if necessary, obtain interim financing for specific pieces of equipment. If interim financing is requested and approved by the Office, Advisor will obtain an interim rate and prepare and distribute interim financing documentation.

Confirmed.

11. If the entity is a State Agency, the Department of Finance and Administration, Office of Purchasing and Travel and the Public Procurement Review Board will approve or disapprove the list of equipment as indicated on the spreadsheet, Advisor shall gather information as to the essential governmental use of the equipment, as well as the State Agency's justification for the acquisition. This involves communication with each State Agency, as well as gathering information directly from potential vendors or from potential vendor brochures and pamphlets (NOTE: any acquisitions proposed in the Program must follow all applicable procurement rules and regulations, including competitive solicitations where applicable, once the acquisition schedule is approved by the Public Procurement Review Board). Additionally, if the State Agency is establishing a Program that is designed to evolve over a period of time and will require equipment acquisitions in stages, Advisor will acquire a full understanding of the Program from its inception to full implementation to assist the State Agency in accurately assessing its equipment purchases. After the information has been received, Advisor will draft a description of each item of equipment being acquired to be included in offering materials and will provide a copy of the list to each State Agency to allow a review of the accuracy of the description prior to inclusion in the offering materials.

Confirmed.

12. If the entity is a School District, or Community or Junior College, the entities are required to provide an approved/adopted Authorizing Resolution signed by the proper authorized agent and a completed certificate as to the authenticity of the Resolution. This action is necessary to authorize the entity to participate in the program. In addition to the authorizing Resolution, the previously referenced equipment spreadsheet is then reviewed by the Contractor and the Department of Finance and Administration, Office of Purchasing and Travel and will approve or disapprove the list of equipment as indicated on the spreadsheet.

Confirmed.

13. If equipment involves telecommunications or computer equipment, Advisor shall obtain necessary approval from the Mississippi Department of Information Technology Services in addition to the Office of Purchasing and Travel.

Confirmed.

14. Advisor shall prepare an initial sizing of the Program to determine time of financing.

Confirmed.

15. Advisor shall determine market conditions by analyzing interest rates and reviewing comparable sales analyses and other market activity to optimize pricing, check forward municipal calendar, or private investor banks and contact the Mississippi Department of Finance and Administration Office of Purchasing and Travel, before making a recommendation as to timing of the deal.

Confirmed.

16. Advisor shall analyze the structure of the financing from the perspective of state law and federal tax and securities laws and determine potential financing participants.

Confirmed.

17. Advisor shall prepare basic financing documents, closing certificates, suggested opinions to be rendered at closing, offering materials, and documents required to assign title to certain equipment to the Department of Information Technology Services, if applicable.

Confirmed.

18. Advisor shall distribute financing documents to all applicable parties at no additional cost.

Confirmed.

19. If applicable, Advisor shall develop a rating strategy and presentation, prepare rating application, and submit to the rating agency after approval from the Department of Finance and Administration. Advisor shall also be responsible for obtaining a rating release from the rating agency, and, if applicable, credit enhancement for the Program.

Confirmed.

20. Advisor shall solicit program fees and make award recommendation for Trustee, Trustee's attorney, and rating agency, if applicable.

Confirmed.

21. Advisor shall revise documents pursuant to communications with parties to the transaction and distribute second drafts, if necessary, to all parties at no additional cost.

Confirmed.

22. Advisor shall arrange for a bid process in order to obtain a guaranteed investment contract, if applicable. Advisor may not submit a bid on its behalf.

Confirmed.

23. If financing through a public competitive bid process, Advisor shall prepare and arrange for publication notices of sale in the appropriate publications. Advisor shall register the sale through SureBid or a similar service for the purpose of receipt of bids deposits through SureBid. Advisor shall coordinate with Bidcomp/PARITY to arrange for receipt of on-line bids. Advisor either will attend the bid opening or will coordinate with the DFA by conference call and will analyze the bids and make a recommendation as to the low bidder.

Confirmed.

24. Advisor shall prepare the Preliminary Offering Circular and the Final Offering Circular. Advisor will arrange for electronic distribution of the Preliminary Offering Circular through the services of I-deal or a similar service. Advisor shall prepare and will arrange for the printing and distribution of the Final Offering Circular to the winning underwriter. Advisor shall prepare the Certificates of Participation, proof of accuracy and forward to the Trustee for authentication and delivery to The Depository Trust Company (DTC).

Confirmed.

25. If financing through a privately-placed competitive bid process, the Contractor shall prepare "The Term Sheet and proposal to Purchase State of Mississippi Master Lease Revenue COPs" and with the approval of the State, shall solicit bids from qualified purchasers who are either an "accredited investor" within the meaning of Rule 501(a) promulgated under the Securities Act of 1933, as amended) or a qualified institutional buyer as defined under Rule 144A of the Securities Act of 1933, as amended, to purchase the COPs. (NOTE: Fees and expenses incurred by the Purchaser and owed to Purchaser's Counsel, if any, will be borne by the Purchaser and not by the State).

Confirmed.

26. Advisor shall prepare amortization schedules by District and State Agency and, if requested, by group or piece of equipment and will communicate with each District and State Agency to verify final equipment amounts and lease terms and anticipated delivery schedules.

Confirmed.

27. Advisor shall finalize financing and closing documents, attach amortization schedules, prepare multiple execution copies, coordinate receipt of executed opinions, and hold in escrow pending closing.

Confirmed.

28. If an investment contract is obtained, Advisor shall coordinate receipt of accountant's verification report and opinion verifying cash flows under the lease, together with interest earnings derived from the investment contract, will be adequate to pay debt service on the Financing Agreement.

Confirmed.

29. Advisor shall coordinate with the Department of Finance and Administration, Office of Purchasing and Travel to arrange pre-closing meetings with each District and State Agency, if necessary, travel to and attend pre-closing, obtain signatures of authorized representatives of each District and State Agency, as well as any other necessary signatures.

Confirmed.

30. Advisor shall prepare and file applications for the receipt of CUSIP numbers in the event of a competitive sale and will file for eligibility under the DTC, coordinate closing with the Trustee, including preparation of the closing statement detailing flow of funds from investors to Trustee, and from Trustee to trust accounts.

Confirmed.

31. Advisor shall provide investment instructions for escrowed funds in the Acquisition Account pursuant to the Trust Indenture.

Confirmed.

32. Advisor shall confirm wiring instructions and confirm receipt of funds.

Confirmed.

33. Advisor shall provide Trustee with executed counterparts of financing documents, opinions, certificates as to tax and no-arbitrage, and IRS Form 8038-G.

Confirmed.

34. Advisor shall confirm with DTC that the documents have been received.

Confirmed.

35. Advisor shall confirm settlement and closing with Trustee.

Confirmed.

36. Advisor shall prepare and file UCC-1 Financing Statements and UCC-3 statements, if any, for each District and State Agency with the Secretary of State of the State of Mississippi. Advisor will prepare and timely file Form 8038-G with the Internal Revenue Service on behalf of DFA.

Confirmed.

37. Advisor shall prepare and distribute closing transcripts.

Confirmed.

38. Advisor shall prepare and distribute to the State a post-sale analysis detailing the results and market conditions for each competitive sale.

Confirmed.

39. Advisor shall coordinate equipment acquisitions between Program participants and vendors.

Confirmed.

40. As Disbursement Requests are received, Advisor shall review the applicable purchase orders, invoices, and vendor contracts for consistency and recalculate pricing accuracy.

Confirmed.

41. Advisor shall match each Disbursement Request to the original spreadsheet to ensure that the equipment was contemplated for acquisition under the Program and review requested substitutions.

Confirmed.

42. Advisor shall maintain balances for each piece of equipment and for each District and State Agency in conjunction with the Trustee.

Confirmed.

43. Advisor shall transmit Disbursement Requests with proper attachments (e.g., purchase orders, invoices, and declaration of intent to reimburse) to Trustee for vendor payment.

Confirmed.

44. Advisor shall prepare customized semi-annual invoices in summary and by District and State Agency and by equipment within a District and State Agency, if requested. Advisor will distribute invoices to the individual District and State Agency and the Department of Finance and Administration, Director, Office of Budget and Accounting 30 days prior to payment date.

Confirmed.

45. Advisor shall coordinate with Trustee on lease payment discrepancies and late payments.

Confirmed.

46. Advisor, on behalf of the Trustee, shall request copies of insurance policies or evidence of self-insurance on each District and State Agency and will request updated information on an annual basis.

Confirmed.

47. Advisor shall assist the State in obtaining annual rebate and arbitrage calculations in compliance with federal tax law. The annual calculations will be provided at the State's expense.

Confirmed.

48. Advisor periodically shall contact each District and State Agency with respect to drawdowns in the respective Acquisition Accounts. Based on the District's and State Agency's responses, Advisor will direct the Trustee to reinvest the acquisition funds in qualified investments, in accordance with the provision of the Trust Indenture.

Confirmed.

49. Advisor shall perform semi-annual calculations to determine interest earnings in the Acquisition Account by District and State Agency and by equipment within a District and State Agency. After all rebate calculations have been performed, Advisor will determine the amount of interest earnings available for each District and State Agency, and will notify DFA of this amount. Advisor will arrange for the disbursements of such interest earnings at the discretion of DFA.

Confirmed.

50. Semi-annually, Advisor shall report the status of the Acquisition Accounts by District and State Agency for all outstanding leases to the DFA, OPTFM.

Confirmed.

51. If prepayment options are exercised, Advisor shall coordinate with the District and State Agency and Trustee in calculating pay-off amounts and timing.

Confirmed.

52. <u>Documents</u>. Advisor shall assure that the process and documents comply with Rule 15(c) 2-12, as amended.

Confirmed.

53. <u>Laws</u>. Advisor shall assure that all documents and procedures will comply with all federal and state laws and regulations governing the MLPP and will advise the State of any responsibilities concerning such laws which are or may be responsibilities of the State.

Confirmed.

54. <u>Legal Matters and Tax Exemption</u>. Advisor shall prepare sample legal opinions which will support the documents and the process and indicate that the State's execution and delivery of any such documents will be subject to review and approval of the State's counsel. The State will be responsible for the cost of review by its counsel of all documentation related to the Agreement and any resulting funding. The Attorney General of the State will deliver an opinion that the Agreement and the supporting documentation constitute legal, valid, and binding obligations of the State, enforceable against the State and in accordance with their respective terms. Likewise, Advisor shall insure the State's approved tax counsel provides a tax counsel opinion to the State on the legality of documents, tax exempt status and conformity with Internal Revenue Code Regulations, which tax counsel opinion shall indicate that the State is qualified as a political subdivision under Section 103 of the Internal Revenue Code of 1986 and that the interest portion of any payments will constitute interest not to be included in gross income for purposes of federal and state income taxation. The State and Advisor will covenant to comply with all rules, regulations, or procedures required in order to establish or preserve the tax-exempt nature of any resulting certificates. Any resulting financing will not be a general obligation of the State.

Confirmed.

55. <u>Acquisition Fund</u>. The documents and process shall insure that any interest earned on funds residing in the Acquisition Account shall accrue to the District and State Agency which has borrowed the funds and may be used to purchase additional equipment and/or to reduce the principal amount due, as directed by DFA.

Confirmed.

56. <u>Non-appropriation</u>. The documents and process shall insure that continuation of the lease purchase of any item of equipment is contingent upon the annual appropriation of adequate funds to the using District and State Agency.

Confirmed.

57. <u>Miscellaneous</u>. Advisor shall coordinate with DFA to maintain and update, as needed, the State's website for the Master Lease Programs.

Confirmed.

58. Advisor shall assist the Office in the development of a solicitation for Bond and Tax Counsel.

Confirmed.

59. Advisor shall assist the Office in the development of a solicitation for Trustee.

Confirmed.

Tab 5 - Questionnaire with Responses

1. Provide the name, title, mailing address, e-mail address, and telephone number of the contact person for this proposal.

Contact Name: Vickie Hall
Title: Vice President
Mailing Address: 717 N. Harwood, Suite 3400, Dallas, Texas 75201
Email: vickie.hall@hilltopsecurities.com
Phone: 214.953.8874

2. State the full name of the proposing firm and provide the address, and telephone number of the principal place of business.

Hilltop Securities Inc.
Headquarters - 717 N. Harwood, Suite 3400, Dallas, Texas 75201
Dallas, Texas 75201
Phone: 214.953.4000

3. List the office that will service DFA. If it is located at a different address than the home office, provide the complete address, phone number, and facsimile number for this office.

The team that will service DFA is located at the firm's headquarters in Dallas, as noted above in ***Item 2***.

4. Describe your organizational structure. Indicate whether your firm operates as a corporation, partnership, individual, etc. If it is incorporated, include the state in which it is incorporated, and list the names and occupations of those individuals serving on your firm's Board of Directors.

HilltopSecurities is a Delaware corporation. The firm's current Board of Directors is shown below:

Jonathan S. Sobel, Chairman of the Board of Directors, Hilltop Securities Inc.
M. Bradley Winges - HilltopSecurities employee
John R. Muschalek - HilltopSecurities employee
J. Michael Edge - HilltopSecurities employee
Laura Leventhal - HilltopSecurities employee
Michael J. Marz - HilltopSecurities employee
David K. Medanich - HilltopSecurities employee
Laura B. Alexander - HilltopSecurities employee
M. Teresa Aguilera-Peon - HilltopSecurities employee

5. List the name and principal occupation or business of any person or entity owning 10% or more of your firm.

HilltopSecurities is a wholly owned subsidiary of Hilltop Securities Holdings LLC, which is wholly-owned by Hilltop Holdings Inc., a publicly traded company.

6. Describe any ownership or name changes your firm has been through in the past three years. Are any ownership or name changes planned?

There have been no recent ownership change or name changes within the past three years and there are no ownership or name changes planned.

7. Describe any changes in the organizational structure that have occurred within your firm over the past twenty-four months or are anticipated during the next twenty-four months including, but not limited to, addition or elimination of product or business lines, mergers, firm acquisitions, etc.

There have been no changes to the organizational structure within the firm over the past twenty-four months and none are anticipated during the next twenty-four months including mergers, acquisitions, or restructuring.

8. How long has the proposing firm been providing financial advisory services? Please indicate the month and year in which the proposing firm was established.

Two firms joined to form Hilltop Securities Inc.: First Southwest Company, LLC, was founded in 1946. Southwest Securities, Inc., was founded in 1972. The two legacy firms merged in January 2016 to form Hilltop Securities Inc.

9. What was the average number of employees in your firm for the past twelve months? Has this average changed in the past three years?

The firm had an average of 769 employees for the 12 month period September 1, 2020 - August 31, 2021,

The average number of employees over the 36-month period of September 1, 2018 - August 31, 2021 changed slightly to 807 employees.

10. State if the proposed account executive, any officers or principals and/or their immediate families are, or have been within the preceding twelve months, employees of the State of Mississippi.

Neither the proposed account executive, any officers nor principals and/or their immediate families are, or have been within the preceding twelve months, employees of the State of Mississippi.

11. Has your firm ever been involved in a lawsuit involving any area covered by this RFP? If yes, provide details including dates and outcomes.

Legal proceedings in connection with the firm's provision of advisory services are set forth in the Municipal Advisor Disclosure Statement included as ***Appendix A*** to the firm's proposal.

12. During the past five (5) years, has your company, related entities, principals or officers ever been a party in any material criminal litigation, whether directly related to this RFP or not? If so, provide details including dates and outcomes.

HilltopSecurities has not been party to any criminal litigation during the past five (5) years.

13. Has your firm been cited or threatened with citation within the last three years by federal or state regulators for violations of any federal, state, or local law or federal, state or local regulation? If the answer is yes, please describe the circumstances in detail.

From time to time in the ordinary course of its business, HilltopSecurities is called upon to respond to inquiries or is subject to investigations or proceedings by federal, state or industry self-regulatory organizations. To the best of our knowledge, information and belief based upon the facts available at this time, there is no threatened or pending inquiry, investigation, or regulatory proceeding that we believe would have a material adverse impact on the ability of HilltopSecurities to perform public finance financial advisory services. The Financial Industry Regulatory Authority (FINRA) maintains a public database known as BrokerCheck© that discloses reportable regulatory matters for HilltopSecurities. BrokerCheck© may be found at www.FINRA.org.

14. Confirm that your firm is not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from covered transaction by any federal department or agency, or by any political subdivision or agency of the State of Mississippi.

HilltopSecurities is not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from covered transaction by any federal department or agency, or by any political subdivision or agency of the State of Mississippi.

15. Provide a complete résumé for each staff member (in Tab 10 of your proposal) who will be assigned to render services to DFA, including detailed information on any special training or designations.

Please see ***Tab 10*** for complete résumés for team members Steven D. Johnson, Vickie Hall, Emily Hundley, Peter Stare and Shari Goldberg.

16. Please confirm the proposal is valid for at least 180 days subsequent to the date of submission.

HilltopSecurities confirms that its proposal is valid for at least 180 days subsequent to September 3, 2021, the date of submission.

Tab 6 - References

All of the requested references should be provided using the References Form in Appendix B.

1. Offerors must provide references from at least three (3) customers to whom the Offeror has provided functions similar to the scope described in this RFP. A description of the functions provided as well as the name, address, and phone number of a representative of the firm or entity must be included. Documentation concerning recent issues is also required. The documentation shall include a description of the equipment purchased as well as the amount financed, the date financed, and the interest rate obtained. The representative must have adequate knowledge of the documentation provided to be able to discuss with the State.

Please see the References Form included in this ***Tab 6.***

Appendix B - References

Client Name	**State of Mississippi, Department of Finance & Administration**
Contact Name and Title	**Belinda Williams-Russell, CPM, CMPA**
Contact Address	**P.O. Box 267, Jackson, MS 39205**
Contact Telephone Number	**601.359.5041**
Email Address	**belinda.russell@dfa.ms.us**
Type of work provided to the client	**Financial Advisory services related to Master Lease Programs**
Number of covered lives in the client's group	**N/A**
Contract effective dates for the time period(s) services provided to client	**Client since 2003**

Client Name	**Mississippi Institutions of Higher Learning**
Contact Name and Title	**John Pearce, Jr., Associate Commissioner for Finance**
Contact Adress	**3825 Ridgewood Road, Jackson, MS 39211**
Contact Telephone Number	**601.432.6122**
Email Address	**jpearce@ihl.state.ms.us**
Type of work provided to the client	**Financial Advisory services related to Master Lease Programs**
Contract effective dates for the time period(s) services provided to client	**Contract signed in July 2020; prior services performed without benefit of contract**

Client Name	**City of Atlanta, Georgia**
Contact Name and Title	**John Gaffney, Deputy Chief Financial Officer**
Contact Address	**68 Mitchell Street, Suite 11100, Atlanta, GA 30303**
Contact Telephone Number	**404.330.6084**
Email Address	**jgaffney@atlantaga.gov**
Type of work provided to the client	**Ongoing Financial Advisory Services. Current Debt Outstanding $7.6 Billion**
Contract effective dates for the time period(s) services provided to client	**Client since 2008**

Additional references to meet the requirements of the procurement should be submitted on a separate page.

Appendix B - References

Client Name	**Metropolitan Government of Nashville & Davidson County**
Contact Name and Title	**Michell Bosch**
Contact Address	**1 Public Square, Suite 106, Nashville, TN 37201**
Contact Telephone Number	**615.862.6154**
Email Address	**michell.bosch@nashville.gov**
Type of work provided to the client	**Ongoing Financial Advisory Services.** **Current Debt Outstanding $5.4 Billion**
Contract effective date for the time period(s) services provided to client	**Client since 2008**

Tab 7 - Service Plan

1. A complete description of the programs, which must describe the events which will take place as well as the documents that will be used. This should include a description of the educational and training programs that will be used.

The proven capabilities of HilltopSecurities and its knowledge of Mississippi requirements for lease-purchase transactions, together with the extended services offered by the firm provide maximum benefits in structuring and maintaining a master lease program: The State's Master Lease Program for State Agencies (the "State Agency Program") has evolved since 1993 to become a standard for master lease programs in other states, as has the State's Master Lease Program for School Districts and Community College Districts (the "District Program"). As used in this proposal, "Program" shall refer to both the State Agency Program and the District Program. HilltopSecurities recommends the continued use of the Program as it is currently structured. As more efficient or effective aspects of the Program are discovered, HilltopSecurities will incorporate those improvements into the Program. Complete information about the current Program follows:

- HilltopSecurities has successfully served as financial advisor (or in some cases, co-financial advisor) to the State for its Master Lease Program for State Agencies (the "Program"), as well as the master lease programs for School Districts and Community and Junior College Districts since 2003; that experience is mirrored by FirstSouthwest Leasing, the municipal leasing affiliate of HilltopSecurities. Vickie Hall, an active participant in the Program, has been involved with Program since its inception in the 1990's through a previous employer.
- **(for the State Agency Program) -** Pursuant to Section 31-7-10 of the Mississippi Code of 1972, as amended, the Program is structured as a master lease agreement (the "Master Lease") between the Department of Finance and Administration ("DFA"), as lessee, and FirstSouthwest Leasing, as lessor.
- (**for the District Program) -** Pursuant to Section 31-7-10(15) of the Mississippi Code of 1972, as amended, the Program is structured as a master lease agreement (the "Master Lease") between the Department of Finance and Administration ("DFA"), as lessee, and FirstSouthwest Leasing, as lessor.
- If the Program is required to be re-validated, HilltopSecurities will assist in the validation process, as requested.
- HilltopSecurities will assist DFA in preparing Requests for Proposal to solicit bids for corporate trustee (the "Trustee") and special tax counsel, upon request.
- HilltopSecurities will be responsible for the coordination, administration and management of the Program. Structurally, the Program consists of the aggregation of the purchasing or refinancing needs of one or more State Agencies (the "Agencies") and/or School Districts/Community College Districts (the "Districts"). The Agencies and the Districts are collectively referred to as the "Participating Users"). The aggregated equipment needs of the Participating Users are in turn financed through the competitive or negotiated sale of individual series of Lease Revenue Certificates of Participation ("COPs") or financed directly with bank financing on a private-placement basis.
- Each Participating User will enter into a User Agreement with DFA, pursuant to which each Participating User will agree to
    - lease purchase certain equipment acquisitions and/or refinance the lease purchase of certain equipment currently subject to outstanding lease purchase arrangements and
    - make certain semi-annual lease payments to DFA in order to enable DFA to pay, pursuant to the Master Lease, for the equipment to be lease purchased or refinanced.
- HilltopSecurities will deliver invoices to each Participating User regarding the lease payments to be made to DFA pursuant to the respective User Agreements. HilltopSecurities will work with the individual Participating Users to develop an invoice for each user that accommodates the particular procedures or requirements of that Participating User. For instance, a Participating User may require an aggregate invoice that lists each item of equipment by purchase order number, or perhaps separate invoices are required for each item of equipment by purchase order, by department within a Participating User, or by a special program for which the equipment was acquired. The Participating User may require that the lease payments be broken out by principal and interest. There are numerous variations and HilltopSecurities will work to ensure that each Participating User's needs are met.

- Each **State Agency** will remit the lease payments to DFA by submitting a check or warrant to DFA. Arrangements can also be made with DFA to automatically withdraw each lease payment from the appropriate Agency accounts when due and payable to DFA, if requested by the Agency. DFA will aggregate all of the lease payments made by each participating Agency and will use those payments to make the required lease payments to the Trustee under the Master Lease.
- Each **School District** will remit the lease payments to the State Department of Education. Upon receipt of the School District's lease payments, the Department of Education will remit payments to DFA. In the event that a School District fails to make its lease payments in timely manner, the Department of Education will notify DFA of such failure and DFA will withdraw a corresponding amount from the minimum education and/or adequate education program fund allotments to make such lease payments, all pursuant to Section (15) of the Master Lease Statute. DFA and the Department of Education have formalized this agreement pursuant to an Intercept Agreement dated as of June 3, 2003.
- Each **Community College District** will remit its lease payments to DFA. In the event that a Community College District fails to make its lease payments in timely manner, DFA will immediately notify the State of Mississippi Board of Community and Junior Colleges, and DFA will immediately draw such amounts as are due from any funds allocated for the respective Community College District in the state appropriations for the use and support of the Community and Junior Colleges, pursuant to Section (16) of the Master Lease Statute. In the event that DFA intercepts funds as described herein, the Board of Community and Junior Colleges will deduct a corresponding amount from the monthly disbursements that are made by the Board to the applicable District.
- DFA will aggregate all of the lease payments made by each participating District and will use such payments to make the required lease payments to the Trustee under the Master Lease.
- A series is typically funded through an assignment to the Trustee of FirstSouthwest Leasing's rights to receive the lease payments payable by DFA and the execution and delivery of COPs in such lease payments to investors in the public markets. Lease payments made by DFA under the Master Lease will be paid to and used by the Trustee to make required payments to the purchasers of the COPs in the particular series.
- Typically, one or two series of competitively-bid or negotiated COPs are sold each year. HilltopSecurities will develop a Preliminary Offering Circular for any series that is publicly-offered, to be electronically distributed to potential underwriters through the services of I-deal. HilltopSecurities attends the bid opening and also conducts the award process in person or via telephone conference.
- If the COPs are private-placed, HilltopSecurities does <u>not</u> serve as placement agent. The firm will prepare a term sheet summarizing the terms of the deal and will distribute the term sheet as directed by DFA.
- Upon request, HilltopSecurities will prepare a post-sale analysis for each series of COPs.
- On the settlement date for each series of COPs, the Trustee deposits funds necessary to purchase requested equipment or to refinance existing lease purchase obligations for each Participating User in a trust account pending a request from the Participating User to pay a vendor for accepted equipment. To request vendor payment, a Participating User will complete and submit a Request for Disbursement, a form of which is attached to each User Agreement. To complete a Request for Disbursement, a Participating User (i) will attach invoices, purchase orders, title applications, and other similar paperwork requested on the Request for Disbursement and (ii) provide the name of the vendor and the method by which the Trustee should pay the vendor, such as by check (by including the vendor's delivery address) or by wire (by including wire instructions for the vendor). Upon the Participating User's completion of the Request for Disbursement and delivery to HilltopSecurities, HilltopSecurities will review the Request for Disbursement for accuracy, then forward it to the Trustee. The Trustee will pay each vendor directly as specifically requested by the Participating User. Pending disbursement, interest earnings attributable to the Acquisition Fund will accrue to the benefit of the State.
- HilltopSecurities will be responsible for preparing all documentation specific to the transaction, including the Master Lease, the User Agreements, the Trust Agreements, all Assignments, the Term Sheet, a Certificate Purchase

Agreement, tax reporting documents, UCC financing statements, disclosure and marketing materials, and all ancillary documents. HilltopSecurities will also be responsible for distributing the documents to DFA, the Participating Users, the Trustee, Trustee's counsel, special tax counsel, bankruptcy counsel, local counsel, Office of the Attorney General, rating agencies, providers of credit enhancement, if applicable, and any other interested parties. HilltopSecurities will also be responsible for coordinating with local counsel, special tax counsel, bankruptcy counsel and the Office of the Attorney General regarding the substance and receipt of opinions to be rendered by those parties. Steve Johnson and Vickie Hall both are licensed attorneys and are available to discuss legal issues related to the Program with counsel to DFA and to the Participating Users.

The following is a list of typical documents prepared for each financing:

To be Executed by DFA:

- Master Lease Purchase Agreement
- Each User Agreement
- Consent to Lease and Assignment of Title
- Acknowledgment of Assignment
- Closing Certificate
- Arbitrage and Tax Certificate
- Invoicing Instructions
- Continuing Disclosure Certificate
- Evidence of Insurance
- Form 8038-G

Additionally, the Office of the Attorney General will render an opinion to the effect that, among other things, DFA and the Participating Users have the ability to enter into the financing documents and that the documents constitute the respective binding obligations of DFA and the Participating Users.

To be Executed by Each Participating User:

- User Agreement
- Consent to Lease and Assignment of Title
- Closing Certificate
- Invoicing Instructions
- (**applicable to the Districts only)** Form 8038-G

In addition, the Board of each District must adopt an authorizing resolution that, among other things, approves the District's participation in the Series, approves the forms of the financing documents, and authorizes the Superintendent to execute documents on behalf of the District.

Post-Closing Servicing:

HilltopSecurities provides a high level of post-closing services throughout the term of each series. These services range from:

- customized invoicing
- maintaining detailed reconciliations and analysis of client accounts such as lease payment history and vendor payments in an escrow account which information is available via telephone or email during regular business hours
- on-going monitoring of the lease markets for new trends and development of new ideas in leasing
- individual or group education about the program to all participants, such as introductory phone conferences or personal meetings and working sessions to explain the documentation and the range of options available for payments to equipment vendors
- confirming transactions recorded on monthly trustee statements to verify that vendor payments have been made as requested and lease payments and interest earnings, if any, have been properly credited
- maintaining perfected security interests through filing of UCC financing statements
- assisting in the investment of acquisition or escrow funds.

Personnel are available for support during the hours of 8:00 a.m. to 5:00 p.m. (Central Standard Time), Monday through Friday, excluding holidays.

Informing the Participating Users About the Program:

To optimize the Program, HilltopSecurities is available for one-on-one consultation or educational meetings with individual Participating User or for group presentations. In the past, HilltopSecurities has presented a ***"Leasing 101"*** workshop at the annual conference held by the Mississippi Association of Governmental Purchasing and Property Agents. HilltopSecurities explains the Program, including its benefits and the process, and conducts a question-and-answer session. This hands-on presentation presents an invaluable opportunity to education agencies about the Program and can be revitalized if DFA requests. Although some time has lapsed since the firm participated in the 2014 "Roadshow" –type venue in conjunction with DFA's annual meeting with school districts, the concept was valuable and well received. Over a week's time, HilltopSecurities presented an informational segment about the District Program in four locations across the State as a part of the State's larger agenda.

In order to ensure the continued success of the Program, to estimate demand for future issues and effectively manage the Program, HilltopSecurities proposes the following:

- HilltopSecurities periodically will distribute any changes to or notices about the Program to all Participating Users.
- Periodically, HilltopSecurities will distribute to DFA and the Participating Users a demand survey that will assist the Participating Users in determining their individual equipment needs for the next six to twelve months.
- HilltopSecurities is available by phone, fax, email, writing, or in person to address issues one-on-one to ensure that each Participating User receives personal, individualized attention to its concerns and questions.

2. Description of information needed from a District and/or a State Agency to prepare the documentation required to acquire funding.

HilltopSecurities will assist the State by gathering all information regarding the essential use and justification for any equipment to be acquired under the Program. In that regard, a questionnaire similar to the following form will be utilized to obtain pertinent detailed information describing the equipment to be financed, as well as any information required to gain an understanding of the essentiality of the equipment to the operations of the Participating User. HilltopSecurities also will supply customized questionnaires for special projects financed under the Program. A sample Equipment Questionnaire is included in this ***Tab 7.***

HilltopSecurities has often met personally, and will continue to do so as the need arises, with a Participating User to gain a complete understanding of the equipment acquisition. Developing comprehensive descriptions of equipment to be financed pursuant to the Program is a critical factor in obtaining the lowest cost of financing. Providing adequate information to rating agencies, credit enhancers, and/or investors with respect to the essentiality of equipment to be acquired provides a level of comfort to these parties that the appropriations for the equipment are likely to be continued. Good examples of essential and well-justified equipment purchases would include the following examples:

- **For State Agencies:** equipment that is vital to the continued operation of the vital functions of State government and to enable the State and its agencies to meet their mandated missions as determined by the State legislative process
- **For Districts:** equipment that is vital to the continued operation of the District's vital functions and to enable the District to meet its mandated missions
- equipment that results in the reduction of other expenditures such as (a) maintenance and repair expenses, (b) replacement of material parts, (c) expenses related to energy costs (i.e., gasoline and electricity costs), (d) and/or a reduction of other expenses
- equipment that enables the State (or the District) to receive higher levels of federal funding by enabling the Participating User to meet requirements for certain federal reimbursement programs.

It should be noted that rating agencies do consider the justification for, and essential nature of, the equipment during the rating process. Therefore, evidence with respect to why the equipment is being acquired, what the equipment will be utilized for and the economic benefits, if any, obtained through the acquisition of the equipment is important to both rating agencies and investors.

The Participating Users should notify DFA and HilltopSecurities with respect to any federally allocated funds that may be used to pay lease payments, an important fact in ascertaining and protecting, if possible, the tax-exempt status of the financing.

3. Copies of representative documents which have been used or could be used by other entities to establish similar programs and to obtain funding (to include, if applicable, a Master Lease Purchase Agreement, Arbitrage and Tax Certificate, Closing Certificate, District and State Agency Sublease Agreement, offering materials, legal opinion, etc.).

A ***single copy*** of the transcript for the privately-placed Certificates of Participation sold in connection with Series 2020A of the Program is included as ***Separately-Sealed Exhibit 1.*** The transcript contains every document that is utilized in the Program.

4. Audited financial statements for the contracting entity shall be provided for each of the last five (5) years, including, at a minimum: a. Statement of income; b. Balance sheet; c. Statement of changes in financial position during the last five (5) years; d. Statement of cash flow; e. Auditors' reports; f. Notes to financial statements; and, g. Summary of significant accounting policies.

HilltopSecurities has included its Audited Financial Statements for 2020, 2019, 2018, 2017 and 2016 in this ***Tab 7.***

5. Name, background, years of experience and qualifications of personnel to be involved with the State of Mississippi MLPPs for K-12 School Districts and Community and Junior College Districts and State Agencies.

Please see the resumes in ***Tab 10.***

6. Offerors must submit a list of master equipment leases undertaken during the past three (3) years, grouping those from $1 to $5 million and from over $5 million to $10 million. Information must include lessee name, equipment amount, method by which the lease was financed and an indication whether the lease was rated or insured.

A list of master leases undertaken since 2018 is included in this ***Tab 7***.

7. Offerors must submit a detailed explanation of any legal, financial or other concerns which would pertain to the following situations: (a) lease purchase of an airplane, (b) funds remaining in an acquisition account for three years, (c) pay off prior to the final scheduled payment date, and (d) change orders which require additional funding for previously funded projects. This should include any additional forms, records, or approvals which must be considered for items (a) – (d). It is the intent of this requirement to ascertain the Offerors' general knowledge of issues which have or may develop under the Programs.

(a) **Lease purchase of an airplane** – The Master Lease and the related User Agreement will be revised to include covenants and representations to be made on behalf of the Agency to the effect that the Agency will maintain and operate the aircraft in accordance with rules and regulations promulgated by the Federal Aviation Administration ("FAA"). HilltopSecurities obtains the services of attorneys that specialize in working with the Office of the General Counsel of the FAA. Local counsel will record the Master Lease, User Agreement and Trust Agreement with the FAA to perfect the Trustee's security interest in the aircraft. At that time, local counsel will obtain an appropriate legal opinion from the Office of the General Counsel of the FAA. HilltopSecurities will also use the services of local counsel to seek and obtain aircraft title searches and to arrange for the termination of any existing liens on an aircraft. HilltopSecurities has structured lease-purchase finance for aircraft for the Mississippi Institutions of Higher Learning, the State of Mississippi, the State of Arizona, the State of Oklahoma, the State of Utah and the State of North Carolina.

(b) **Funds remaining in an acquisition account for three years** – HilltopSecurities maintains an on-going balance for each acquisition account with respect to the individual Participating Users. HilltopSecurities periodically, and upon request, advises the individual Participating Users as to its options with respect to disposition of funds in the acquisition account, *i.e.,* as a credit to the next lease payment, for the purchase of additional equipment, or to prepay lease obligations. HilltopSecurities currently reconciles the acquisition and certificate fund accounts, providing a "check and balance" for the Trustee, which results in a reduction of trustee fees for the Program.

The occasion to revisit the instance of remaining funds in an acquisition account was presented recently in connection with Series 2018A. The Department of Agriculture and Commerce had planned to acquire $1.5 million in Series 2018A equipment with a three-year lease term. The Department experienced difficulty in obtaining a number of items of the planned acquisitions due to the Covid shutdown in 2020 - 2021. As a result, at the end of the three-year period, approximately $300,000 remained in the acquisition account. HilltopSecurities spoke to the Department, who expressed an ongoing need for the planned acquisitions and a result to extend the three-year period. Through discussions with DFA's special tax counsel, it was determined that the provision to transfer unused acquisition funds to the Certificate Fund is permissive and that DFA could waive the requirement. Investment of funds in the acquisition account would be restricted to the yield on the lease agreement which, in the current interest rate environment, is not problematic.

The firm's arbitrage rebate compliance services practice ("HilltopSecurities Asset Management, LLC" or "HSAM") is one of the largest in the U.S. Since 1987, the firm has focused exclusively on Internal Revenue Service compliance to assist its clients in preserving the tax-exempt status of their bond issues. HSAM provides arbitrage rebate calculations to determine if funds must be rebated to the federal government pursuant to the Internal Revenue Code. HSAM's services are provided under a separate contract and at DFA's expense. The prices quoted in this proposal do not include a component for arbitrage rebate calculations.

(c) **Pay off prior to the final scheduled payment date** - Each Participating User typically has the right to purchase the equipment and pay off its obligations prior to the final scheduled payment date of the User Agreement. Although the terms of the agreement are negotiable, a Participating User can usually pay its entire obligation on any payment date that is one or two years after the date of the agreement by paying a "Purchase Option Price", and any lease payment then due. The Purchase Option Price is comprised of the remaining principal balance and a proportionate amount of the unamortized costs of issuance of the series. HilltopSecurities will calculate the Purchase Option Price upon request.

The Agencies will also have the right to make partial prepayments, and HilltopSecurities will calculate the appropriate Purchase Option Price. Upon payment in full, or if a partial prepayment fully prepays a specific item of equipment, upon the partial prepayment, HilltopSecurities will arrange for appropriate release of lien documents to be prepared and filed, if any.

If a Participating User opts to purchase equipment or to prepay its obligations prior to the first permitted prepayment date (as defined in each User Agreement), the Participating User has the right to defease its obligations. To defease under the User Agreement, the Participating User will deposit funds which will be sufficient to continue to pay the scheduled lease obligations until the first permitted prepayment date. HilltopSecurities will assist the Participating User to verify the amounts required to defease its obligations under the User Agreement.

An interesting approach to prepaying a Participating User's obligations under the User Agreement occurred in June 2016. Due to budget cuts, a Participating User wanted to pay in advance its two remaining payments. Working with the Trustee and the Participating User, HilltopSecurities facilitated a transaction where the Participating User wired an amount equal to its remaining two payments, to the Trustee. The Trustee held the funds in the Certificate Payment Account pending a direction to withdraw therefrom an amount equal to the Participating User's October payment and later, the final April 2017 payment.

(d) **Change orders which require additional funding for previously funded projects** - The typical lease purchase agreement contains provisions to the effect that, if financed equipment is added to, modified, improved, or upgraded, those improvements are deemed to be a part of the original financed equipment. The improvements now secures the lien of the original lessor and the original investors. If a second financing is required to raise funds for the improvements, the new investors cannot have a priority lien position because two identical liens on the same equipment cannot exist. As this situation arises, HilltopSecurities is available to advise the Participating User and DFA on a case-by-case basis. HilltopSecurities may need to consult with the rating agency or credit enhancer, if applicable, of the existing lease to determine the criteria of those companies. In some instances, such as computer systems development, the ultimate solution may be that the existing lease is prepaid from the proceeds of a new lease with increased funding for the change orders.

8. Offerors must submit a suggested check list containing occurrences the State should consider concerning market conditions and the timing of financial transactions.

The following is a suggested checklist for occurrences the State should consider pertinent to the timing of its lease purchase transactions.

- Key economic news – globally, United States and State
- Timing of other State issues
- Forward Calendar for municipal issues
- Interest rate trends; FOMC meetings and news
- Pending legislation at both the state and federal levels

9. Offerors must submit a list of all Program limitations to include, but not be limited to, types of equipment and/or software which will not be covered by the agreement, minimum dollar amounts per transaction, and requirements for cross-collateralization of equipment within a District and State Agency and between Districts and State Agencies.

Generally speaking, HilltopSecurities has no limitations on its ability to structure a lease obligation for essential governmental use equipment with the exception of large financings for certain park and recreational equipment. HilltopSecurities believes that the public markets provide more access to financing for certain types of equipment such as software and other more complex "project" type financings.

HilltopSecurities would recommend caution when setting the financing term for "energy-efficiency" type equipment or retrofits. Vendors often recommend relatively longer financing periods, such as 15 or 20 years, for these projects. Technology changes so quickly that the financed equipment is sometimes obsolete years before the lease term is complete.

To create the economies of scale that should exist in a multi-user lease program, a series of COPs should approach between $2.5 and $3 million. The Program does not have a minimum dollar amount and HilltopSecurities has structured series under the Program over the last five years ranging from $1.3 - $7.4. It is prudent to keep in mind that a smaller funding amount could disproportionately increase the costs associated with the series, to each Participating User.

The Master Lease and the User Agreements will not contain provisions for cross-collateralization of equipment between Participating Users and between series.

10. Offerors must submit a calendar of events from contract award to first financing. This calendar should include estimated dates and events which must take place prior to the initial financing.

Please see the suggested Closing Schedule included in ***Tab 7.***

11. Offerors must submit a complete description of the method or methods that will be used to obtain funding. This description shall explain how interest rates will be determined (sealed bid, negotiation, etc.) and shall fully describe how the State will be able to assure that the interest rates are competitive in the market and represent a good rate for the Districts and State Agencies. If multiple methods are proposed, the Offeror shall describe the circumstances which would require the use of the various methods.

Many of the equipment acquisitions under the Program have been funded by offering series of COPs through a sealed-bid, competitive sale process or, alternatively, through negotiated sale. Each competitive series will be awarded to the underwriter or underwriting group with the lowest True Interest Cost or "TIC. In some instances, a bidder will include a syndicate composed of multiple firms, comparable to the State's general obligation bond sales.

The municipal marketplace has been very responsive to the State's Master Lease Program. In a competitive offering, HilltopSecurities publishes a notice of sale in *The Bond Buyer*, arranges for the distribution of a Preliminary Offering Circular, and personally contacts potential bidders prior to each sale.

The State has received a consistently high level of success in both competitive and negotiated sales, due to the State's strong credit perception in the market as well as a developed market for lease revenue certificates. Rates on each series typically have been 10 basis points off the Municipal Market Data insured scale. This rate is favorable for securities with a short call protection period and reflects the market's confidence in the State's master lease programs as well as the State's strong credit rating. HilltopSecurities will continue to monitor the Program to ensure that it complies with the stringent criteria established by the rating agencies.

While other types of financing are available, it has been the firm's experience that securitizing the leases (that is, converting the leases into securities) and selling participations in the lease revenue stream in the form of the COPs, is an efficient and cost-effective method for these types of lease programs. A well-established market exists for the State's COPs; historically, the State has received a favorable interest rate by offering tax-exempt securities sold in the public markets.

Aggregating the equipment needs of several Participating Users and funding into an Acquisition Fund enhances the Program by locking in interest rates in a favorable interest rate environment rather than depending on an index for the acquisition of individual items of equipment. Institutional investors, such as banks or insurance companies, sometimes propose a lease pricing structure that is indexed to treasury notes and bid as a higher percentage of the taxable treasury note rates when rates are lower, as opposed to a lower percentage when rates are higher. Indexing a lease program can be potentially detrimental if interest rates are low at the inception of the lease program and subsequently increase.

Even in the best of markets with a recognized credit, there may exist economic or other market factors that indicate a negotiated sale would be more beneficial to the State than would a competitively-bid sale. HilltopSecurities will analyze market conditions to determine whether a negotiated sale is warranted over conducting a competitive bid. Market factors will be discussed with DFA and a final sale method will be suggested and discussed, then selected by DFA.

More recently, since the sale of the Series 2016A COP's, the State has wanted to give local banks the opportunity to bid on the Program and State opted to finance the equipment through the sale of unrated, privately-placed COPs, competitively-bid by local banks. As these series were unrated, the cost of issuance was decreased by the lack of rating fees and need for public offering documents. Bidders have been given the option to bid with or without the requirement of a debt service reserve fund and in all cases the successful bidder did not require a reserve fund. The State and borrower benefit from this by not having to raise the additional proceeds needed for a debt service reserve fund. The additional benefit of not having to fund the debt service reserve is that it lowers the all-in cost to the lessor due to the negative carry cost on the reserve fund. The bottom line, while the difference in yield to the investors is minimal, the net result to the State and lessor in terms of dollars saved is significant.

In addition to dollar savings, the negotiated privately-placed option offers savings in time. Being able to negotiate with a local buyer and "pull the trigger" when conditions are favorable is another win.

12. What level of staff will be used for the following: developing program descriptions for use by the Districts and State Agencies, a description of information needed prior to receiving funds, and a generic calendar of events for use by the Districts and State Agencies in understanding the Programs.

Senior team members Steve and Vickie will handle these tasks. Steve and Vickie each have over 25 years of public finance experience.

13. Please provide the total years of experience and state experience for the Staff Lead Manager.

As mentioned above, Senior team member Steve Johnson has 25 years of public finance experience;17 of which are with HilltopSecurities. Senior team member Vickie Hall has 31 years of public finance experience, 18 of which have been with HilltopSecurities. Each member of the financing engagement team will hold a Series 50 license, which is required to provide municipal advice to our clients.

14. Please provide the total years of experience and state experience for the proposed staff/team.

Please see the resumes in ***Tab 10.***

15. If necessary how fast can members of the proposed staff be replaced, regardless of level.

HilltopSecurities implements a "team concept" approach when assembling engagement teams, meaning that multiple senior-level professionals are on each team for redundancy. To that end, we are introducing another banker to our team, Emily Hundley, a Senior Vice President with 12 years' experience at HilltopSecurities. Emily will become familiar with the mechanics, operation and documentation of the Programs by working alongside Steve and Vickie throughout each series. Each Team member will be familiar with the ins and outs of the Program and will be able to pick up where one Team member has left off, due to the continuous and overlapping coverage strategy we implement.

A good example of a seamless transition occurred when Linda Noah, a long-time firm professional who had worked with the Programs for over two decades, was promoted to the Accounting Department of Hilltop Holdings Inc., the firm's parent company. Linda had worked in concert with Shari Goldberg, another HilltopSecurities Accounting employee, for at least a year, so that Shari was able to assume Linda's responsibilities with a minimum of downtime.

16. What level of staff will be used to manage and coordinate the pre-financing process between Districts and State Agencies.

Senior team members Steve and Vickie will handle these tasks; each has over 25 years of public finance experience.

17. What level of staff will be examining the software licenses?

Senior team member Vickie Hall will handle this task. Vickie has over 27 years of municipal leasing experience.

18. What level of staffing will review applicable purchase orders, invoices, and vendor contracts for consistency and recalculate for pricing accuracy.

Senior team member Vickie Hall will handle this task. Vickie has over 27 years of municipal leasing experience. She will be assisted by Accounting Specialist Shari Goldberg with six years of experience. Shari has been processing the disbursements for the Program since 2019 when Linda Noah was promoted to the Accounting Department of Hilltop Holdings Inc., our parent company.

19. Describe the education plan that the Offeror will use to educate Districts, State Agencies, and vendors to ensure potential participants have a sound working of the program, its structure, and applicable accounting and purchasing procedures.

Please refer to our answer in ***Tab 7, Item 1.***

20. Describe the analytical methods utilized to analyze the character of collateral , useful life of equipment, timing of equipment delivery, cost elements of equipment, and will review vendor contracts and timing of vendor payments.

HilltopSecurities will discuss the planned equipment acquisitions with each Participating User. Follow-up conversations with be had with Special Tax Counsel to discuss any questions about the particular collateral and its useful life. Vendor payments can be requested as early as the funding date and this will be communicated to the Participating Users.

21. Provide examples of past similar work, featuring spreadsheet breakdowns by client, or District or State Agency. Spreadsheets may include but not limited to: equipment description, equipment cost, anticipated delivery, and acceptance.

HilltopSecurities has included a sample spreadsheet in this ***Tab 7.***

22. Describe the method of Distribution for financing documents to all applicable parties.

HilltopSecurities will provide documents by methods that are convenient for the other participants. Generally speaking, we will circulate information and drafts by email. Documents for execution are distributed in several ways. For instance, some Participating Agencies are comfortable with receiving execution documents by email, accompanied by a letter of instruction for printing, signing and returning. Others prefer to receive paper copies and in those instances, we will provide execution copies via FedEx. Still others choose to meet in DFA's offices in Jackson for a physical signing which we have accommodated on a number of occasions.

23. Describe the method(s) the advisor utilized to solicit program fees and make award recommendation for Trustee, Trustee's attorney, and rating agency, if applicable.

Hilltop often assists its clients in soliciting via RFPs for engagements such as Trustee, Bond Counsel, Disclosure Counsel, Underwriters, Verification Agent, Paying Agent, Escrow Agent, etc. In doing so we work with the issuer to develop a set of criteria specific to the engagement and submit the RFP to parties known to provide such services. We then summarize the responses and review them with the client after which Hilltop will make a recommendation as to which vendor is providing the most value to the client.

Rating agencies however usually have pre-set fee structures based on the underlying credit (GO, Revenue, Short-Term, Long-Term, Fixed Rate, Variable Rate, etc.) and issue size. As such, we typically solicited a quote whichever rating agency provides the lowest cost would be awarded the transaction.

24. Describe the Bid method used to obtaining a guaranteed investment contract.

Due to the interest rate environment over the last several years short term rates have too low to offset the cost of bidding out a guaranteed investment contract. While we do not see this market dynamic changing in the foreseeable future Hilltop does have a fully staffed investment bidding desk we can make available to bid out any GICs. The process would involve developing bid specs particular to the transaction which would then be sent to a list of potential GIC providers known to bid on similar funding requirements. The bid would be set to occur on the same date and time as any lease bids are due so that the GIC earnings could be taken into account to determine any final sizing requirements.

25. Describe the instruction process in detail for escrowed funds in the Acquisition Account pursuant to Trust Indenture.

At the funding for each series, the aggregate Equipment Cost is wired to the Trustee for the Program (currently US Bank, National Association, Brandon, MS). The Trustee credits each Participating User with its individual Equipment Cost. As a Participating User accepts one or more items of equipment, it completes and submits a Disbursement Request to Shari Goldberg and Vickie Hall. Shari logs in the Disbursement Request and matches the equipment to the Equipment listed in the lease documents. Shari and Vickie both review the Disbursement Request for required documentation, such as title applications, mathematical accuracy, payment instructions, etc. After the review and any follow-up with the Participating User, HilltopSecurities emails the Disbursement Request to the Trustee, where a second review is conducted. When the Trustee is satisfied that the Disbursement Request is accurate, it arranges either for wire transfer or check payment, as directly by the Participating User.

Interest earned on the Acquisition Account is credited to the individual Participating Users.

26. Describe the distribution process the Advisor will use for closing transcripts and post-sale analysis.

HilltopSecurities will provide closing transcripts and requested post-sale analyses by the method requested. These documents are frequently provided electronically; other times by physical delivery.

27. Provide an example of the post-sale analysis report, referencing past similar work.

Upon request, HilltopSecurities can provide a post-sale analysis summarizing the important details of the transaction. We have done this for many of our clients. Some clients like a simple, short synopsis of the transaction to present to their Board or Council, others like a more detailed approach. We can tailor the Program's post-sale analysis report to meet the Programs desires. An example of a post-sale analysis report we have done recently can be found in this ***Tab 7***.

28. Provide an explanation of the following: Can advisor assist the Office in the development of a solicitation for Bond and Tax Counsel? Please describe.

Yes, HilltopSecurities can assist the Office in the development of a solicitation for Bond and Tax Counsel. We reviewed and commented on drafts of a recent solicitation for special tax counsel, as requested by DFA.

29. Provide an explanation of the following: Can advisor assist the Office in the development of a solicitation for Trustee? Please describe.

Yes, HilltopSecurities can assist the Office in the development of a solicitation for Trustee. Although it has been several years ago, we reviewed and commented on drafts of DFA's solicitation for Trustee for the Programs.

30. A complete description of the programs, which must describe the events which will take place as well as the documents that will be used. This should include a description of the educational and training programs that will be used.

Please refer to our answer to the identical question in ***Tab 7, Item 1.***

31. Provide a detailed explanation of any legal, financial or other concerns which would pertain to the following situations: (a) lease purchase of an airplane, (b) funds remaining in an acquisition account for three years, (c) pay off prior to the final scheduled payment date, and (d) change orders which require additional funding for previously funded projects.

This should include any additional forms, records, or approvals which must be considered for items (a) – (d). Rate the Offerors' general knowledge of issues which have or may develop under the Programs.

Please refer to our answer to the identical question in ***Tab 7, Item 7.***

32. Offerors must submit a complete description of the method or methods that will be used to obtain funding.

Please refer to our answer to the identical question in ***Tab 7, Item 11.***

Sample Equipment Questionnaire

1. Contact information:
    a. Contact name:
    b. School/Community College District
    c. Phone Number
    d. E-Mail address
2. Equipment description: Please describe the equipment to be purchased. Include, as applicable, the equipment name, vendor, year/make/model, quantity to be ordered, and cost. Please be as specific as possible.
3. Explain why the equipment is essential to carrying out the mission of the District. List any benefits that will be achieved with the new equipment and any limitations of existing equipment.
4. Is the equipment replacing/upgrading current equipment? If so, is the existing equipment being disposed of, traded in, or used by another area within the District? If the existing equipment will be used by another area within the District, please give a brief description of the existing equipment.
5. If applicable, list other departments that will utilize the equipment to be acquired.
6. How will the District benefit from the new equipment?
7. For vehicle purchases only: Please provide the following information.
    a. Who provides maintenance on the vehicle?
    b. Does the District maintain a formal vehicle replacement policy?
    c. Who operates the vehicle?
    d. Will the vehicle be parked overnight on employee property?
    e. Is the vehicle replacing a current vehicle? Describe the limitations of the current vehicle and benefits of replacement.
    f. Does the District self-insure for property loss or is insurance provided by third party commercial insurance coverage?

HilltopSecurities

A Hilltop Holdings Company

Hilltop Securities Inc.

Financial Statements and Supplemental Schedules
Pursuant to Rule 17a-5 of the
Securities and Exchange Commission
For the Year Ended December 31, 2020
With Report of Independent Registered Public Accounting Firm

This report is deemed CONFIDENTIAL in accordance
with Rule 17a-5(e)(3) under the Securities Exchange Act of 1934
A statement of financial condition, compliance report and examination report,
bound separately, have been filed with the
Securities and Exchange Commission
simultaneously herewith as a Public Document.

UNITEDSTATES
SECURITIESANDEXCHANGECOMMISSION
Washington, D.C. 20549

OMB APPROVAL
OMB Number: 3235-0123
Expires: October 31, 2023
Estimated average burden hours per response...... 12.00

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

SEC FILE NUMBER
8-

FACING PAGE
Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING January 1, 2020 (MM/DD/YY) AND ENDING December 31, 2020 (MM/DD/YY)

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Hilltop Securities Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1201 Elm Street, Suite 3500
(No. and Street)

Dallas	TX	75270
(City)	(State)	(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Laura Leventhal 214-859-1026
(Area Code – Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers, LLP
(Name – *if individual, state last, first, middle name*)

2121 N. Pearl Street	Dallas	TX	75201
(Address)	(City)	(State)	(Zip Code)

CHECK ONE:

- [x] Certified Public Accountant
- [ ] Public Accountant
- [ ] Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

**Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)*

OATH OR AFFIRMATION

I, M. Bradley Winges, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hilltop Securities Inc., as of December 31, 20 20, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

VILMA I GALVAN
Notary Public, State of Texas
Comm. Expires 02-17-2022
Notary ID 10749327

M. Bradley Winges
Signature

President and Chief Executive Officer
Title

Vilma I. Galvan
Notary Public

This report ** contains (check all applicable boxes):

- [x] (a) Facing Page.
- [x] (b) Statement of Financial Condition.
- [x] (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- [x] (d) Statement of Changes in Financial Condition.
- [x] (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- [x] (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- [x] (g) Computation of Net Capital.
- [x] (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- [x] (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- [ ] (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- [ ] (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- [x] (l) An Oath or Affirmation.
- [ ] (m) A copy of the SIPC Supplemental Report.
- [ ] (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

***For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).*

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of Hilltop Securities Inc.

Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of Hilltop Securities Inc. (the "Company") as of December 31, 2020, and the related statements of income, of changes in stockholder's equity, of cash flows, and of changes in liabilities subordinated to claims of general creditors for the year then ended, including the related notes (collectively referred to as the " financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Supplemental Information

The accompanying Computation of Net Capital Pursuant to Rule 15c3-1 of the Securities Exchange Act of 1934 and CFTC Regulation 1.17, Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934, Information for Possession or Control Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934, and Computation for Determination of PAB Account Reserve Requirements of Brokers and Dealers Under Rule 15c3-3 of the Securities Exchange Act of 1934 as of December 31, 2020 (collectively, the "supplemental information") has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

PricewaterhouseCoopers LLP
February 26, 2021

We have served as the Company's or its predecessor's auditor since 2013.

Hilltop Securities Inc.
Statement of Financial Condition
Confidential Treatment Requested
December 31, 2020

(dollars in thousands, except par and redemption values)

Assets		
Cash	$	39,858
Assets segregated for regulatory purposes		290,357
Receivable from brokers, dealers and clearing organizations		1,677,223
Receivable from clients, net of allowance of $213		268,685
Securities owned, at fair value		688,303
Securities purchased under agreements to resell		80,319
Goodwill		7,008
Customer intangibles, net of accumulated amortization of $13,306		3,494
Operating lease right-of-use assets		17,925
Fixed assets, at cost, less accumulated depreciation of $24,867		18,427
Deferred tax asset, net		13,767
Other assets and receivables, net of allowance of $4,327 (including $4,743 due from affiliates)		67,810
Total assets	$	3,173,176
Liabilities and Stockholder's Equity		
Short-term borrowings	$	-
Payable to brokers, dealers, and clearing organizations (including $457 due to affiliate)		1,368,852
Payable to clients (including $300 clearing deposit due to affiliate)		497,170
Drafts payable		18,176
Securities sold, not yet purchased, at fair value		79,767
Securities sold under agreements to repurchase		237,856
Commercial paper		277,617
Operating lease liabilities		22,961
Subordinated debt due to affiliate		42,000
Accrued expenses and other liabilities (including $17,189 due to affiliates)		201,785
Total liabilities		2,746,184
Stockholder's equity:		
Series A preferred stock, $20 par value, $1,000 redemption value; authorized 100,000 shares; no shares issued and outstanding		-
Class A voting common stock of $1 par value; authorized 10,000 shares; issued and outstanding 2,820 shares		3
Class B nonvoting common stock of $1 par value; authorized 10,000 shares; none issued		-
Additional paid-in capital		295,770
Retained earnings		131,219
Total stockholder's equity		426,992
Total liabilities and stockholder's equity	$	3,173,176

The accompanying notes are an integral part of these financial statements.

Hilltop Securities Inc.
Statement of Income
Confidential Treatment Requested
Year Ended December 31, 2020

(in thousands)

Revenues:		
Net gains on principal transactions	$	203,048
Investment banking, advisory and administrative fees		141,630
Interest		93,954
Commissions		82,344
Net revenues from clearing operations		12,757
Other		11,964
Total revenues		545,697
Expenses:		
Commissions and other employee compensation		279,846
Interest		55,771
Occupancy, equipment and computer service costs		34,305
Communications		14,458
Floor brokerage and clearing organization charges		8,299
Advertising and promotional		4,084
Other		39,296
Total expenses		436,059
Income before income tax expense		109,638
Income tax expense		25,624
Net income	$	84,014

The accompanying notes are an integral part of these financial statements.

Hilltop Securities Inc.
Statement of Changes in Stockholder's Equity
Confidential Treatment Requested
Year Ended December 31, 2020

(dollars in thousands)

	Class A Voting Common Stock		Additional Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance at December 31, 2019	2,820	$ 3	$ 290,015	$ 100,664	$ 390,682
Net income	-	-	-	84,014	84,014
Accumulated adjustment on CECL implementation, **Note 2**	-	-	-	(859)	(859)
Dividend to Hilltop Securities Holdings LLC	-	-	-	(52,600)	(52,600)
Capital Contribution from Hilltop Securities Holdings LLC	-	-	3,400	-	3,400
Restricted stock plan	-	-	2,355	-	2,355
Balance at December 31, 2020	2,820	$ 3	$ 295,770	$ 131,219	$ 426,992

The accompanying notes are an integral part of these financial statements.

Hilltop Securities Inc.
Statement of Cash Flows
Confidential Treatment Requested
Year Ended December 31, 2020

(in thousands)

Cash flows from operating activities:		
Net income	$	84,014
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax benefit		(1,461)
Depreciation and amortization		6,336
Lease expense		8,485
Loss on sale/write-off of fixed assets		296
Compensation expense for restricted stock		2,477
CECL Provision		488
Accretion expense on discount on commercial paper		3,866
Changes in operating assets and liabilities:		
Receivable brokers, dealers and clearing organizations		429,083
Receivable client, net		48,256
Securities owned, at fair value		(4,510)
Securities purchased under agreements to resell		(21,288)
Other assets		(24,988)
Payable brokers, dealers and clearing organziations		(237,122)
Payable clients		84,988
Drafts payable		(3,135)
Securities sold, not yet purchased, at fair value		35,950
Accrued expenses and other liabilities		38,322
Net cash provided by operating activities		450,057
Cash flows from investing activities:		
Purchase of fixed assets		(6,265)
Net cash used in investing activities		(6,265)
Cash flows from financing activities:		
Payments on short-term borrowings		(3,922,000)
Cash proceeds on short-term borrowings		3,811,000
Issuance of commercial paper		971,919
Maturity of commercial paper		(717,424)
Payments on notes payable to Hilltop Securities Holdings LLC		(27,402)
Dividend to Hilltop Securities Holdings LLC		(52,600)
Payments on securities sold under agreements to repurchase		(348,795)
Capital contribution from Hilltop Securities Holdings LLC		3,400
Net cash used in financing activities		(281,902)
Net change in cash		161,890
Cash and restricted cash at beginning of year		168,325
Cash and restricted cash at end of year	$	330,215

(continued)

The accompanying notes are an integral part of these financial statements.

(continued)

Reconciliation of Cash and Restricted Cash to Statement of Financial Condition		
Cash	$	39,858
Assets segregated for regulatory purposes		290,357
Total cash and restricted cash	$	330,215
Supplemental disclosure of cash flow information:		
Cash paid for interest	$	53,706
Cash paid for taxes, net of refunds		33,451
Supplemental disclosure of non-cash activities:		
Forfeitures of restricted stock awards	$	122
Right-of -use assets obtained in exchange for new lease obligations		11,601
Early termination of right-of-use asset		686

The accompanying notes are an integral part of these financial statements.

Hilltop Securities Inc.
Statement of Changes in Liabilities Subordinated to Claims of General Creditors
Confidential Treatment Requested
Year Ended December 31, 2020

(in thousands)

Subordinated borrowings at December 31, 2019	$	42,000
Increases		-
Decreases		-
Subordinated borrowings at December 31, 2020	$	42,000

The accompanying notes are an integral part of these financial statements.

1. Organization

Hilltop Securities Inc. (the "Company"), a Delaware Company and a wholly owned subsidiary of Hilltop Securities Holdings LLC ("Securities Holdings"), a wholly owned subsidiary of Hilltop Holdings Inc. ("Parent"), is a New York Stock Exchange ("NYSE") member broker-dealer, a registered investment advisor, a member of the Financial Industry Regulatory Authority ("FINRA") and a member of the Securities Investor Protection Corporation ("SIPC"). The Company is registered with the Securities and Exchange Commission (the "SEC") as a broker-dealer under the Securities Exchange Act of 1934 ("Exchange Act") and as a registered investment advisor under the Investment Advisors Act of 1940. The Company is also registered with the Commodity Futures Trading Commission ("CFTC") as a non-guaranteed introducing broker and is a member of the National Futures Association ("NFA").

2. Summary of Significant Accounting Policies

Securities Transactions

Proprietary securities transactions are recorded on trade date. Clients' securities and commodities transactions are reported on a settlement date basis with related commission income and expenses reported on a trade date basis, which is discussed in detail under the Revenue Recognition accounting policy.

Marketable securities are valued at fair value, based on quoted market prices, and securities not readily marketable are valued at fair value as determined by management**.** The Company evaluates fair value measurements by considering observable data that may include prices from independent pricing services, dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, and the financial instruments' terms and conditions, among other factors. The increase or decrease in net unrealized gains or losses of securities owned is credited or charged to operations and is included in net gains on principal transactions in the statement of income. Interest income is recorded on these securities when earned.

The net receivable or payable arising from unsettled trades is reflected in receivable from or payable to brokers, dealers, and clearing organizations in the statement of financial condition.

Fixed Assets and Depreciation

Fixed assets are comprised of furniture and equipment ($30,969) and leasehold improvements ($12,325) which are stated at cost, less accumulated depreciation. Depreciation of furniture and equipment is provided over the estimated useful lives of the assets (from three to seven years), and depreciation on leasehold improvements is provided over the shorter of the useful life or the lease term (up to fifteen years) using the straight-line method. Additions, improvements and expenditures for repairs and maintenance that significantly extend the useful life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to expense in the period incurred.

Goodwill and Customer Intangibles

Goodwill represents the excess of cost over the fair value of the net assets acquired. The Company performs required annual impairment tests of its goodwill as of October 1st. The goodwill impairment test requires the Company to make judgments in determining what assumptions to use in the calculation. The process consists of estimating the fair value of the Company based on valuation techniques, including a discounted cash flow model using revenue and profit forecasts and recent industry transaction and trading multiples of the Company's peers, and comparing those estimated fair values with the carrying values of the assets and liabilities of the Company, which includes goodwill. If the estimated fair value is less than the carrying value, the Company recognizes an impairment charge for the amount by which the carrying amount exceeds the Company's fair value; however, the loss recognized will not exceed the total amount of goodwill recorded.

(dollars in thousands, except par and redemption values)

At October 1, 2020, the Company determined that the estimated fair value of the Company exceeded its carrying value. As a result, the Company concluded that the Company's goodwill was not impaired.

The Company recorded two separate customer relationship intangibles as part of the acquisition of First Southwest Company, LLC ("FSC") by the Parent in November 2012 and the merger of SWS Group, Inc., the former parent of the Company, with the Parent in January 2015, which are being amortized over a 12 and 14 year period, respectively, at a rate based on the sum of the year's digits.

The Company determined that no impairment for the Company's intangible assets was necessary during the year ended December 31, 2020.

The estimated aggregate future amortization expense for the customer relationship intangibles at December 31, 2020 is as follows:

2021	$ 958
2022	786
2023	614
2024	441
2025	278
Thereafter	417
	$ 3,494

Resale and Repurchase Agreements

Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements or reverse repos) or sales of securities under agreements to repurchase (repurchase agreements or repos) are accounted for as collateralized financings. It is the policy of the Company to obtain possession of collateral with a fair value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate. Interest payable and interest receivable on these amounts are included in the statement of financial condition in other liabilities and other assets, respectively.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases with a term of greater than one year are included in operating lease right-of-use ("ROU") assets and operating lease liabilities on the Company's statement of financial condition. The Company has lease agreements with lease and non-lease components, which are generally accounted for as a single lease component. Leases of low-value assets are assessed on a lease-by-lease basis to determine the need for statement of financial condition capitalization.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized on the lease commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses the incremental borrowing rate commensurate with the lease term based on the information available at the lease commencement date in determining the present value of lease payments. No significant judgments or assumptions were involved in developing the estimated operating lease liabilities as the Company's operating lease liabilities largely represent the future rental expenses associated with operating leases, and the incremental borrowing rates are based on publicly available interest rates. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease. These options to extend or terminate are assessed on a lease-by-lease basis, and the ROU assets and lease liabilities are adjusted when it is reasonably certain that an option will be exercised. Rental expense for lease payments is recognized on a straight-line basis over the lease term and is included in occupancy, equipment and computer service costs within the statement of income.

Internal Use Software
In August 2018, Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2018-15, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include internal-use software licenses). On January 1, 2020, the Company adopted the provisions of ASU 2018-15. As a result, the Company's service contracts in a cloud computing arrangement (hosting arrangement) are capitalized according to policy, amortized over the term of the hosting arrangement and included in the statement of financial condition in other assets.

Securities Borrowing and Lending Activities
Securities borrowed and securities loaned transactions are generally reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash, letters of credit, or other collateral with the lender. With respect to securities loaned, 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 borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received adjusted for additional collateral obtained or received. Securities borrowed and securities loaned, as well as the interest accrued on such transactions are included in the statement of financial condition in receivables from and payables to brokers, dealers and clearing organizations. Interest revenue and interest expense on securities borrowed and securities loaned transactions are included in the statement of income in interest revenue and interest expense, respectively.

Drafts Payable
In the normal course of business, the Company uses drafts to make payments relating to its brokerage transactions. These drafts are presented for payment through an unaffiliated bank and are sent to the Company daily for review and acceptance. Upon acceptance, the drafts are paid.

Revenue Recognition
Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* outlines a single comprehensive model for entities to depict the transfer of goods or services to customers in

amounts that reflect the payment to which a company expects to be entitled in exchange for those goods or services. Net gains on principal transactions and interest revenue are not within the scope of ASC 606.

Significant Judgments
Revenue from contracts with customers includes commission income and fees from investment banking and asset management services. The recognition and measurement of revenue is based on the assessment of individual contract terms. Significant judgment is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company's progress under the contract; whether revenue should be presented gross or net of certain costs; and whether constraints on variable consideration should be applied due to uncertain future events.

Investment Banking, Advisory and Administrative Fees
Public Banking
Under financial advisory agreements, the Company provides public finance services for school districts, municipalities and government agencies to meet their financing needs such as assisting with the issuance of debt, advising on an on-going basis and providing disclosure statements. The Company also provides portfolio management and local government investment pool administration.

These agreements have six distinct performance obligations, financial advisory, retainer, consulting, continuing disclosure, placement and administration.

Financial advisory
Revenue from financial advisory service contracts is earned from services related to bond issuances. The fee is either fixed or calculated based on the par value of the bond issuance. Revenue is recognized when the performance obligation for the transaction is satisfied, which is the bond issuance date.

Retainer
Revenue from retainer service contracts is earned from on-going general financial services that may or may not lead to debt issuances. The Company provides on-going general financial services that will guide the client in making financial decisions that may include the issuance of debt. The fees are fixed, and the performance obligation is satisfied over time. The fees are recognized as services are being provided over the service period notated in the customer contract. Any up-front payments are deferred until recognized and were not material at December 31, 2020.

Consulting
Revenue from consulting service contracts is earned from debt services for bond issues, with fees generally based on an hourly rate and from non-debt issuance services, with fees either fixed or based on an hourly rate. Revenue from consulting fees relating to debt services is recognized at a point in time, when the performance obligation for the transaction is satisfied, which is the delivery of bonds, and revenue from consulting fees relating to non-debt issuance services is recognized at a point in time when the performance obligation for the defined project is complete and made available to the customer, at the closing date of the transaction.

Continuing disclosure
Revenue from continuing disclosure service contracts is earned from services provided to its customers in the form of disclosures made to the investing public pertaining to debt obligations as set forth by the SEC. The fees for these services are based on the percent of the transaction, on an hourly rate or are fixed. These amounts are generally recognized at the point in time that the performance under the arrangement is completed, which is the issuance of the report.

Placement
Revenue from placement service contracts is earned from services to act as a placement agent in connection with the issuance of financial securities. These amounts are generally recognized at the point in time that the performance under the arrangement is completed, at the closing date of the transaction.

Administration
The Company provides administrative, marketing, and participant services for investment pools. These pools provide government entities with the flexibility to meet their cash management objectives. The purpose of the pools is to group funds of municipalities into a larger fund size whereby they receive higher returns than if the funds were invested by the municipality on its own. As an administrator, the Company receives fees based on the monthly net assets of the individual programs. Though these fees are variable in nature, Company management has determined that the fees are not constrained and are recognized on a monthly basis.

Underwriting
The Company underwrites securities for business entities and governmental entities that want to raise funds through a sale of securities. Revenues are earned from fees arising from securities offerings in which the Company acts as an underwriter. Revenue is recognized on the trade date (the date on which the Company purchases the securities from the issuer) for the portion the Company is contracted to buy. The Company believes that the trade date is the appropriate point in time to recognize revenue for securities underwriting transactions, as there are no significant actions which the Company needs to take subsequent to this date and the issuer obtains the control and benefit of the capital markets offering at that point.

Money Market and Bank-Insured Fund Fees
The company earns revenue for placing clients' deposits in money market fund and brokerage sweep programs with third-party and affiliate banks. The amounts earned from these funds and banks are impacted by short-term interest rates. The performance obligations with the funds and financial institutions that participate in these programs are considered a series of distinct services that are substantially the same and are satisfied each day over the contract term. The revenue is earned daily and settled monthly based on a rate applied, as a percentage, of the deposits placed.

Managed Money
The Company receives a management fee in connection with management and investment advisory services performed for separately managed accounts. The performance obligation related to the transfer of these services is satisfied over time. These fees are recorded when earned based on the period-end value of account assets. Though these fees are variable in nature, the Company has determined that the

fees are not constrained and are recognized as revenue during the period in which the services are provided.

Structured housing and products
The Company assists housing finance corporations in issuing bonds and other financial structures to fund qualified home buyer mortgages or rental housing either by offering financial advisory services to the finance corporation or acting as the underwriter to bond issuances. The Company also assists customers in finding investment vehicles for the funds raised by public entities from bond issuances and provides financial advisory support to public entities by creating comprehensive financing and hedging plans applicable to balance sheet management while complying with Treasury Regulations. In addition, the Company provides periodic monitoring of these investment vehicles and an annual accounting valuation and effectiveness testing for derivative contracts. The transaction price varies depending on the services contracted by the customer. These fees are generally variable in nature and are based on the value of the underlying product. These fees are generally recognized at the point in time that performance under the arrangement is completed, which is the closing date of the transaction.

Commissions
Brokerage
The Company buys and sells securities on behalf of its customers. Each time a customer enters a buy or sell transaction, the Company charges a commission. Commissions and related clearing expenses are recorded on the trade date (the date that the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer.

12b-1
As a mutual fund distributor, the Company earns 12b-1 fees for marketing and distribution of such funds to its customers. The Company acts both directly as a mutual fund distributor for mutual funds that they directly contract with, commonly known as "direct mutual funds" and indirectly through a mutual fund service provider. The amount of distribution fees revenue is calculated based on a fixed rate, as a percentage, of the net asset value of the funds and recognized when the Company determines that it is probable that a significant reversal will not occur. The Company believes the performance obligation is satisfied at the time of each individual sale. However, the Company has determined that the distribution fees are variably constrained and is unable to estimate the total amount earned from these transactions due to a broad range of possible amounts from factors outside of the Company's control. These factors include, but are not limited to, changes in net asset value of the funds due to market forces that cannot be reasonably estimated and client behavior, such as how long the shareholder will hold the investment in the fund. Amounts earned are collected monthly or quarterly. Any amounts not collected as of year-end are accrued and reported in other assets in the statement of financial condition. No material amounts were determined to be receivable at December 31, 2020.

Net Revenues from Clearing Operations
Under clearing agreements, the Company clears trades for unaffiliated correspondent brokers and Hilltop Securities Independent Network Inc. ("HTIN"), an affiliate and charges fees for its services. Management has determined that they are an agent in the transactions performed for the correspondent brokers. The correspondent is primarily responsible for fulfilling the terms of their customer contracts.

The correspondent brokers have contracted with the Company to fulfill their customers' transactions. As an agent, the Company records the fees earned for facilitating the transfer of goods and services, and fees earned based on the correspondent broker contract less any fees earned by the correspondent broker on their customer transactions (i.e. commission) as revenue. The net revenue earned is satisfied over time, as the services performed are unique to each correspondent broker and recognized on a monthly basis.

Other Revenue

Mutual fund services fee

The Company has contracted with a mutual fund provider to perform mutual fund clearing services for the Company, and in return, the Company, as an introducing broker-dealer, will sell and/or distribute securities on the funds'/distributors' behalf, in exchange for commissions and fees. The mutual fund provider pays to the Company a fee for services rendered by the Company. These services include maintenance, shareholder communications, transactional services and Customer tax information returns and reports filings. Revenue for the mutual fund services fees is variable in nature and predicated on the initial mutual fund transaction with the Company's customer. The Company has determined that the shareholder services fees are constrained and are only recognized as revenue to the extent that it is probable that a significant reversal will not occur when any uncertainty in the amount received from the mutual fund is ultimately resolved. The Company is unable to estimate these fees as management has determined that these fees are highly susceptible to factors outside the Company's control and influence. As a result, the Company recognizes the related revenue at a point in time when the fees become calculable. The contracts with the mutual fund service provider govern the payment frequency of the cash remittance to the Company (i.e. monthly or quarterly in arrears) and the payment is due typically between 30 days after month or quarter end, resulting in the recording of the earned fees as other assets on the statement of financial condition until these amounts are received from the mutual funds, if applicable. At December 31, 2020, no material amounts were deemed receivable from the mutual fund service provider.

Miscellaneous brokerage fees

Miscellaneous brokerage fees are specific fees contracted by the brokerage customer for services performed by the Company and are charged on a transactional basis. Revenue for these fees are recognized in a manner similar to commissions, as noted above in *Commissions-Brokerage,* at the time of the completion of the performance obligation.

Insurance

The Company receives commissions from the sale of insurance policies facilitated by Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. Southwest Financial Insurance Agency, Inc., as well as, Southwest Insurance Agency, Inc. are affiliates of the Company. These entities hold insurance agency licenses to facilitate the sale of insurance and annuity products. The Company retains no underwriting risk related to the insurance and annuity products sold. The commissions are earned in the form of up-front commissions that are received upon the initial sale to the customer and acceptance of the insurance product by the carrier. Additional commissions are earned from the carriers, based on the commission schedules in place at the time of the initial policy sale, over a stated period of time as long as the Company is the broker-dealer of record and the contract is viable, commonly known as "trails". Based on industry practice, the trails earned follow the sales representative. These trails are variable in nature and the Company has determined that the additional amounts earned, subsequent to those earned on the sale date, are constrained and are only recognized as revenue to the extent that it is probable that a significant reversal will not occur when any uncertainty in the amount received from the carriers is ultimately resolved. Upon acceptance of the insurance product by the carrier, the Company is unable to estimate these subsequent trails due to the large number and broad range of possible amounts unknown at the time of the sale of the policy to the customer. The Company recognizes the related revenue for the trails as the amounts become known and/or estimable. The contracts with the carriers govern the payment frequency of the trail cash remittance to the Company (i.e. monthly or quarterly in arrears) and the payment is typically due 30 days after month or quarter end, resulting in the recording of earned trails as other assets on the statement of financial condition until these funds are received from the carriers, if applicable. At December 31, 2020, no material amounts were deemed receivable from the insurance carriers.

Commission Expense
The Company pays the contracted representative agreed upon trade execution service fees, commonly known as "commission expense," for the sales of various products, including insurance, mutual funds and stocks. Commission expense is recognized on trade date, the date the commission revenue is recognized for trade execution services. The Company believes that the performance obligation is satisfied on trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer. Trading commissions are collected on settlement date, or monthly or quarterly in arrears as dictated by contractual terms.

For insurance commission trails, 12b-1 fees and shareholder services fees, commission expense is recognized on the date the associated commission revenue is known or calculable.

Commission expense is recorded gross on the statement of income as the Company has determined that it is the principal in regard to the services performed.

Floor brokerage and clearing organization charges
Clearing expenses are recorded on a trade-date basis as securities transactions occur.

Other expenses
Advisory services from public banking and underwriting costs are shown gross in the statement of income, as the Company has determined that the Company is a principal with respect to its portion of the services performed for the customer. The Company is responsible for fulfilling the terms of the contract and bears the risk of loss until the service has been transferred to the customer.

The Company pays fees to outside third parties for platform administration and model implementation associated with its management and investment advisory services. In regard to these services, the Company has determined that it is the principal in regard to the administrative services performed. Therefore, any revenue and expenses are reported gross on the statement of income.

Pass-through expenses
Amounts collected on behalf of third parties, such as postage fees, are not included in the transaction price as they are collected from the customer to cover the cost of sending out customer correspondence. The Company has determined that it acts as an agent in these transactions as it is collecting the postage on behalf of a third-party. As a result, the fees associated with the postage for customer correspondence are netted against the funds received from the customer for this service, which are included in other revenue on the statement of income.

(dollars in thousands, except par and redemption values)

The following table presents revenue by major source for the year ended December 31, 2020:

Revenue from contracts with customers		
Investment banking, advisory and administrative fees		
Advisory services--public banking	$	68,891
Underwriting fees		24,090
Money market and bank-insured fund fees		20,606
Advisory services--managed money		18,978
Structured housing and products		6,417
Other		2,648
	$	141,630
Commissions		
Brokerage commissions	$	77,554
12b-1 fees		3,237
Other		1,553
	$	82,344
Net revenues from clearing operations	$	12,757
Other		
Mutual fund services fee	$	3,745
Miscellaneous brokerage fees		3,160
Insurance income		2,794
Other		2,265
	$	11,964
Total Revenue from contracts with customers	$	248,695
Revenue not in scope of ASC 606		
Net gains on principal transactions	$	203,048
Interest		93,954
	$	297,002
Total revenues	$	545,697

Cash Flow Reporting
For the purpose of presentation in the statements of cash flows, cash and restricted cash are defined as the amounts included in the statement of financial condition's captions "Cash" and "Assets segregated for regulatory purposes." The Company considers cash to include cash on hand and in bank accounts. In addition, highly liquid debt instruments purchased with maturities of three months or less, when acquired, are considered to be cash equivalents. The Federal Deposit Insurance Corporation ("FDIC") insures deposit accounts up to $250. At December 31, 2020, the cash balances included $39,392 that was not federally insured because they exceeded federal insurance limits. This at-risk amount is subject to fluctuation on a daily basis.

Derivative Financial Instruments
The Company uses various derivative financial instruments to mitigate interest rate risk. The Company uses forward commitments to both purchase and sell mortgage backed securities to facilitate customer transactions and as a means to hedge related exposure to interest rate risk in certain inventory positions. Additionally, the Company uses U.S. treasury and Eurodollar futures, options and municipal market data ("MMD") rate locks to hedge changes in the fair value of its securities.

Derivative financial instruments arise from the execution of forward purchase commitments of mortgage-backed securities with certain clients, which allow those clients to make mortgage loans at agreed-upon rates. The Company hedges the interest rate risk generated by the forward purchase commitments by executing forward sales of to-be-announced mortgage-backed securities (TBA). The amount hedged is influenced by the Company's estimated ratio of the forward purchase commitments that will not be securitized into mortgage-backed securities as part of the program (fallout rate). The Company uses historical experience, changes in interest rates, and other factors to estimate the fallout rate.

The Company also utilizes a portfolio of exchange-traded derivative instruments to achieve a fair value return that economically hedges changes in the fair value of their securities products. These derivative instruments include both Eurodollar and Treasury Futures, options and municipal market data rate locks.

While the forward purchase commitments, TBAs, and U.S. Treasury and Eurodollar futures and options and municipal market data rate locks meet the definition of a derivative under the provisions of ASC 815 "*Derivatives and Hedging*," they do not qualify for hedge accounting. These derivative securities are carried at fair value and recorded in other assets and other liabilities in the statement of financial condition with unrealized and realized gains recorded in net gains on principal transactions in the statement of income.

Derivative contracts expose the Company to credit risk, the risk that derivative counterparties may fail to meet their payment obligations under the derivative contracts and the collateral, if any, held by the Company proves to be of insufficient value to cover the payment obligation.

While derivative receivables expose the Company to credit risk, derivative payables expose the Company to liquidity risk, as the derivative contracts typically require the Company to post cash or securities collateral with counterparties as the fair value of the contracts moves in the counterparties' favor.

Income Taxes
The Company files consolidated federal and state income tax returns with its Parent. The Company provides for income taxes on a separate return basis, except that, under an agreement between the Parent and the Company, tax benefits are recognized for losses to the extent they can be used in the consolidated return. It is the policy of the Parent to reimburse its subsidiaries for any tax benefits recorded. Under a written tax-share agreement, the Parent collects from or refunds to the Company federal and state income taxes determined as if the Company filed separate income tax returns. In certain states, the Company pays and files on a separate company basis. The Company generally settles with the Parent on a quarterly basis for federal and unitary state income taxes estimated tax payments, yearly for the tax provision and yearly when the federal and unitary state tax returns are finalized.

For purposes of these financial statements, income taxes are computed on the benefits-for-loss method. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company assesses the ability to realize its deferred tax assets based upon the weight of available evidence, both positive and negative. To the extent the Company believes that it is more likely than not that some portion or all of the deferred tax assets will not be realized, the Company will establish a valuation allowance.

Fair Value of Financial Instruments
Fair value accounting establishes a framework for measuring fair value. Under fair value accounting, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date in the principal market in which the reporting entity transacts. Further, fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, fair value accounting establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Under the standard, fair value measurements are separately disclosed by level within the fair value hierarchy.

The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 — Quoted prices in an active market for identical assets or liabilities. Assets and liabilities utilizing Level 1 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio. Valuation of these instruments does not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.

- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Assets and liabilities utilizing Level 2 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio and the Company's commitments to purchase and sell derivative securities. These financial instruments are valued by quoted prices that are less frequent than those in active markets or by models that use various assumptions that are derived from or supported by data that is generally observable in the marketplace. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying observable market assumptions.

- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. These assets and liabilities would have significant inputs that could not be validated by readily determinable market data and generally would involve considerable judgment by management. The Company does not have any financial instrument assets or liabilities utilizing Level 3 inputs.

Recurring basis:
The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial condition, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Securities Owned and Securities Sold, Not Yet Purchased Portfolio and Derivatives (which are included in other assets on the statement of financial condition).
Securities classified as Level 1 securities primarily consist of financial instruments whose values are based on quoted market prices in active markets such as corporate equity securities and U.S. government and government agency obligations primarily in U.S. treasury securities.

Securities classified as Level 2 securities include financial instruments that are valued using models or other valuation methodologies. These models are primarily industry standard models that consider various assumptions, including time value, yield curve, volatility factors, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Securities in this category include corporate obligations, U.S. government and government agency obligations, municipal obligations, unit investment trusts (UIT) and the Company's derivative securities.

Non-recurring basis:

The following methods and assumptions are typically used in estimating the fair value disclosures for financial instruments:

Cash — For cash, the carrying amount is a reasonable estimate of fair value.

Assets Segregated for Regulatory Purposes — Assets segregated for regulatory purposes may consist of cash and securities with carrying amounts that approximate fair value.

Broker-Dealer and Clearing Organization Receivables and Payables — The carrying amount approximates their fair value.
Client Receivables and Payables – The carrying amount approximates their fair value.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase — Securities purchased under agreements to resell are carried at the amounts at which the securities will subsequently be resold as specified in the agreements. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The carrying amounts approximate fair value due to their short-term nature.

Other Assets and Receivables - The carrying amounts of other assets and receivables approximates their fair values.

Drafts Payable — The carrying amounts approximate their fair values.

Commercial Paper — The carrying amounts approximate fair value due to their short-term nature.

Subordinated Debt Due to Affiliate — The carrying amounts approximate fair value. The subordinated debt has no maturity date and may be paid at any time by the Company.

Accrued Expenses and Other Liabilities - The carrying amounts of accrued expenses and other liabilities approximates their fair values.

Allowance for Credit Losses

In June 2016, FASB issued ASU 2016-13 "*Financial Instruments − Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"* ("CECL") which sets forth a "current expected credit loss" model that requires entities to measure all credit losses expected over the life of an exposure (or pool of exposures) for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The FASB has issued various updates, improvements and technical corrections to the standard since the issuance of ASU 2016-13. The new standard, which is codified in ASC 326, replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. The new standard was effective for the Company January 1, 2020. On January 1, 2020, the Company adopted the new CECL standard with a cumulative-effect adjustment that resulted in a decrease to retained earnings of $899 for the establishment of an allowance for the Company's broker notes and an increase to retained earnings of $40 for the establishment of an allowance for other assets – other receivables.

Receivable from brokers, dealers and clearing organizations
The Company utilizes the collateral maintenance practical expedient for the broker-dealer and clearing organizations accounts that are included in the "receivable from brokers, dealers and clearing organizations" financial statement line item in the statement of financial condition. The accounts in this financial statement line item are fully secured by securities and are appropriately marked-to-market on a daily basis. As a result, no reserve was recorded on this balance at

December 31, 2020. The Company's receivables from broker-dealers and clearing organizations also include amounts receivable from unsettled trades, including amounts related to futures and options on futures contracts executed on behalf of customers, amounts receivable for securities failed to deliver, accrued interest receivables and cash deposits. A portion of the Company's trades and contracts are cleared through a clearing organization and settled daily between the clearing organization and the Company. Because of this daily settlement, the amount of unsettled credit exposures is limited to the amount owed the Company for a very short period of time. The Company continually reviews the credit quality of its counterparties and has not experienced a default. As of December 31, 2020, the allowance for credit losses on receivables from broker-dealers and clearing organizations was not material.

Receivables from Clients
The allowance for credit losses for receivables from clients includes the allowance for customer margin loan losses and correspondent receivables losses and represents management's estimate of the expected credit losses in the company's margin loan portfolio. The margin loan portfolio is monitored daily by Company personnel and is evaluated on an individual basis using the collateral maintenance practical expedient as described in CECL, with any unsecured or partially unsecured account balances at the end of the period reserved at 100%. The collateral maintenance practical expedient allows the Company to compare the fair value of the collateral of each loan as of the reporting date to loan value. The underlying collateral of the loans to customers and correspondents is marked to market daily and any required additional collateral is collected. The allowance represents the amount of unsecured loan balances at the end of the period. The correspondent receivable account represents the net receivable from correspondents for the financing of the correspondent's securities inventory. The receivable is secured by the securities inventory held in custody by the Company.

Other assets
The primary accounts included in other assets financial statement line item of the statement of financial condition that are subject to CECL are broker notes receivable, public finance services receivables, and various miscellaneous receivable amounts. For the broker notes receivable, the Company estimates the allowance for credit losses by considering credit quality indicators, such as historical recoverability of an outstanding broker note balance from employees that left the Company. As such, management uses a loss rate methodology to determine the required reserve. As of December 31, 2020, the reserves were $3,636. The broker notes receivable represents advances to new brokers that are hired. The broker notes are amortized on a straight-line basis over a period ranging from 5-10 years. These accounts are reserved at 100% if the broker has terminated employment and the advance repayment is in question. Past loss history is used to estimate the reserve required for the actively employed brokers. For the public finance services receivables and various other smaller accounts grouped in other assets, the amount of unsettled credit exposures is limited to the amount owed the Company for a very short period of time. The Company has not experienced a default with the counterparties. As a result, the reserves are estimated using a loss rate methodology. These reserves totaled $691. Total CECL reserves included in the other assets financial statement line item on the statement of financial condition totaled $4,327 at December 31, 2020.

(dollars in thousands, except par and redemption values)

Securities purchased under agreements to resell

As stated above under *Resale and Repurchase Agreements*, it is the Company's policy to obtain possession of collateral with a fair value equal to or in excess of the principal amount. The collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate. As such, the Company evaluated the securities purchased under agreements to resell using the collateral maintenance practical expedient as described in CECL, with any unsecured or partially unsecured account balances at the end of the period reserved at 100%.

At December 31, 2020, the Company had allowances recorded in the statement of financial condition related to the following:

	Balance December 31, 2020	Allowance
Receivable from brokers, dealers and clearing organizations	$ 1,677,223	$ -
Receivable from clients	268,898	(213)
Other assets:		
Broker notes receivables	12,640	(3,636)
Public finance receivables	4,510	(40)
Other	54,987	(651)
Securities purchased under agreements to resell	80,319	-
	$ 2,098,577	$ (4,540)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Company has performed an evaluation of subsequent events from January 1, 2021 through February 26, 2021, the date of issuance of the financial statements. There have been no subsequent events that would require recognition and/or disclosure in the financial statements as of December 31, 2020.

3. Assets Segregated For Regulatory Purposes

At December 31, 2020, the Company held cash of $290,357 segregated in special reserve bank accounts for the exclusive benefit of customers under Rule 15c3-3 under the Securities Exchange Act of 1934 ("Exchange Act Rule 15c3-3").

(dollars in thousands, except par and redemption values)

4. Receivable from and Payable to Brokers, Dealers and Clearing Organizations

At December 31, 2020, the Company had receivable from and payable to brokers, dealers and clearing organizations related to the following:

Receivable:		
Securities borrowed	$	1,338,855
Correspondent broker/dealers		180,174
Clearing organizations		93,504
Securities failed to deliver		58,244
Other		6,446
	$	1,677,223
Payable:		
Securities loaned	$	1,245,066
Securities failed to receive		61,589
Correspondent broker/dealers		33,570
Trades in process of settlement, net		21,765
Other		6,862
	$	1,368,852

The Company participates in the securities borrowing and lending business by borrowing and lending securities. Securities borrowed and loaned represent deposits made to or received from other broker-dealers relating to these transactions. These deposits approximate the market value of the underlying securities. All open positions are adjusted to market values daily. The Company obtains or releases collateral as prices of the underlying securities fluctuate.

The Company clears securities transactions for correspondent broker-dealers. Proprietary settled securities amounts relating to transactions for these correspondents are included in the receivable from and payable to brokers, dealers and clearing organizations. Securities owned by customers are held as collateral for receivables. At December 31, 2020, the Company held securities as collateral for the receivables from correspondents with an estimated fair value in the amount of $331,633. Financing of the correspondent proprietary securities transactions is discussed in **Note 10**, Short-Term Borrowings and Commercial Paper.

Securities failed to deliver and receive represent the contractual value of securities that have not been delivered or received subsequent to settlement date.

Certain securities lending arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

(dollars in thousands, except par and redemption values)

The following table provides information about these receivables and payables subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2020:

				Gross amounts not offset in the statement of financial condition		
Description	**Gross amounts of recognized assets/ liabilities** [2]	**Gross amounts offset in the statement of financial condition**	**Net amounts of assets/liabilities presented in the statement of financial condition**	**Financial instruments** [3]	**Cash Collateral**	**Net Amount**
Securities borrowed [1]	$ 1,338,855	$ -	$ 1,338,855	$ (1,273,955)	$ -	$ 64,900
Securities loaned	1,245,066	-	1,245,066	(1,179,090)	-	65,976

[1] The Company repledged $1,212,421 of securities borrowed in connection with securities lending activities.
[2] Securities borrowed and loaned are not presented net on the statement of financial condition.
[3] Amounts reflect fair value of underlying collateral.

<u>Securities Lending Activities.</u> The Company's securities lending activities includes 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. The Company's management sets credit limits with each counterparty and reviews these limits regularly to monitor the risk level with each counterparty. The Company is subject to credit risk through its securities lending activities if securities prices decline rapidly because the value of the Company's collateral could fall below the amount of the indebtedness it secures. In rapidly appreciating markets, credit risk increases due to short positions. The Company's securities lending business subjects the Company to credit risk if a counterparty fails to perform or if collateral securing its obligations is insufficient. In securities transactions, the Company is subject to credit risk during the period between the execution of a trade and the settlement by the customer.

(dollars in thousands, except par and redemption values)

The following table presents the remaining contractual maturities of securities lending transactions accounted for as secured borrowings at December 31, 2020:

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Securities lending transactions					
Corporate securities	$ 113	$ -	$ -	$ -	$ 113
Equity securities	1,244,953	-	-	-	1,244,953
Total borrowings	$ 1,245,066	$ -	$ -	$ -	$ 1,245,066
Gross amount of recognized liabilities for securities lending					$ 1,245,066
Amount related to agreements not included in offsetting disclosure					$ -

Money Market Programs. The Company offers clients money market investments in two funds and the ability to sweep excess cash held in their brokerage accounts and invest in a savings account called Bank Insured Deposits at 29 separate banking institutions, including at the Company's banking affiliate, PlainsCapital Bank ("Bank"). The amounts held in the money market funds are interest bearing and are covered by the SIPC. Clients' assets are subject to coverage thresholds of a maximum of $500 per client. The swept cash held in client savings accounts are FDIC insured up to $250.

At December 31, 2020, there was $1,353,174 invested in the two money market funds and $2,592,980 was invested in the FDIC insured programs, of which the Bank, held $700,006.

The amount of excess cash swept these investment products is not reported in the statement of financial condition and is not included in the computation for determination of reserve requirement pursuant to Rule 15c3-3 as client dollars are the obligations of the respective institutions and the money market funds are an investment option that represents customer owned securities.

5. Receivable from and Payable to Clients

Receivable from and payable to clients include amounts due on cash and margin transactions. Included in these amounts are receivable from and payable to noncustomers (as defined by Exchange Act Rule 15c3-3, principally officers, directors and related accounts), which aggregated approximately $152 and $3, respectively, at December 31, 2020. Securities owned by customers and noncustomers that collateralize the receivables are not reflected in the accompanying financial statements.

The Company pledges client securities as collateral in conjunction with the Company's securities lending activities. At December 31, 2020, the Company had approximately $359,355 of client securities under customer margin loans that were available to be pledged, of which the Company had repledged approximately $32,645 under securities loan agreements.

The Company pays interest on certain customer balances available for reinvestment. The aggregate balance of such funds was approximately $469,919 at December 31, 2020. During the year ended December 31, 2020, the interest rates paid on these balances ranged from 0.01% to 0.35%. While the

(dollars in thousands, except par and redemption values)

Company pays interest on these funds at varying rates, the rate paid at December 31, 2020 was 0.01% with the weighted average interest rate paid during the year ended December 31, 2020 was 0.07%.

6. Securities Owned and Securities Sold, not yet Purchased

At December 31, 2020, securities owned and securities sold, not yet purchased, both of which were carried at fair value, included the following:

ASSETS		
Securities owned:		
U. S. treasury securities	$	40,491
U. S. government agencies:		
Bonds		40
Residential mortgage-backed securities		335,904
Collateralized mortgage obligations		69,172
Corporate debt securities		62,481
States and political subdivisions		171,573
Private-label issuers		8,571
Options		40
Certificates of deposit		31
	$	688,303
LIABILITIES		
Securities sold, not yet purchased:		
U. S. treasury securities	$	51,490
Corporate debt securities		25,296
Equity securities		2,981
	$	79,767

At December 31, 2020, none of the above securities were pledged as security deposits at clearing organizations for the Company's clearing business. Additional securities have been pledged to secure short-term borrowings, see **Note 10**.

7. Derivative Financial Instruments

The Company uses various derivative financial instruments to mitigate interest rate risk. The Company uses forward commitments to both purchase and sell mortgage backed securities to facilitate customer transactions and as a means to hedge related exposure to interest rate risk in certain inventory positions. Additionally, the Company uses U.S. Treasury bond, Eurodollar futures and municipal market data, MMD, rate locks to hedge changes in the fair value of its securities.

(dollars in thousands, except par and redemption values)

As described in **Note 2**, the Company participates in various hedging activities and at December 31, 2020, the Company's derivative positions associated with these activities and the changes in fair value of these derivatives, which are recorded in net gains on principal transactions on the statement of income, for the year ended December 31, 2020 are presented below:

	Notional Amount	Estimated Fair Value
Commitments to purchase TBAs	$ 2,478,041	$ 22,311
Commitments to sell TBAs	2,189,479	(12,670)
Interest rate swaps	41,750	(2,123)
U.S. Treasury futures and options	17,400	-

The changes in the fair value of derivatives are presented below:

	Increase (Decrease) in Fair Value of Derivatives
Commitments to purchase and sell TBAs	$ 9,323
Interest rate swaps	(5,354)
U.S. Treasury futures and options	-
	$ 3,969

At December 31, 2020, the Company advanced cash collateral totaling $646 on its U.S. Treasury bond futures and options and Eurodollar futures. This amount is included in other assets within the statement of financial condition.

The Company records changes in fair value of derivatives in net gains on principal transactions on the statement of income and for the year ended December 31, 2020, the Company had recognized a net increase of $3,969 in the fair value of the derivatives.

Certain derivative arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

(dollars in thousands, except par and redemption values)

The following table provides information about these derivative arrangements subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2020:

							Gross amounts not offset in the statement of financial condition				
Description		Gross amounts of recognized assets/ liabilities		Gross amounts offset in the statement of financial condition		Net amounts of assets/liabilities presented in the statement of financial condition		Financial instruments		Cash Collateral	Net Amount
Commitments to purchase TBA's	$	22,311	$	-	$	22,311	$	(22,311)	$	-	$ -
Commitments to sell TBA's		12,670		-		12,670		(12,670)		-	-
Interest rate swaps		2,123		-		2,123		(2,123)		-	-

8. Fair Value of Financial Instruments

Recurring Basis:
The following table summarizes by level within the fair value hierarchy securities owned, at fair value, securities sold, not yet purchased, at fair value and derivatives as of December 31, 2020:

	Level 1	Level 2	Level 3	Total
ASSETS				
Securities owned, at fair value				
U. S. treasury securities	$ 40,491	$ -	$ -	$ 40,491
U. S. government agencies:				
Bonds	-	40	-	40
Residential mortgage-backed securities	-	335,904	-	335,904
Collateralized mortgage obligations	-	69,172	-	69,172
Corporate debt securities	-	62,481	-	62,481
States and political subdivisions	-	171,573	-	171,573
Private-label issuers	-	8,571	-	8,571
Options	-	40	-	40
Certificates of deposit	-	31	-	31
	$ 40,491	$ 647,812	$ -	$ 688,303
Derivative financial instruments				
Commitments to purchase TBAs	$ -	$ 22,311	$ -	$ 22,311

(dollars in thousands, except par and redemption values)

	Level 1	Level 2	Level 3	Total
LIABILITIES				
Securities sold, not yet purchased, at fair value				
U. S. treasury securities	$ 51,490	$ -	$ -	$ 51,490
Corporate debt securities	-	25,296	-	25,296
Equity securities	2,981	-	-	2,981
	$ 54,471	$ 25,296	$ -	$ 79,767
Derivative financial instruments				
Commitments to sell TBAs	$ -	$ 12,670	$ -	$ 12,670
Interest rate swaps	-	2,123	-	2,123
	$ -	$ 14,793	$ -	$ 14,793
Net assets (liabilities)	$ (13,980)	$ 630,034	$ -	$ 616,054

Changes in unrealized gains (losses) and realized gains (losses) for corporate and municipal obligations and corporate equity securities are presented in net gains on principal transactions in the statement of income. There was $2,965 of unrealized gains (losses) included in earnings related to assets and liabilities still held at December 31, 2020 for the year ended December 31, 2020.

Non-Recurring Basis:
The following table presents the carrying values, estimated fair values at December 31, 2020, of financial assets and liabilities, excluding financial instruments that are carried at fair value on a recurring basis, and their classification within the fair value hierarchy:

	Carrying Value	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS					
Cash	$ 39,858	$ 39,858	$ -	$ -	$ 39,858
Assets segregated for regulatory purposes	290,357	290,357	-	-	290,357
Receivable from brokers, dealers and clearing organizations	1,677,223	93,504	1,583,719	-	1,677,223
Receivable from clients, net of allowance of $213	268,685	-	268,685	-	268,685
Securities purchased under agreements to resell	80,319	-	80,319	-	80,319
Other assets and receivables	67,810	-	67,810	-	67,810
	$ 2,424,252	$ 423,719	$ 2,000,533	$ -	$ 2,424,252

(dollars in thousands, except par and redemption values)

	Carrying Value	Level 1	Level 2	Level 3	Total
FINANCIAL LIABILITIES					
Payable to brokers, dealers, and clearing organizations	$ 1,368,852	$ -	$ 1,368,852	$ -	$ 1,368,852
Payable to clients	497,170	-	497,170	-	497,170
Drafts payable	18,176	-	18,176	-	18,176
Securities sold under agreements to repurchase	237,856	-	237,856	-	237,856
Commercial paper	277,617	-	277,617	-	277,617
Subordinated debt due to affiliate	42,000	-	42,000	-	42,000
Accrued expenses and other liabilities	201,785	-	201,785	-	201,785
	$ 2,643,456	$ -	$ 2,643,456	$ -	$ 2,643,456

9. Securities Purchased/Sold Under Agreements to Resell/Purchase

At December 31, 2020, the Company held reverse repurchase agreements, collateralized by U.S. government and government agency obligations and securities sold under repurchase agreements. These securities are reported on a gross basis in the statement of financial condition.

Securities sold under repurchase agreements, which are secured borrowings, generally mature overnight with some maturing up to 90 days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company monitors the fair value of the underlying securities on a daily basis.

Certain reverse repurchase and repurchase agreements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

(dollars in thousands, except par and redemption values)

The following table provides information about these instruments subject to an enforceable master netting arrangement, repurchase agreements or similar agreements with offsetting rights and any related collateral amounts at December 31, 2020:

				Gross amounts not offset in the statement of financial condition		
Description	**Gross amounts of recognized assets/ liabilities**	**Gross amounts offset in the statement of financial condition**	**Net amounts of assets/liabilities presented in the statement of financial condition**	**Financial instruments[1]**	**Cash Collateral**	**Net Amount**
Reverse repurchase agreements	$ 80,319	$ -	$ 80,319	(79,925)	$ -	$ 394
Repurchase agreements	237,856	-	237,856	(237,856)	-	-

[1] Amounts reflect fair value of underlying collateral.

The following table presents the remaining contractual maturities of repurchase agreements accounted for as secured borrowings at December 31, 2020:

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	**Up to 30 days**	**30-90 days**	**Greater than 90 days**	**Total**
Repurchase agreements					
Asset backed securities	$ 110,831	$ -	$ 127,025	$ -	$ 237,856
Total borrowings	$ 110,831	$ -	$ 127,025	$ -	$ 237,856
Gross amount of recognized liabilities for repurchase agreements					$ 237,856
Amount related to agreements not included in offsetting disclosure					$ -

10. Short-Term Borrowings and Commercial Paper

Uncommitted lines of credit

The Company has credit arrangements with commercial banks, which include broker loan lines up to $600,000. These lines of credit are used primarily to finance securities owned, securities held for correspondent broker-dealer accounts, receivables in customers' margin accounts and underwriting activities. These lines may also be used to release pledged collateral against day loans. These credit arrangements are provided on an "as offered" basis and are not committed lines of credit. These arrangements can be terminated at any time by the lender. Any outstanding balances under these credit arrangements are due on demand and bear interest at rates indexed to the federal funds rate (0.09% at December 31, 2020). At December 31, 2020, there were no amounts outstanding under these secured arrangements, which was collateralized by securities held for firm and correspondent broker-dealer accounts valued at $334,323.

Committed lines of credit
At December 31, 2020, the Company had three committed revolving credit facilities with unaffiliated banks totaling $250,000. When drawn, the interest rate charged on the outstanding amounts is equal to the federal funds rate plus 100 basis points. The agreements require the Company to maintain a tangible net worth of at least $170,000. At December 31, 2020, there were no outstanding amounts under the committed revolving credit facilities.

The Company pledges customer securities to the Option Clearing Corporation to support open customer positions. At December 31, 2020, the Company had pledged $90,894 to support these open customer positions.

Commercial Paper
In November 2019 and December 2019, the Company initiated two commercial paper programs, in the ordinary course of its business, of which the net proceeds (after deducting related issuance expenses) from the sale will be used for general corporate purposes, including working capital and the funding of a portion of its securities inventories. The commercial paper notes ("CP Notes") can 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 ("Series 2019-1 CP Notes") and Series 2019-2 CP Notes ("Series 2019-2 CP Notes"), with the maximum amount of senior secured commercial paper notes that may be issued under the programs of $300,000 and $200,000, 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 discount to maturity is based on an interest factor. The minimum denomination is $100 with integral multiples of $1 for Series 2019-1 CP Notes and $5 for Series 2019-2 CP Notes in excess of this denomination. The minimum issuance amount is $1,000 for the Series 2019-2 CP Notes, only. The CP Notes are secured by a pledge of collateral owned by the Company, guarantees by the Company, see **Note 17** and the maintenance by the Company of a minimum of $100,000 in excess regulatory net capital. The Company is required to maintain a level of collateral in a control account held by the indenture trustee that exceeds the principal amount of the CP Notes outstanding by a percentage determined by the type of eligible collateral pledged on any business day. As of December 31, 2020, the weighted average maturity of the CP Notes was 146 days at a rate of 1.23%, with a weighted average remaining life until maturity of 70 days. At December 31, 2020, the amount outstanding under these secured arrangements was $277,617, which was collateralized by securities held for firm accounts valued at $296,314.

11. Note Payable Due to Affiliate and Subordinated Debt Due to Affiliate

In January 2016, the Company entered into an agreement with First Southwest Holdings LLC for a non collateralized, 10-year, $88,127 promissory note paying interest semi-annually at a rate of 5% per annum and a $42,000 subordinated loan agreement with Securities Holdings paying interest semi-annually at a rate of 4.35% per annum. Both the agreements were entered into as part of the merger of FSC with the Company. In August of 2018, the promissory note held by First Southwest Holdings LLC and the subordinated loan with Securities Holdings were contributed to the Parent, with the remaining balance of $111,652, at the time of the contribution, plus interest to be paid to the Parent. The promissory note was paid in full by the Company in August 2020. As such, at December 31, 2020, there was $42,000 outstanding under the subordinated loan agreement.

(dollars in thousands, except par and redemption values)

The subordinated debt is available in computing net capital under the SEC's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid, unless approved by FINRA.

12. Income Taxes

Income tax expense for the fiscal year ended December 31, 2020, (effective rate of 23.4%) differs from the amount that would otherwise have been calculated by applying the U.S. federal corporate tax rate (21%) to income before income taxes and is comprised of the following:

Income tax expense at the statutory rate	$	23,024
State income taxes, net of federal tax benefit		2,945
Non-deductible expenses		487
Share-based compensation benefit		80
Tax-exempt income, net		(775)
Reserve for uncertain tax positions		(40)
Other, net		(97)
	$	25,624

Income taxes as set forth in the statement of income consist of the following components:

Federal and state expense/(benefit)		
Current		
Federal	$	23,360
State		3,725
		27,085
Deferred		
Federal	$	(1,464)
State		3
		(1,461)
Total income tax expense	$	25,624

(dollars in thousands, except par and redemption values)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2020 are presented below:

Deferred tax assets:		
Compensation and benefits	$	12,036
Operating lease liabilities		5,356
Realized built-in loss carryforward		2,553
Deferred income		659
Net operating loss carryforward		375
Reserves		50
Other		82
Total gross deferred tax asset		21,111
Deferred tax liabilities:		
Operating lease assets		(4,181)
Fixed Assets		(1,757)
Intangible assets		(815)
Other		(591)
Total gross deferred tax liability		(7,344)
Net deferred tax asset	$	13,767

The Company evaluated the realizability of its deferred tax assets and concluded, based on the Company's history of profitability and future earnings projections, that a valuation allowance was not required.

At December 31, 2020, the Company had recognized built-in losses ("RBIL") of $2,553 from the 2015 merger with the Parent. At December 31, 2020, the Company had net operating loss ("NOL") carryforwards for state income tax purposes of $475. These net operating loss carryforwards expire in 2030 and later years. The RBILs and NOLs are expected to be fully realized prior to any expiration.

Management is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement, which could result in the Company recording a tax liability. At December 31, 2020, the total amount of gross unrecognized tax benefits was $858, if recognized, and the total amount that would favorably impact the Company's effective tax rate and reduce income tax expense was $678.

(dollars in thousands, except par and redemption values)

The aggregate changes in gross unrecognized tax benefits, which exclude interest and penalties, are as follows:

Balance at December 31, 2019	$	572
Increases related to tax positions taken during a prior year		52
Increases related to tax positions taken during the current year		321
Lapse of applicable statute of limitations		(87)
Balance at December 31, 2020	$	858

Interest and penalties incurred related to tax matters are charged to other interest expense or other noninterest expense, respectively. There is no accrued interest and penalties, net of federal benefit included in the net liability at December 31, 2020.

With limited exception, the Company is no longer subject to U.S. federal tax examinations for tax years preceding 2017. The Company is open for various state tax examinations for tax years 2016 and later.

The amount of current federal and state taxes receivable from the Parent included in other assets on the statement of financial condition was $604 and $98, respectively, at December 31, 2020. The amount of current state taxes payable to the Parent included in other liabilities on the statement of financial condition was $50 at December 31, 2020.

13. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (the "Rule"), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the Rule, which requires that it maintains minimum net capital, as defined in Rule 15c3-1 under the Exchange Act, equal to the greater of $1,000 or 2% of aggregate debit balances, as defined in Exchange Act Rule 15c3-3. The Company is also subject to the net capital requirements of the CFTC Regulation 1.17 ("Rule 1.17") and requirements of the National Futures Association, and is required to maintain "adjusted net capital" equal to or in excess of the greatest of $45 or the amount of net capital required by Rule 15c3-1. At December 31, 2020, the Company had net capital of approximately $291,228, which is approximately $284,183 in excess of its minimum net capital requirement of approximately $7,045 at that date. Additionally, the Rule provides that equity capital may not be withdrawn, or cash dividends paid if resulting net capital would be less than 5% of aggregate debit items. At December 31, 2020, the Company had net capital of approximately $273,616 in excess of 5% of aggregate debit items.

14. Affiliate Transactions

The Company clears customer transactions for HTIN, an affiliate. Based on an agreement with this entity, the Company receives a fee for clearing HTIN trades. The net amount of fees received by the Company for clearing trades for this entity was approximately $468 for the year ended December 31, 2020 and is recorded in net revenues from clearing transactions on the statement of income. The Company also provides accounting, administrative services, management services and office facilities to HTIN in accordance with an expense sharing agreement in the amount of $50 per year and is recorded in other expenses on the statement of income. Additionally, the Company collects revenues and pays expenses on behalf of HTIN.

The Company, as clearing broker for its affiliate, has the right to charge customer losses back to the affiliate.

The Company receives insurance fees from third-party insurance carriers for sales of insurance products facilitated by Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. (collectively, SWS Insurance), at no cost to the Company. For the year ended December 31, 2020, the Company received $2,794 of insurance fees, which are included in other income in the statement of income. Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. are affiliates of the Company. These entities hold insurance agency licenses to facilitate the sale of insurance and annuity products. The Company retains no underwriting risk related to the insurance and annuity products sold.

Clients and correspondents of the Company have the option to invest in a savings account at the Bank, (**Note 5**). For the year ended December 31, 2020, the Company received a maintenance fee of $13,178 on these bank insured funds from the Bank and recorded it in investment banking, advisory and administrative fees on the statement of income.

The Bank charges the Company a processing fee for client checks written on money market accounts. The fee paid to the Bank for this service was $94 for the year ended December 31, 2020, included in other expense on the statement of income.

The Company makes loans to employees, primarily financial advisors, mainly for recruiting and retention purposes. The amount of loans to employees is included in other assets in the statement of financial condition in the amount of $12,640. The Company has recorded an allowance, included in other assets in the statement of financial condition, of $3,636 for terminated relationships and CECL implementation. See discussion of the Company's implementation of CECL in **Note 2**.

The Company is named as the lessee for a lease, which is subleased to the Bank. During the year ended December 31, 2020, the Company received and recorded in other revenue on the statement of income $26 of rental income for these subleases with the Bank. Additionally, the Company subleases office space and utilizes space in a property owned by the Bank for its business recovery centers. During the year ended December 31, 2020, the Company paid and recorded in occupancy, equipment and computer service costs on the statement of income $121 of rental expense for these subleases with the Bank.

Securities Holdings loaned the Company $42,000 as part of a merger transaction between the Company and FSC. The Company paid interest at a rate of 4.35% per annum. Additionally, as part of this transaction, in January 2016, First Southwest Holdings LLC loaned the Company $88,127, bearing an interest at a rate of 5% per annum. During August of 2018, the notes were contributed to the Parent (see **Note 11**). During the year ended December 31, 2020, the Company paid interest of $1,857 on the $42,000 note and $681 on the $88,127 note.

The Company has various expense sharing arrangements with the Parent, Securities Holdings and other subsidiaries of the Parent. These expense sharing agreements outline the types of expenses that will be passed through to the Company, including but not limited to compensation expense, use of Parent assets, and administrative services performed by the Parent or subsidiaries of the Parent. During the year ended December 31, 2020, the total Parent and subsidiaries expenses passed through and allocated to the Company were $13,611, $10,326 of the total amount allocated to the Company is included in commissions and other employee compensation, $1,031 of the total amount allocated to the Company is included in occupancy, equipment and computer service costs, and $2,254 of the total amount allocated to the Company is included in other expense on the statement of income.

On the statement of financial condition, the total receivable includes $3,995 from First Southwest Holdings LLC and its subsidiaries, $584 from the Bank and $164 from Southwest Insurance Agency. The total payable includes $6,762 to Securities Holdings, $5,060 to First Southwest Holdings LLC and its subsidiaries, including $457, which is reported in payable to brokers, dealers, and clearing organizations on the statement of financial condition, $3,073 to the Parent, $2,129 to Southwest Insurance Agency, $621 to HTIN, $1 to Prime Lending, a wholly owned subsidiary of the Parent and a $300 clearing deposit to HTIN, which is reported in payable to clients on the statement of financial condition.

15. Employee Benefits

The Parent has a defined contribution retirement plan pursuant to Section 401 of the Internal Revenue Code (the Code) whereby eligible participants may elect to contribute a percentage of their compensation up to a maximum allowed under the Code. In addition, the plan also provides for a matching contribution by the Company based on a percentage of participants' contributions. The Company's matching contributions vest in three equal annual installments and the expense totaled approximately $3,045 and included in commissions and other employee compensation in the statement of income for the year ended December 31, 2020.

Since 2012, the Parent 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. The 2012 Plan and the 2020 Plan are referred to collectively as "the Equity Plans." The Equity Plans provide for the grant of nonqualified stock options, stock appreciation rights, restricted stock, ("RSUs"), performance awards, dividend equivalent rights and other awards to employees of the Parent, its subsidiaries and outside directors of the Parent. Shares available for grant under the 2012 Plan that were reserved but not issued as of the effective date off the 2020 Plan were added to the reserves of the 2020 Plan. No additional awards may be made under the 2012 Plan, but the 2012 Plan remains in effect as to outstanding awards. Outstanding awards under the Equity Plans continue to be subject to the terms and conditions of the respective plans. The number of shares authorized for issuance pursuant to awards under the 2020 Plan is 3,650,000 plus any shares that become available upon the forfeiture, expiration, cancellation or settlement in cash awards outstanding under the 2012 Plan as of April 30, 2020. At December 31, 2020, 3,428,547 shares of common stock remained available for issuance pursuant to awards granted under the 2020 Plan, excluding shares that may be delivered pursuant to outstanding awards.

(dollars in thousands, except par and redemption values)

The following table summarizes information about non-vested RSU activity:

	RSU	
	Outstanding	Weighted Average Grant Date Fair Value
Balances at December 31, 2019	264,820	$ 22.42
Granted	224,424	22.07
Vested/Released	(46,294)	25.85
Forfeited	(4,195)	21.40
Other adjustments	(6,357)	-
Balances at December 31, 2020	432,398	$ 22.23

At December 31, 2020, the Company had unrecognized compensation expense related to restricted stock grants of approximately $5,627. For the year ended December 31, 2020, the Company has recognized compensation expense of $2,477 for all restricted stock granted to the Company's employees and included in commissions and other employee compensation in the statement of income.

Upon vesting of the shares granted under the Parent's restricted stock plans, the grantees may choose to sell a portion of their vested shares to the Parent to cover the tax liabilities arising from the vesting.

16. Leases

The Company leases space, primarily for corporate offices, branch facilities and certain equipment under operating lease agreements. Certain of the Company's leases have options to extend, with the longest extension option being ten years, and some of the Company's leases include options to terminate within one year. The Company's leases contain customary restrictions and covenants. The Company has certain intercompany leases and subleases with the Parent's other subsidiaries and are reflected in the table and information presented below.

Lease rental cost of ROU assets is included within occupancy, equipment and computer services costs in the statements of income. For the year ended December 31, 2020, the total lease expense for those leases not subject to ASC 842 was $215. The Company does not generally enter into leases that contain variable payments, other than due to the passage of time.

The components of lease costs, including short-term lease costs, are as follows:

Operating lease cost	$ 9,779
Less: operating lease and sublease income	(1,294)
Net operating lease cost	$ 8,485

(dollars in thousands, except par and redemption values)

The Company's weighted average remaining lease term and weighted average discount rate as of December 31, 2020 were 5 years and 4.66%, respectively.

Future minimum lease payments under the leasing standard as of December 31, 2020 are presented below:

2021	$	8,678
2022		5,154
2023		4,349
2024		2,577
2025		1,572
Thereafter		2,595
Total Minimum lease payments	$	24,925
Amount representing interest		(1,964)
Present value of minimum lease payments	$	22,961

17. Commitments and Contingencies

Underwriting. Through its participation in underwriting corporate and municipal securities, the Company could expose itself to material risk that securities the Company has committed to purchase cannot be sold at the initial offering price. Federal and state securities laws and regulations also affect the activities of underwriters and impose substantial potential liabilities for violations in connection with sales of securities by underwriters to the public. At December 31, 2020, the Company had no liabilities due under outstanding underwriting arrangements.

Litigation. The Company may be involved, in the normal course of business, in legal, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its operations. These include proceedings specific to the Company, as well as proceedings generally applicable to business practices in the industries in which it operates. Uncertain economic conditions, volatility in the financial markets, and significant recently enacted financial reform legislation may increase the likelihood that clients and other persons or regulators may present or threaten legal claims or that regulators increase the scope or frequency of examinations of the Company or the financial services industry generally.

As with other financial services firms, the level of regulatory activity and inquiry concerning the Company's businesses remains elevated. From time to time, the Company receives requests for information from, and/or has been subject to examination or claims by, the SEC, the FINRA, and other governmental and quasi-governmental authorities concerning the Company's business activities and practices. These legal and regulatory inquiries, proceedings and potential disputes are subject to uncertainties and, as such, the Company is unable to predict the ultimate resolution or range of loss that may result. In accordance with applicable accounting standards, the Company establishes an accrued liability for contingent litigation and regulatory matters when those matters present loss contingencies that are both probable and can be reasonably estimated. In such cases, there still may be an exposure to loss in excess of any amounts reasonably estimated and accrued. When a loss contingency is not both probable and estimable, the Company does not establish an accrued liability, but continues to monitor, in conjunction with any outside counsel handling a matter, further developments that would make such loss contingency both probable and reasonably estimable. Once the Company establishes an accrued liability with respect to a loss contingency, the Company continues to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established, and any appropriate adjustments are made each quarter.

Guarantees. The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. These indemnifications generally are standard contractual indemnifications, provisioned in the Company’s client clearing agreements, are entered into in the normal course of business and may expose the Company to off-balance-sheet credit risk. Pursuant to the clearing agreement, the Company is required to reimburse the Company's clearing broker, without limit, for any losses incurred due to a counterparty's failure to satisfy its contractual obligations. However, these transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the market value of the security through the settlement date. The Company's customer securities activities are transacted on a delivery versus payment, cash or margin basis. In delivery versus payment transactions, the Company is exposed to risk of loss in the event of the customers' or brokers' inability to meet the terms of their contracts. In margin transactions, the Company extends credit to clients collateralized by cash and securities in their account. In the event the customers or brokers fail to satisfy their obligations, the Company may be required to purchase or sell securities at prevailing market prices in order to fulfill the obligations. The Company's exposure to credit risk can be directly impacted by volatile securities markets, which may impair the ability of counterparties to satisfy their contractual obligations. The Company seeks to control its credit risk through a variety of reporting and control procedures, including establishing credit limits based upon a review of the customers' financial condition and credit ratings. The Company seeks to control the risk associated with its customer margin transactions by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company also monitors required margin levels daily and, pursuant to its guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company is a member of multiple exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company’s maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is unlikely. Accordingly, no contingent liability is recorded in the financial statements for these arrangements.

18. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company executes, settles and finances various securities transactions that may expose the Company 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 Company, use of derivatives to support certain non-profit housing organization clients, clearing agreements between the Company and various clearinghouses and broker-dealers, secured financing arrangements that involve pledged securities, and when-issued underwriting and purchase commitments.

As part of its normal brokerage activities, the Company sells securities not yet purchased (short sales) for its own account. The establishment of short positions exposes the Company to market risk if prices increase, as the Company may be obligated to acquire the securities at prevailing market prices.

The Company seeks to control the risks associated with its customers' activities, including those of customer accounts of its correspondents for which it provides clearing services, by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The required margin levels are monitored daily and, pursuant to such guidelines, customers are required to deposit additional collateral or to reduce positions when necessary.

A portion of the Company's customer activity involves short sales and the writing of option contracts. Such transactions may require the Company to purchase or sell financial instruments at prevailing market prices in order to fulfill the customers' obligations.

At times, the Company lends money using reverse repurchase agreements. These positions are collateralized by U.S. government and government agency securities. Such transactions may expose the Company to off-balance-sheet risk in the event such borrowers do not repay the loans and the value of collateral held is less than that of the underlying receivable. These agreements provide the Company with the right to maintain the relationship between market value of the collateral and the receivable.

The Company arranges secured financing by pledging securities owned and unpaid customer securities for short-term borrowings to satisfy margin deposits of clearing organizations. The Company also actively participates in the borrowing and lending of securities. In the event the counterparty in these and other securities loaned transactions is unable to return such securities pledged or borrowed or to repay the deposit placed with them, the Company may be exposed to the risks of acquiring the securities at prevailing market prices or holding collateral possessing a market value less than that of the related pledged securities. The Company seeks to control the risks by monitoring the market value of securities pledged and requiring adjustments of collateral levels where necessary.

19. Preferred Stock

On October 17, 1997, the Company's Board of Directors ("Board") authorized 100,000 shares of preferred stock. Simultaneously, the Board designated 5,000 shares of the authorized preferred stock as Series A Preferred Stock. Up to 50 shares of the Series A Preferred Stock, which has a par value of $20, can be issued to each of up to 100 qualified participants. Qualified participants are broker-dealers registered under the Exchange Act who clear their proprietary transactions through the Company and who represent that they are subject to net capital rules of the SEC and other self-regulatory organizations to which such broker-dealers report. The Series A Preferred Stock is nonvoting and nonconvertible to common stock, and it is entitled to noncumulative cash dividends when, as and if declared by the Board. The Series A Preferred Stock is redeemable at any time by the Company at a redemption price of $1,000 per share.

20. Proprietary Accounts of Broker-Dealers ("PAB") Reserve Requirements

The Company performs calculations of PAB reserve requirements in accordance with SEC Rule 15c3-3. At December 31, 2020, the Company did not have a PAB reserve requirement and has no amount on deposit.

Supplemental Schedules

Hilltop Securities Inc.
Supplemental Schedule I – Computation of Net Capital Pursuant to Rule 15c3-1 of the Securities Exchange Act of 1934 and CFTC Regulation 1.17
Confidential Treatment Requested
December 31, 2020

(in thousands)

Total stockholder's equity from statement of financial condition		$ 426,992
Add liabilities subordinated to claims of general creditors allowable in computation of net capital		42,000
Total capital and allowable subordinated liabilities		468,992
Deductions and /or charges:		
Receivable from affiliates	$ (4,743)	
Fixed assets, net	(18,427)	
Securities owned, not readily marketable	(7,377)	
Other receivables from broker/dealers and clearing organizations	(3,675)	
Other investments, not readily marketable	(2,402)	
Other nonallowable assets	(73,642)	
Aged fails to deliver	(156)	
Aged short security differences	(184)	
Other deductions and/or charges	(1,817)	(112,423)
Net capital before haircuts on securities positions		356,569
Haircuts on securities positions		(65,341)
Net capital		291,228
Net capital requirement:		
Greater of 2% of aggregate debit items as shown in computation of special reserve requirement on Schedule II ($352,253 x 2% = $7,045) or $1,000		7,045
Excess net capital		$ 284,183
Net capital in excess of the greater of 5% of aggregate debit items or 120% of minimum net capital requirement		$ 273,616

Note: The above computation does not differ materially from the computation of net capital prepared by the Company as of December 31, 2020 filed with the Financial Industry Regulatory Authority on January 27, 2021.

Hilltop Securities Inc.
Supplemental Schedule II – Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934
Confidential Treatment Requested
December 31, 2020

(in thousands)

Credit balances:	
Free credit balances and other credit balances in customers' security accounts	$ 516,115
Monies borrowed collateralized by securities carried for the accounts of customers	269
Monies payable against customers' securities loaned	32,645
Customers' securities failed to receive	4,163
Credit balances in firm accounts which are attributable to principal sales to customers	1,809
Market value of short securities and credits in all suspense accounts over 30 calendar days	123
Other	81,016
Total credits	636,140
Debit balances:	
Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection	268,516
Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver	3,627
Failed to deliver of customers' securities not older than 30 calendar days	242
Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in customer accounts	79,868
Total debits	352,253
Less 3% haircut	(10,567)
Total debits	341,686
Excess of total credits over total debits	$ 294,454
Reserve requirement at December 31, 2020:	
Amount of cash held in "Reserve Bank Accounts" at December 31, 2020	$ 290,357
Cash deposit made within required time frames (January 4, 2021)	19,210
Amount of cash held in "Reserve Bank Accounts"	$ 309,567

Note: The above computation does not differ materially from the computation of special reserve requirement prepared by the Company as of December 31, 2020 filed with the Financial Industry Regulatory Authority on January 27, 2021.

Hilltop Securities Inc.
Supplemental Schedule III – Information for Possession or Control Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934
Confidential Treatment Requested
December 31, 2020

State the market valuation and the number of items of:

1. Customers fully paid securities and excess margin securities not in the respondent's possession or control as of December 31, 2020 for which instructions to reduce to possession or control had been issued as of December 31, 2020 but for which the required action was not taken by respondent within the time frames specified under Exchange Act Rule 15c3-3

(dollars in thousands)

Number of items		11
Market value	$	49

2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of December 31, 2020 excluding items arising from "temporary lags which result from normal business operations" as permitted under Exchange Act Rule 15c3-3

(dollars in thousands)

Number of items		-
Market value	$	-

Note: The above information does not differ materially from the information prepared by the Company as of December 31, 2020 filed with the Financial Industry Regulatory Authority on January 27, 2021.

Hilltop Securities Inc.
Supplemental Schedule IV – Computation for Determination of PAB Account Reserve Requirements of Brokers and Dealers Under Rule 15c3-3 of the Securities Exchange Act of 1934
Confidential Treatment Requested
December 31, 2020

(in thousands)

Credit balances:		
Free credit balances and other credit balances in PAB security accounts	$	206,482
Monies payable against PAB securities loaned		1,229
PAB securities failed to receive		2,782
Credit balances in firm accounts which are attributable to principal sales to PAB		1,006
Other		14,931
Total PAB credits		226,430
Debit balances:		
Debit balances in PAB cash and margin accounts excluding unsecured accounts and accounts doubtful of collection		323,986
Securities borrowed to effectuate short sales by PAB and securities borrowed to make delivery on PAB securities failed to deliver		94,277
Failed to deliver of PAB securities not older than 30 calendar days		472
Total PAB debits		418,735
Excess of total PAB debits over total PAB credits	$	(192,305)
PAB reserve requirement at December 31, 2020	$	-

Note: The above computation does not differ materially from the computation of the PAB requirement prepared by the Company as of December 31, 2020 filed with the Financial Industry Regulatory Authority on January 27, 2021.

Hilltop Securities Inc.'s Compliance Report

Hilltop Securities Inc. (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). As required by 17 C.F.R. § 240.17a-5(d)(1) and (3), the Company states as follows:

1. The Company has established and maintained Internal Control Over Compliance, as that term is defined in paragraph (d)(3)(ii) of Rule 17a-5.
2. The Company's Internal Control Over Compliance was effective during the most recent fiscal year ended December 31, 2020;
3. The Company's Internal Control Over Compliance was effective as of the end of the most recent fiscal year ended December 31, 2020;
4. The Company was in compliance with 17 C.F.R. § 240.15c3-1 and 17 C.F.R. §240.15c3-3(e) as of the end of the most recent fiscal year ended December 31, 2020; and
5. The information the Company used to state that the Company was in compliance with 17 C.F.R. §240.15c3-1 and 17 C.F.R. §240.15c3-3(e) was derived from the books and records of the Company.

Hilltop Securities Inc.

I, M. Bradley Winges, swear (or affirm) that, to my best knowledge and belief, this Compliance Report is true and correct.

By: M. Bradley Winges

President and Chief Executive Officer

February 26, 2021

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Management of Hilltop Securities Inc.

We have examined Hilltop Securities Inc.'s assertions, included in the accompanying Hilltop Securities Inc.'s Compliance Report, that

(1) the Company's internal control over compliance with the financial responsibility rules (as defined below) was effective during the year ended December 31, 2020 based on controls necessary to achieve the objectives of the financial responsibility rules,

(2) the Company's internal control over compliance with the financial responsibility rules was effective as of December 31, 2020 based on controls necessary to achieve the objectives of the financial responsibility rules,

(3) the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 (the "net capital rule") and 240.15c3-3(e) (the "reserve requirements rule") as of December 31, 2020, and

(4) the information used to assert that the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records.

The Company's management is responsible for establishing and maintaining a system of internal control over compliance that has the objective of providing the Company with reasonable assurance that non-compliance with 17 C.F.R. § 240.15c3-1, 17 C.F.R. § 240.15c3-3 (the "customer protection rule"), 17 C.F.R. § 240.17a-13 ("the quarterly securities count rule"), or Rules 2231 and 409T of the Financial Industry Regulatory Authority (the "account statements rule"), which requires account statements to be sent to the customers of the Company (collectively, the "financial responsibility rules") will be prevented or detected on a timely basis. The Company's management is also responsible for compliance with the net capital rule and the reserve requirements rule and that the information used to assert compliance was derived from the books and records. Our responsibility is to express an opinion on the Company's assertions based on our examination.

We conducted our examination in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the examination to obtain reasonable assurance about whether (1) the Company's internal control over compliance with the financial responsibility rules was effective as of and during the year ended December 31, 2020, (2) the Company complied with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2020, and (3) the information used to assert compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2020 was derived from the Company's books and records. Our examination included testing and evaluating the design and operating effectiveness of internal control over compliance with the financial responsibility rules, testing and evaluating the Company's compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e), determining whether the information used to assert compliance with 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Hilltop Securities Inc.'s compliance with the financial responsibility rules.

Because of its inherent limitations, internal control over compliance may not prevent or detect non-compliance with the financial responsibility rules. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hilltop Securities Inc.'s assertions referred to above are fairly stated, in all material respects.

PricewaterhouseCoopers LLP

February 26, 2021

Hilltop Securities Inc.

Financial Statements and Supplemental Schedules
Pursuant to Rule 17a-5 of the
Securities and Exchange Commission
For the Year Ended December 31, 2019
With Report of Independent Registered Public Accounting Firm

This report is deemed CONFIDENTIAL in accordance
with Rule 17a-5(e)(3) under the Securities Exchange Act of 1934
A statement of financial condition, compliance report and examination report,
bound separately, have been filed with the
Securities and Exchange Commission
simultaneously herewith as a Public Document.

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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	August 31, 2020
Estimated average burden hours per response......	12.00

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

SEC FILE NUMBER
8-

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING January 1, 2019 (MM/DD/YY) AND ENDING December 31, 2019 (MM/DD/YY)

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Hilltop Securities Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1201 Elm Street, Suite 3500
(No. and Street)

Dallas	TX	75270
(City)	(State)	(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Laura Leventhal — 214-859-1026
(Area Code – Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers
(Name – *if individual, state last, first, middle name*)

2121 N. Pearl Street	Dallas	TX	75201
(Address)	(City)	(State)	(Zip Code)

CHECK ONE:

- [x] Certified Public Accountant
- [ ] Public Accountant
- [ ] Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

**Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)*

OATH OR AFFIRMATION

I, M. Bradley Winges, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hilltop Securities Inc., as of December 31, 20 19, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

M. Bradley Winges

Signature

President and Chief Executive Officer

Title

Vilma I. Galvan

Notary Public

VILMA I GALVAN
Notary Public, State of Texas
Comm. Expires 02-17-2022
Notary ID 10749327

NOTARY PUBLIC STATE OF TEXAS

This report ** contains (check all applicable boxes):

- ☑ (a) Facing Page.
- ☑ (b) Statement of Financial Condition.
- ☑ (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- ☑ (d) Statement of Changes in Financial Condition.
- ☑ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☑ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☑ (g) Computation of Net Capital.
- ☑ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☑ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☑ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

***For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).*

Hilltop Securities Inc.
Index
December 31, 2019

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of Hilltop Securities Inc.

Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of Hilltop Securities Inc. (the "Company") as of December 31, 2019, and the related statements of operations, stockholder's equity, cash flows, and changes in subordinated borrowings for the year then ended, including the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Supplemental Information

The accompanying information contained in Schedules I, II, III and IV has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act. In our opinion, the information contained in Schedules I, II, III and IV is fairly stated, in all material respects, in relation to the financial statements as a whole.

PricewaterhouseCoopers LLP

Dallas, Texas
February 24, 2020

We have served as the Company's or its predecessor auditor since 2013.

PricewaterhouseCoopers LLP, 2121 N Pearl St., Dallas, Texas 75201
T: (214) 999-1400, F: (214) 754-7991, www.pwc.com/us

Hilltop Securities Inc.
Statement of Financial Condition
December 31, 2019

(dollars in thousands, except par and redemption values)

Assets		
Cash	$	10,889
Assets segregated for regulatory purposes		157,436
Receivable from brokers, dealers and clearing organizations		2,106,306
Receivable from clients, net of allowance of $48		317,107
Securities owned, at fair value		683,793
Securities purchased under agreements to resell		59,031
Goodwill		7,008
Customer intangible, net of accumulated amortization of $12,176		4,624
Operating lease right-of-use assets		15,769
Fixed assets, at cost, less accumulated depreciation of $23,172		16,539
Deferred tax asset, net		12,358
Other assets (including $4,250 due from affiliates)		44,059
Total assets	$	3,434,919
Liabilities and Stockholder's Equity		
Short-term borrowings	$	111,000
Payable to brokers, dealers, and clearing organizations (including $457 due to affiliate)		1,605,974
Payable to clients (including $300 clearing deposit due to affiliate)		412,182
Drafts payable		21,311
Securities sold, not yet purchased, at fair value		43,817
Securities sold under agreements to repurchase		586,651
Commercial paper		19,260
Notes payable due to affiliate		27,402
Operating lease liabilities		20,796
Subordinated debt due to affiliate		42,000
Accrued expenses and other liabilities (including $17,222 due to affiliates)		153,844
Total liabilities		3,044,237
Stockholder's equity:		
Series A preferred stock, $20 par value, $1,000 redemption value; authorized 100,000 shares; no shares issued and outstanding		-
Class A voting common stock of $1 par value; authorized 10,000 shares; issued and outstanding 2,820 shares		3
Class B nonvoting common stock of $1 par value; authorized 10,000 shares; none issued		-
Additional paid-in capital		290,015
Retained earnings		100,664
Total stockholder's equity		390,682
Total liabilities and stockholder's equity	$	3,434,919

The accompanying notes are an integral part of this financial statement.

Confidential

Hilltop Securities Inc.
Statement of Operations
Year Ended December 31, 2019

(in thousands)

Revenues:		
Net gains on principal transactions	$	150,045
Interest		134,848
Investment banking, advisory and administrative fees		122,890
Commissions		70,200
Net revenues from clearing operations		12,701
Other		10,150
Total revenues		500,834
Expenses:		
Commissions and other employee compensation		236,603
Interest		85,253
Occupancy, equipment and computer service costs		34,622
Communications		14,248
Advertising and promotional		6,980
Floor brokerage and clearing organization charges		6,925
Other		32,140
Total expenses		416,771
Income before income tax expense		84,063
Income tax expense		19,470
Net income	$	64,593

The accompanying notes are an integral part of this financial statement.

Confidential

Hilltop Securities Inc.
Statement of Stockholder's Equity
Year Ended December 31, 2019

(dollars in thousands)

	Class A Voting Common Stock								
	Shares		Amount		Additional Paid-in Capital		Retained Earnings		Total
Balance at December 31, 2018	2,820	$	3	$	288,349	$	45,771	$	334,123
Net income	-		-		-		64,593		64,593
Dividend to Hilltop Securities Holdings Inc.	-		-		-		(9,700)		(9,700)
Restricted stock plan	-		-		1,666		-		1,666
Balance at December 31, 2019	2,820	$	3	$	290,015	$	100,664	$	390,682

The accompanying notes are an integral part of this financial statement.

Confidential

Hilltop Securities Inc.
Statement of Cash Flows
Year Ended December 31, 2019

(in thousands)

Cash flows from operating activities:		
Net income	$	64,593
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax benefit		(3,132)
Depreciation and amortization		7,171
Lease expense		8,342
Loss on sale of fixed assets		241
Compensation expense for restricted stock		1,895
Provision for doubtful accounts		(74)
Accretion expense on discount on commercial paper		14
Changes in operating assets and liabilities:		
Brokers, dealers and clearing organizations accounts, net		(35,398)
Client accounts, net		(29,509)
Securities owned, at fair value		53,756
Securities purchased under agreements to resell		2,580
Other assets		8,965
Drafts payable		(2,411)
Securities sold, not yet purchased		(37,850)
Accrued expenses and other liabilities		41,319
Net cash provided by operating activities		80,502
Cash flows from investing activities:		
Purchase of fixed assets		(5,418)
Proceeds from sale of fixed assets		3
Net cash used in investing activities		(5,415)
Cash flows from financing activities:		
Payments on short-term borrowings		(3,958,500)
Cash proceeds on short-term borrowings		3,880,500
Issuance of commercial paper		19,246
Payments on loans payable to Hilltop Securities Holdings Inc.		(39,500)
Dividend to Hilltop Securities Holdings Inc.		(9,700)
Cash proceeds on securities sold under agreements to repurchase		53,210
Net cash used in financing activities		(54,744)
Net change in cash		20,343
Cash and restricted cash at beginning of year		147,982
Cash and restricted cash at end of year	$	168,325

(continued)

The accompanying notes are an integral part of this financial statement.

Confidential

(continued)

Reconciliation of Cash and Restricted Cash to Statement of Financial Condition		
Cash	$	10,889
Assets segregated for regulatory purposes		157,436
Total cash and restricted cash	$	168,325
Supplemental disclosure of cash flow information:		
Cash paid for interest	$	85,564
Cash paid for taxes, net of refunds		16,461
Supplemental disclosure of non-cash activities:		
Forfeitures of restricted stock awards	$	229
Right-of-use assets obtained in exchange for new lease obligations		3,044
Early termination of right-of-use asset		(1,032)
Implementation of ASU 842 - leases		26,877

The accompanying notes are an integral part of this financial statement.

Confidential

Hilltop Securities Inc.
Statement of Changes in Subordinated Borrowings
Year Ended December 31, 2019

(in thousands)

Subordinated borrowings at December 31, 2018	$	42,000
Increases		-
Decreases		-
Subordinated borrowings at December 31, 2019	$	42,000

The accompanying notes are an integral part of this financial statement.

Confidential

1. Organization

Hilltop Securities Inc. (the “Company”), a Delaware Company and a wholly owned subsidiary of Hilltop Securities Holdings LLC (“Securities Holdings”), a wholly owned subsidiary of Hilltop Holdings Inc. (“Parent”), is a New York Stock Exchange ("NYSE") member broker/dealer, a registered investment advisor and a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is registered with the Securities and Exchange Commission (the "SEC") as a broker/dealer under the Securities Exchange Act of 1934 ("Exchange Act") and as a registered investment advisor under the Investment Advisors Act of 1940. The Company is also registered with the Commodity Futures Trading Commission ("CFTC") as a non-guaranteed introducing broker and is a member of the National Futures Association ("NFA").

Pursuant to the SEC Rule 11(a) of the Exchange Act, over 50% of the Company’s revenues are comprised of Section 11(a) items, indicating the Company is primarily engaged in trading on behalf of customers.

2. Summary of Significant Accounting Policies

Securities Transactions
Proprietary securities transactions are recorded on trade date, as if they had settled. Clients’ securities and commodities transactions are reported on a settlement date basis with related commission income and expenses reported on a trade date basis, which is discussed in detail under Revenue Recognition.

Marketable securities are valued at fair value, based on quoted market prices, and securities not readily marketable are valued at fair value as determined by management**.** The Company evaluates fair value measurements by considering observable data that may include prices from independent pricing services, dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, and the financial instruments’ terms and conditions, among other factors. The increase or decrease in net unrealized appreciation or depreciation of securities owned is credited or charged to operations and is included in net gains on principal transactions in the statement of operations. Interest income is recorded on these securities when earned.

Fixed Assets and Depreciation
Fixed assets are comprised of furniture and equipment ($31,615) and leasehold improvements ($8,096) which are stated at cost, less accumulated depreciation. Depreciation of furniture and equipment is provided over the estimated useful lives of the assets (from three to seven years), and depreciation on leasehold improvements is provided over the shorter of the useful life or the lease term (up to fifteen years) using the straight-line method. Additions, improvements and expenditures for repairs and maintenance that significantly extend the useful life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to expense in the period incurred.

Goodwill and Customer Intangible
The Parent performs required annual impairment tests of its goodwill as of October 1st for each of its reporting units. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill. The goodwill impairment test requires the Parent to make judgments in determining what assumptions to use in the calculation. The process consists of estimating

(dollars in thousands, except par and redemption values)

the fair value of each reporting unit based on valuation techniques, including a discounted cash flow model using revenue and profit forecasts and recent industry transaction and trading multiples of the Parent's peers, and comparing those estimated fair values with the carrying values of the assets and liabilities of the reporting unit, which includes the allocated goodwill. If the estimated fair value is less than the carrying value, the Parent will recognize an impairment charge, pushed down to the reporting unit, for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized will not exceed the total amount of goodwill allocated to that reporting unit.

At October 1, 2019, the Parent determined that the estimated fair value of each of its reporting units, including the Company, exceeded its carrying value. As a result, the Parent concluded that the Company's goodwill was fully realizable, indicating no impairment of the Company's goodwill.

The Company recorded two separate customer relationship intangibles as part of the acquisition of First Southwest Company, LLC ("FSC") by the Parent in November 2012 and the merger of the Company with the Parent in January 2015, which are being amortized over a 12 and 14 year period, respectively, at a rate based on the sum of the year's digits.

The Company determined that no impairment for the Company's intangible assets was necessary upon their evaluation on October 1, 2019.

The estimated aggregate future amortization expense for the customer relationship intangibles at December 31, 2019 is as follows:

2020	$	1,130
2021		958
2022		786
2023		614
2024		441
Thereafter		695
	$	4,624

Resale and Repurchase Agreements
Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements or reverse repos) or sales of securities under agreements to repurchase (repurchase agreements or repos) are accounted for as collateralized financings. It is the policy of the Company to obtain possession of collateral with a fair value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate. Interest payable and interest receivable on these amounts are included in the statement of financial condition in other liabilities and other assets, respectively.

Leases
In February 2016, the Financial Accounting Standards Board issued the Leasing Standard, which is codified in Accounting Standards Update ("ASU") 842, *Leases*, and is intended to increase transparency and comparability among organizations and require lessees to record a right-of-use ("ROU") asset and a liability representing the obligation to make lease payments for long-term leases. The Company adopted the standard on January 1, 2019, using the modified retrospective transition under the option to apply the

leasing standard at its effective date without adjusting the prior period comparative financial statements. The Company elected the package of practical expedients to not reassess: (i) whether any existing contracts are or contain a lease, (ii) the lease classification of any existing leases and (iii) initial direct costs related to existing leases. The Company also elected to apply an additional practical expedient to include both the lease and non-lease components of all leases as a single component and account for it as a lease. On January 1, 2019, the Company recorded operating lease liabilities of $26,877 and ROU assets of $21,317, which included the write-off of $5,560 of deferred rent, upon adoption of the leasing standard. The lease liabilities (at their present value) represent predominantly all of the future minimum lease payments required under operating leases.

The Company determines if an arrangement is a lease at inception. Operating leases with a term of greater than one year are included in operating lease right-of-use ("ROU") assets and operating lease liabilities on the Company's statement of financial condition. The Company has lease agreements with lease and non-lease components, which are generally accounted for as a single lease component. Leases of low-value assets are assessed on a lease-by-lease basis to determine the need for statement of financial condition capitalization.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized on the lease commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses the incremental borrowing rate commensurate with the lease term based on the information available at the lease commencement date in determining the present value of lease payments. No significant judgments or assumptions were involved in developing the estimated operating lease liabilities as the Company's operating lease liabilities largely represent the future rental expenses associated with operating leases, and the incremental borrowing rates are based on publicly available interest rates. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease. These options to extend or terminate are assessed on a lease-by-lease basis, and the ROU assets and lease liabilities are adjusted when it is reasonably certain that an option will be exercised. Rental expense for lease payments is recognized on a straight-line basis over the lease term and is included in occupancy and equipment, net within the statements of operations.

Securities Borrowing and Lending Activities

Securities borrowed and securities loaned transactions are generally reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash, letters of credit, or other collateral with the lender. With respect to securities loaned, 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 borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received adjusted for additional collateral obtained or received. Securities borrowed and securities loaned, as well as the interest accrued on such transactions are included in the statement of financial condition in receivables from and payables to brokers, dealers and clearing organizations. Interest revenue and interest expense on securities borrowed and securities loaned transactions are included in the statement of operations in interest revenue and interest expense, respectively.

Drafts Payable
In the normal course of business, the Company uses drafts to make payments relating to its brokerage transactions. These drafts are presented for payment through an unaffiliated bank and are sent to the Company daily for review and acceptance. Upon acceptance, the drafts are paid.

Revenue Recognition
Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* outlines a single comprehensive model for entities to depict the transfer of goods or services to customers in amounts that reflect the payment to which a company expects to be entitled in exchange for those goods or services. Net gains on principal transactions, interest revenue and money market management fees are not within the scope of ASC 606.

Investment Banking, Advisory and Administrative Fees
Public Banking
Under financial advisory agreements, the Company provides public finance services for school districts, municipalities and government agencies to meet their financing needs such as assisting with the issuance of debt, advising on an on-going basis and providing disclosure statements. The Company also provides portfolio management and local government investment pool administration.

These agreements have six distinct performance obligations, financial advisory, retainer, consulting, continuing disclosure, placement and administration.

Financial advisory
Revenue from financial advisory service contracts is earned from services related to the bond issues. The fee is either fixed or calculated based on the par value of the bond. Revenue is recognized when the performance obligation for the transaction is satisfied, delivery of the bonds.

Retainer
Revenue from retainer service contracts is earned from on-going general financial services that may or may not lead to debt issuances. The Company provides on-going general financial services that will guide the client in making financial decisions that may include the issuance of debt. The fees are fixed, satisfied over time and recognized over the service period notated in the customer contract. Any up-front payments are deferred until recognized and were not material at December 31, 2019.

Consulting
Revenue from consulting service contracts is earned from debt services for bond issues, with fees generally based on an hourly rate and from non-debt issuance services, with fees either fixed or based on an hourly rate. Revenue from consulting fees relating to debt services is recognized at a point in time, when the performance obligation for the transaction is satisfied, date of issuance, and revenue from consulting fees relating to non-debt issuance services is recognized at a point in time when the performance obligation for the defined project is complete and made available to the customer. For consulting fees that are variable in nature, Company management has determined that the fees are 100% constrained and is unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon completion of the consulting services.

Continuing disclosure
Revenue from continuing disclosure service contracts is earned from services provided to its customers in the form of disclosures made to the investing public pertaining to debt obligations as set forth by the SEC. The fees for these services are based on the percent of the transaction, on an hourly rate or are fixed. For the fees that are variable in nature, Company management has determined that the fees are 100% constrained and is unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon completion of the continuing disclosure services. Revenue from continuing disclosure fees are recognized at a point in time when the work is completed.

Placement
Revenue from placement service contracts is earned from services to act as a placement agent in connection with the issuance of financial securities. Revenue is recognized when the performance obligation for the transaction is satisfied, date of debt issuance.

Administration
The Company provides administrative, marketing, and participant services for three investment pools. These pools provide government entities with the flexibility to meet their cash management objectives. The purpose of the pools is to group funds of municipalities into a larger fund size whereby they receive higher returns than if the funds were invested by the municipality on its own. As an administrator, the Company receives fees based on the net assets of the individual programs. Though these fees are variable in nature, Company management has determined that the fees are not constrained and are recognized on a monthly basis.

Managed Money
The Company receives a management fee in connection with management and investment advisory services performed for separately managed accounts. The performance obligation related to the transfer of these services is satisfied over time. These fees are recorded when earned based on the period-end value of account assets. Though these fees are variable in nature, the Company has determined that the fees are not constrained and are recognized as revenue during the period in which the services are provided.

Underwriting
The Company underwrites securities for business entities and governmental entities that want to raise funds through a sale of securities. Revenues are earned from fees arising from securities offerings in which the Company acts as an underwriter. Revenue is recognized on the trade date (the date on which the Company purchases the securities from the issuer) for the portion the Company is contracted to buy. The Company believes that the trade date is the appropriate point in time to recognize revenue for securities underwriting transactions, as there are no significant actions which the Company needs to take subsequent to this date and the issuer obtains the control and benefit of the capital markets offering at that point.

Structured housing and products
The Company assists housing finance corporations in issuing bonds and other financial structures to fund qualified home buyer mortgages or rental housing either by offering financial advisory services to the finance corporation or acting as the underwriter to the bond issue. The Company also assists customers in

finding investment vehicles for the funds raised by public entities from bond issuances and provides financial advisory support to public entities by creating comprehensive financing and hedging plans applicable to balance sheet management while complying with Treasury Regulations. In addition, the Company provides periodic monitoring of these investment vehicles and an annual accounting valuation and effectiveness testing for derivative contracts. The transaction price varies depending on the services contracted by the customer. These fees are generally variable in nature and are based on the value of the underlying product. Company management has determined that the fees are 100% constrained and is unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon completion of the services.

Commissions
Brokerage
The Company buys and sells securities on behalf of its customers. Each time a customer enters into a buy or sell transaction, the Company charges a commission. Commissions and related clearing expenses are recorded on the trade date (the date that the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer.

Soft Dollar
The Company provides soft dollar arrangements to customers. In these arrangements, the Company provides research to customers in return for a certain volume of trade order flow to the Company. These types of transactions are governed by Section 28(e) of the Exchange Act, which allows the paying of a brokerage commission if the manager determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services provided. Management has identified two separate performance obligations with these arrangements, trade execution and research. The trade execution services are recognized on a consistent basis as noted above in *Commissions-Brokerage*. The recognition of research services revenue is based on the services specified by the customer contract. These services could be over a period of time and recognized as such or a one time service that is recognized at the time of completion of the service. Management has determined that the Company is an agent in the research transactions performed for customers. The Company contracts with a third-party to provide customers' requested research services. This third-party is primarily responsible for fulfilling the terms of the contracted research services. The Company does not have control of the research before it is distributed to the customer. As an agent, the Company records the fees earned for facilitating the transfer of the research services as revenue and presents them net in the statement of operations.

12b-1
As a mutual fund distributor, the Company incurs distribution costs and receives 12b-1 fees for marketing and distribution of mutual funds from the fund as compensation for these costs. The fees received from the fund are based on the assets/positions held by the Company at the end of the specified period notated in the contract. As these fees are variable in nature, Company management has determined that the fees are 100% constrained and is unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon receipt of funds from the mutual fund providers. Revenue from 12b-1 fees are recognized at a point in time when the fees become known, which is dictated by the contract payout terms, (i.e. weekly, bi-monthly, monthly and quarterly.)

<u>*Net Revenues from Clearing Operations*</u>
Under clearing agreements, the Company clears trades for unaffiliated correspondent brokers and Hilltop Securities Independent Network Inc. ("HTIN"), an affiliate and charges fees for its services. Management has determined that they are an agent in the transactions performed for the correspondent brokers. The correspondent is primarily responsible for fulfilling the terms of their customer contracts. The correspondent brokers have contracted with the Company to fulfill their customers' transactions. As an agent, the Company records the fees earned for facilitating the transfer of goods and services, and fees earned based on the correspondent broker contract less any fees earned by the correspondent broker on their customer transactions (i.e. commission) as revenue. The net revenue earned is satisfied over time, as the services performed are unique to each correspondent broker and recognized on a monthly basis.

<u>*Other Revenue*</u>
Brokerage custody fees
Brokerage custody fees are specific fees contracted by the brokerage customer for services performed by the Company. Revenue for these fees are recognized in a manner similar to commissions, as noted above in *Commissions-Brokerage*.

Insurance
The Company receives commissions from the sale of insurance policies. The commissions are received in the form of up front commissions that are received upon the initial sale of the insurance product to the customer. Additional commissions are received over a stated period of time as long as the Company is the broker/dealer of record and the contract is viable. These commissions are variable in nature and the Company has determined that the additional commissions received subsequent to those received on the sale date are constrained and are only recognized as revenue to the extent that it is probable that a significant reversal will not occur when any uncertainty in the amount received from the carriers is ultimately resolved. The Company is unable to estimate these subsequent commissions due to the large number and broad range of possible amounts unknown at the time of the sale of the policy to the customer. As a result, these amounts are recognized as revenue upon receipt of payment from the insurance carriers.

Contract Costs
Advisory services from public banking and underwriting costs are shown gross in the statement of operations, as the Company has determined that the Company is a principal with respect to its portion of the services performed for the customer. The Company is responsible for fulfilling the terms of the contract and bears the risk of loss until the service has been transferred to the customer.

The Company pays fees to outside third parties for platform administration and model implementation associated with its management and investment advisory services. In regard to these services, the Company has determined that it is the principal in regard to the administrative services performed. Therefore, any revenue and expenses are reported gross on the statement of operations.

Amounts collected on behalf of third parties, such as postage fees, are not included in the transaction price as they are collected from the customer to cover the cost of sending out customer correspondence. The Company has determined that it acts as an agent in these transactions as it is collecting the postage on behalf of a third party. As a result, the fees associated with the postage for customer correspondence is netted against the funds received from the customer for this service, which are included in other revenue on the statement of operations.

(dollars in thousands, except par and redemption values)

The following table presents revenue by major source for the year ended December 31, 2019:

Revenue from contracts with customers		
Investment banking, advisory and administrative fees		
Advisory services--public banking	$	56,442
Advisory services--managed money		16,212
Underwriting fees		13,496
Structured housing and products		5,090
Other		2,910
	$	94,150
Commissions		
Brokerage commissions	$	62,900
Soft dollar		3,741
12b-1 fees		3,559
	$	70,200
Net revenues from clearing operations	$	12,701
Other		
Brokerage custody fees	$	4,775
Insurance income		2,693
Other		2,682
	$	10,150
Total Revenue from contracts with customers	$	187,201
Revenue not in scope of ASC 606		
Net gains on principal transactions	$	150,045
Interest		134,848
Investment banking, advisory and administrative fees - money market fees		28,740
	$	313,633
Total revenues	$	500,834

Cash Flow Reporting
For the purpose of presentation in the statements of cash flows, cash and restricted cash are defined as the amounts included in the statement of financial condition's captions "Cash" and "Assets segregated for regulatory purposes." The Company considers cash to include cash on hand and in bank accounts. In addition, highly liquid debt instruments purchased with maturities of three months or less, when acquired, are considered to be cash equivalents. The Federal Deposit Insurance Corporation ("FDIC") insures deposit accounts up to $250. At December 31, 2019, the cash balances included $9,772 that was not federally insured because they exceeded federal insurance limits. This at-risk amount is subject to fluctuation on a daily basis, but management does not believe there is significant risk on these deposits.

Derivative Financial Instruments
The Company uses various derivative financial instruments to mitigate interest rate risk. The Company uses forward commitments to both purchase and sell mortgage backed securities to facilitate customer transactions and as a means to hedge related exposure to interest rate risk in certain inventory positions. Additionally, the Company uses U.S. treasury and Eurodollar futures, options and municipal market data, or MMD, rate locks to hedge changes in the fair value of its securities.

Derivative financial instruments arise from the execution of forward purchase commitments of mortgage-backed securities with certain clients, which allow those clients to make mortgage loans at agreed-upon rates. The Company hedges the interest rate risk generated by the forward purchase commitments by executing forward sales of to-be-announced mortgage-backed securities (TBA). The amount hedged is influenced by the Company's estimated ratio of the forward purchase commitments that will not be securitized into mortgage-backed securities as part of the program (fallout rate). The Company uses historical experience, changes in interest rates, and other factors to estimate the fallout rate.

Additionally, the Company enters into TBA agreements to assist clients (generally small to mid-size mortgage loan originators) in hedging the interest rate risk associated with the mortgages owned by the clients. In general, the Company will enter into a TBA purchase agreement with the client and then immediately enter into a TBA sale agreement with identical terms and the same settlement date with a separate counter-party. The Company mitigates interest rate risk and earnings volatility by selling TBAs with characteristics similar to the forward purchase commitments of mortgage-backed securities.

The Company also utilizes a portfolio of exchange-traded derivative instruments to achieve a fair value return that economically hedges changes in the fair value of their securities products. These derivative instruments include both Eurodollar and Treasury Futures, options and municipal market data rate locks.

While the forward purchase commitments, TBAs, and U.S. Treasury and Eurodollar futures and options and municipal market data rate locks meet the definition of a derivative under the provisions of ASC 815 "*Derivatives and Hedging*," they do not qualify for hedge accounting. These derivative securities are carried at fair value and recorded in other assets and other liabilities in the statement of financial condition with unrealized and realized gains recorded in net gains on principal transactions in the statement of operations.

Income Taxes
The Company files a consolidated federal income tax return with its Parent. For purposes of these financial statements, income taxes are computed on the benefits-for-loss method.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company assesses the ability to realize its deferred tax assets based upon the weight of available evidence, both positive and negative. To the extent the Company believes that it is more likely than not that some portion or all of the deferred tax assets will not be realized, the Company will establish a valuation allowance.

Fair Value of Financial Instruments
Fair value accounting establishes a framework for measuring fair value. Under fair value accounting, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date in the principal market in which the reporting entity transacts. Further, fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, fair value accounting establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Under the standard, fair value measurements are separately disclosed by level within the fair value hierarchy.

The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 — Quoted prices in an active market for identical assets or liabilities. Assets and liabilities utilizing Level 1 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio. Valuation of these instruments does not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.

- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Assets and liabilities utilizing Level 2 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio and the Company's commitments to purchase and sell derivative securities. These financial instruments are valued by quoted prices that are less frequent than those in active markets or by models that use various assumptions that are derived from or supported by data that is generally observable in the marketplace. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying observable market assumptions.

- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. These assets and liabilities would have significant inputs that could not be validated by readily determinable market data and generally would involve considerable judgment by management. The Company does not have any financial instrument assets or liabilities utilizing Level 3 inputs.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial condition, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Securities Owned and Securities Sold, Not Yet Purchased Portfolio (including the Company's derivative securities).
Securities classified as Level 1 securities primarily consist of financial instruments whose values are based on quoted market prices in active markets such as corporate equity securities and U.S. government and government agency obligations primarily in U.S. treasury securities.

Securities classified as Level 2 securities include financial instruments that are valued using models or other valuation methodologies. These models are primarily industry standard models that consider various assumptions, including time value, yield curve, volatility factors, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Securities in this category include corporate obligations, U.S. government and government agency obligations, municipal obligations, unit investment trusts (UIT) and the Company's derivative securities.

Substantially all of the Company's financial assets and liabilities are carried at fair value or at amounts which, because of their short-term nature, approximate current fair value.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events
The Company has performed an evaluation of subsequent events from January 1, 2020 through February 24, 2020, the date of issuance of the financial statements. There have been no subsequent events that would require recognition or disclosure in the financial statements as of December 31, 2019.

3. Assets Segregated For Regulatory Purposes

At December 31, 2019, the Company held cash of $157,436 segregated in special reserve bank accounts for the exclusive benefit of customers under Rule 15c3-3 under the Securities Exchange Act of 1934 ("Exchange Act Rule 15c3-3").

(dollars in thousands, except par and redemption values)

4. Receivable From and Payable to Brokers, Dealers and Clearing Organizations

At December 31, 2019, the Company had receivable from and payable to brokers, dealers and clearing organizations related to the following:

Receivable:		
Securities borrowed	$	1,634,782
Correspondent broker/dealers		264,201
Clearing organizations		61,825
Securities failed to deliver		18,726
Trades in process of settlement, net		104,922
Other		21,850
	$	2,106,306
Payable:		
Securities loaned	$	1,555,964
Securities failed to receive		8,568
Correspondent broker/dealers		37,036
Other		4,406
	$	1,605,974

The Company participates in the securities borrowing and lending business by borrowing and lending securities other than those of its clients. Securities borrowed and loaned represent deposits made to or received from other broker/dealers relating to these transactions. These deposits approximate the market value of the underlying securities. All open positions are adjusted to market values daily. The Company obtains or releases collateral as prices of the underlying securities fluctuate.

The Company clears securities transactions for correspondent broker/dealers. Proprietary settled securities and related transactions for these correspondents are included in the receivable from and payable to brokers, dealers and clearing organizations. At December 31, 2019, the Company held collateral for the receivables from correspondents in the amount of $370,993.

Securities failed to deliver and receive represent the contractual value of securities that have not been delivered or received subsequent to settlement date.

Certain securities lending arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

(dollars in thousands, except par and redemption values)

The following table provides information about these receivables and payables subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2019:

				Gross amounts not offset in the statement of financial condition		
Description	**Gross amounts of recognized assets/ liabilities** [(2)]	**Gross amounts offset in the statement of financial condition**	**Net amounts of assets/liabilities presented in the statement of financial condition**	**Financial instruments** [(3)]	**Cash Collateral**	**Net Amount**
Securities borrowed	$ 1,634,782	$ -	$ 1,634,782	$ (1,586,821)	$ -	$ 47,961
Securities loaned [(1)]	1,555,964	-	1,555,964	(1,509,933)	-	46,031

[(1)]Under securities lending agreements, the Company repledged $1,510,436.
[(2)]Securities borrowed and loaned are not presented net on the statement of financial condition.
[(3)]Amounts reflect fair value of underlying collateral.

Securities Lending Activities. The Company's securities lending activities includes 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. The Company's management sets credit limits with each counterparty and reviews these limits regularly to monitor the risk level with each counterparty. The Company is subject to credit risk through its securities lending activities if securities prices decline rapidly because the value of the Company's collateral could fall below the amount of the indebtedness it secures. In rapidly appreciating markets, credit risk increases due to short positions. The Company's securities lending business subjects the Company to credit risk if a counterparty fails to perform or if collateral securing its obligations is insufficient. In securities transactions, the Company is subject to credit risk during the period between the execution of a trade and the settlement by the customer.

(dollars in thousands, except par and redemption values)

The following table presents the remaining contractual maturities of securities lending transactions accounted for as secured borrowings at December 31, 2019:

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Securities lending transactions					
Corporate securities	$ 120	$ -	$ -	$ -	$ 120
Equity securities	1,555,844	-	-	-	1,555,844
Total borrowings	$ 1,555,964	$ -	$ -	$ -	$ 1,555,964
Gross amount of recognized liabilities for securities lending					$ 1,555,964
Amount related to agreements not included in offsetting disclosure					$ -

5. Receivable From and Payable to Clients

Receivable from and payable to clients include amounts due on cash and margin transactions. Included in these amounts are receivable from and payable to noncustomers (as defined by Exchange Act Rule 15c3-3, principally officers, directors and related accounts), which aggregated approximately $1,542 and $5, respectively, at December 31, 2019. Securities accounts of noncustomers are subject to the same terms and regulations as those of customers. Securities owned by customers and noncustomers that collateralize the receivables are not reflected in the accompanying financial statements.

The Company pledges client securities as collateral in conjunction with the Company's securities lending activities. At December 31, 2019, the Company had approximately $435,097 of client securities under customer margin loans that were available to be pledged, of which the Company had repledged approximately $45,528 under securities loan agreements.

The Company pays interest on certain customer "free credit" balances available for reinvestment. The aggregate balance of such funds was approximately $329,405 at December 31, 2019. During the year ended December 31, 2019, the interest rates paid on these balances ranged from 0.35% to 0.85%. While the Company pays interest on these funds at varying rates, the rate paid at December 31, 2019 was 0.35% with the weighted average interest rate paid during the year ended December 31, 2019 was 0.7%.

The Company maintains an allowance for doubtful accounts of $48, which represents amounts that, in the judgment of management, are necessary to adequately absorb losses from known and inherent risks in receivables from customers. Provisions made to this allowance are charged to operations. At December 31, 2019, all unsecured customer receivables had been provided for in this allowance.

(dollars in thousands, except par and redemption values)

6. Securities Owned and Securities Sold, not yet Purchased

At December 31, 2019, securities owned and securities sold, not yet purchased, both of which were carried at fair value, included the following:

ASSETS		
Securities owned:		
U. S. government agencies:		
Bonds	$	24,680
Residential mortgage-backed securities		331,358
Collateralized mortgage obligations		191,154
Corporate debt securities		36,973
States and political subdivisions		93,117
Unit investment trusts:		
Corporate securities		2,165
Municipal securities		1,303
Private-label issuers:		
Mortgage-backed securities		766
Asset-backed securities		2,226
Certificates of deposit		10
Options		41
	$	683,793
LIABILITIES		
Securities sold, not yet purchased:		
U. S. treasury securities	$	25,974
Corporate debt securities		14,737
Equity securities		3,106
	$	43,817

At December 31, 2019, none of the above securities was pledged as security deposits at clearing organizations for the Company's clearing business. Additional securities have been pledged to secure short-term borrowings, see **Note 10**.

(dollars in thousands, except par and redemption values)

7. Derivative Financial Instruments

As described in **Note 2**, the Company participates in various hedging activities and at December 31, 2019, the Company's derivative positions associated with these activities are presented below:

	Notional Amount	Estimated Fair Value
Commitments to purchase TBAs	$ 3,346,946	$ 3,321
Commitments to sell TBAs	3,769,100	(2,065)
Interest rate swaps	10,000	(112)
U.S. Treasury futures and options	37,500	-
Eurodollar futures	916,000	-

At December 31, 2019, the Company advanced cash collateral totaling $1,963 on its U.S. Treasury bond futures and options and Eurodollar futures. This amount is included in other assets within the statement of financial condition.

Certain derivative arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

The following table provides information about these derivative arrangements subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2019:

				Gross amounts not offset in the statement of financial condition		
Description	Gross amounts of recognized assets/ liabilities	Gross amounts offset in the statement of financial condition	Net amounts of assets/liabilities presented in the statement of financial condition	Financial instruments	Cash Collateral	Net Amount
Derivative assets	$ 3,640	$ -	$ 3,640	$ (3,640)	$ -	$ -
Derivative liabilities	2,496	-	2,496	(2,496)	-	-

(dollars in thousands, except par and redemption values)

8. Fair Value of Financial Instruments

The following table summarizes by level within the fair value hierarchy securities owned, at fair value, securities sold, not yet purchased, at fair value and derivative securities as of December 31, 2019:

	Level 1	Level 2	Level 3	Total
ASSETS				
Securities owned, at fair value				
U. S. government agencies:				
Bonds	$ -	$ 24,680	$ -	$ 24,680
Residential mortgage-backed securities	-	331,358	-	331,358
Collateralized mortgage obligations	-	191,154	-	191,154
Corporate debt securities	-	36,973	-	36,973
States and political subdivisions	-	93,117	-	93,117
Unit investment trusts:				
Corporate securities	-	2,165	-	2,165
Municipal securities	-	1,303	-	1,303
Private-label issuers:				
Mortgage-backed securities	-	766	-	766
Asset-backed securities	-	2,226	-	2,226
Certificates of deposit	-	10	-	10
Options	-	41	-	41
	$ -	$ 683,793	$ -	$ 683,793
Derivative financial instruments				
Commitments to purchase TBAs	$ -	$ 3,640	$ -	$ 3,640

	Level 1	Level 2	Level 3	Total
LIABILITIES				
Securities sold, not yet purchased, at fair value				
U. S. treasury securities	$ 25,974	$ -	$ -	$ 25,974
Corporate debt securities	-	14,737	-	14,737
Equity securities	3,106	-	-	3,106
	$ 29,080	$ 14,737	$ -	$ 43,817
Derivative financial instruments				
Commitments to sell TBAs	$ -	$ 2,384	$ -	$ 2,384
Interest rate swaps	-	112	-	112
	$ -	$ 2,496	$ -	$ 2,496
Net assets (liabilities)	$ (29,080)	$ 670,200	$ -	$ 641,120

(dollars in thousands, except par and redemption values)

Changes in unrealized gains (losses) and realized gains (losses) for corporate and municipal obligations and corporate equity securities are presented in net gains on principal transactions in the statement of operations. There was no unrealized gains (losses) included in earnings related to assets and liabilities still held at December 31, 2019 for the year ended December 31, 2019.

9. Securities Purchased/Sold Under Agreements to Resell/Purchase

At December 31, 2019, the Company held reverse repurchase agreements, collateralized by U.S. government and government agency obligations and securities sold under repurchase agreements. These securities are reported on a gross basis in the statement of financial condition.

Securities sold under repurchase agreements, which are secured borrowings, generally mature overnight with some maturing up to 60 days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company monitors the fair value of the underlying securities on a daily basis.

Certain reverse repurchase and repurchase agreements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

The following table provides information about these instruments subject to an enforceable master netting arrangement, repurchase agreements or similar agreements with offsetting rights and any related collateral amounts at December 31, 2019:

				Gross amounts not offset in the statement of financial condition		
Description	Gross amounts of recognized assets/ liabilities	Gross amounts offset in the statement of financial condition	Net amounts of assets/liabilities presented in the statement of financial condition	Financial instruments [1]	Cash Collateral	Net Amount
Reverse repurchase agreements	$ 59,031	$ -	$ 59,031	$ (58,619)	$ -	$ 412
Repurchase agreements	586,651	-	586,651	(586,651)	-	-

[1] Amounts reflect fair value of underlying collateral.

(dollars in thousands, except par and redemption values)

The following table presents the remaining contractual maturities of repurchase agreements accounted for as secured borrowings at December 31, 2019:

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Repurchase agreements					
U.S. treasury and agency securities	$ 20,476	$ -	$ -	$ -	$ 20,476
Asset backed securities	257,396	12,892	295,887	-	566,175
Total borrowings	$ 277,872	$ 12,892	$ 295,887	$ -	$ 586,651
Gross amount of recognized liabilities for repurchase agreements					$ 586,651
Amount related to agreements not included in offsetting disclosure					$ -

10. Short-Term Borrowings and Commercial Paper

Uncommitted lines of credit

The Company has credit arrangements with commercial banks, which include broker loan lines up to $725,000. These lines of credit are used primarily to finance securities owned, securities held for correspondent broker/dealer accounts, receivables in customers' margin accounts and underwriting activities. These lines may also be used to release pledged collateral against day loans. These credit arrangements are provided on an "as offered" basis and are not committed lines of credit. These arrangements can be terminated at any time by the lender. Any outstanding balances under these credit arrangements are due on demand and bear interest at rates indexed to the federal funds rate (1.55% at December 31, 2019). At December 31, 2019, the amount outstanding under these secured arrangements was $111,000, which was collateralized by securities held for firm and correspondent broker/dealer accounts valued at $429,617.

Committed lines of credit

At December 31, 2019, the Company had a $50,000 committed revolving credit facility with an unaffiliated bank. The commitment fee is 25 basis points per annum, and when drawn, the interest rate is equal to the federal funds rate plus 100 basis points. The agreement requires the Company to maintain a tangible net worth of at least $170,000. At December 31, 2019, there were no outstanding amounts under the committed revolving credit facility.

The Company pledges customer securities to the Option Clearing Corporation to support open customer positions. At December 31, 2019, the Company had pledged $38,929 to support these open customer positions.

Commercial Paper

In November 2019 and December 2019, the Company initiated two commercial paper programs, in the ordinary course of its business, of which the net proceeds (after deducting related issuance expenses) from the sale will be used for general corporate purposes, including working capital and the funding of a portion of its securities inventories. The commercial paper notes ("CP Notes") can 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 ("Series 2019-1 CP Notes") and Series 2019-2 CP Notes ("Series 2019-2 CP Notes"), with the maximum amount of senior secured commercial paper notes that may be issued under the programs of $300,000 and $200,000, 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 discount to maturity will be based on LIBOR (a rate per annum determined by reference to the British Bankers' Association Interest Settlement Rates for deposits in dollars offered on the London interbank dollar market), plus an applicable margin. The minimum denomination is $100 with integral multiples of $5 in excess of this denomination. The minimum issuance amount is $1,000. The CP Notes are secured by a pledge of collateral owned by the Company. The Company is required to maintain a level of collateral in a control account held by the indenture trustee that exceeds the principal amount of the CP Notes outstanding by a percentage determined by the type of eligible collateral pledged on any business day. As of December 31, 2019, the weighted average maturity of the CP notes was 90 days at a rate of 2.208%. At December 31, 2019, the amount outstanding under these secured arrangements was $19,260, which was collateralized by securities held for firm accounts valued at $20,929.

(dollars in thousands, except par and redemption values)

11. Note Payable Due to Affiliate and Subordinated Debt Due to Affiliate

In January 2016, the Company entered into an agreement with First Southwest Holdings LLC for a non collateralized, 10 year, $88,127 promissory note paying interest semi-annually at a rate of 5% per annum and a $42,000 subordinated loan agreement with Securities Holdings paying interest semi-annually at a rate of 4.35% per annum. Both the agreements were entered into as part of the merger of FSC with the Company. In August of 2018, the promissory note held by First Southwest Holdings LLC and the subordinated loan with Securities Holdings were contributed to the Parent, with the remaining balance of $111,652, at the time of the contribution, plus interest to be paid to the Parent. At December 31, 2019, there was $69,402 outstanding under these agreements.

12. Income Taxes

Income tax expense for the fiscal year ended December 31, 2019, (effective rate of 23.2%) differs from the amount that would otherwise have been calculated by applying the U.S. federal corporate tax rate (21%) to income before income taxes and is comprised of the following:

Income tax expense at the statutory rate	$	17,653
State income taxes, net of federal tax benefit		1,992
Non-deductible expenses		803
Reserve for uncertain tax positions		36
Tax-exempt income, net		(706)
Share-based compensation benefit		(9)
Other, net		(299)
	$	19,470

(dollars in thousands, except par and redemption values)

Income taxes as set forth in the statement of operations consist of the following components:

Current		
Federal	$	19,562
State		3,040
		22,602
Deferred		
Federal	$	(2,613)
State		(519)
		(3,132)
Total income tax expense	$	19,470

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2019 are presented below:

Deferred tax assets:		
Compensation and benefits	$	8,022
Implementation of ASU 842 - leases		4,827
Realized built-in loss carryforward		2,540
Deferred income		1,477
Legal and other reserves		454
Other		716
Total gross deferred tax asset		18,036
Deferred tax liabilities:		
Implementation of ASU 842 - leases		(3,660)
Intangible assets		(1,073)
Fixed Assets		(365)
Other		(580)
Total gross deferred tax liability		(5,678)
Net deferred tax asset	$	12,358

The Company evaluated the realizability of its deferred tax assets and concluded, based on the Company's past history of profitability and future earnings projections, that a valuation allowance was not required.

At December 31, 2019, the Company had recognized built-in losses ("RBIL") of $2,540 from the 2015 merger with the Parent. At December 31, 2019, the Company had net operating loss ("NOL") carryforwards for state income tax purposes of $591. These net operating loss carryforwards expire in 2030 and later years. The RBILs and NOLs are expected to be fully realized prior to any expiration.

(dollars in thousands, except par and redemption values)

At December 31, 2019, the total amount of gross unrecognized tax benefits was $572, if recognized, and the total amount that would favorably impact the Company's effective tax rate and reduce income tax expense was $452.

The aggregate changes in gross unrecognized tax benefits, which exclude interest and penalties, are as follows:

Balance at December 31, 2018	$	293
Increases related to tax positions taken during a prior year		236
Decreases related to tax positions taken during a prior year		(109)
Increases related to tax positions taken during the current year		217
Lapse of applicable statute of limitations		(65)
Balance at December 31, 2019	$	572

Interest and penalties incurred related to tax matters are charged to other interest expense or other noninterest expense, respectively. There is no accrued interest and penalties, net of federal benefit included in the net liability at December 31, 2019.

With limited exception, the Company is no longer subject to U.S. federal tax examinations for tax years preceding 2016. The Company is open for various state tax audits for tax years 2015 and later.

The amount of current federal and state taxes payable from the Parent included in other liabilities on the statement of financial condition was $3,823 and $256, respectively, at December 31, 2019.

13. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (the "Rule"), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the Rule, which requires that it maintain minimum net capital, as defined in Rule 15c3-1 under the Exchange Act, equal to the greater of $1,000 or 2% of aggregate debit balances, as defined in Exchange Act Rule 15c3-3. At December 31, 2019, the Company had net capital of approximately $318,732, which is approximately $310,982 in excess of its minimum net capital requirement of approximately $7,750 at that date. Additionally, the Rule provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of aggregate debit items. At December 31, 2019, the Company had net capital of approximately $299,356 in excess of 5% of aggregate debit items.

14. Affiliate Transactions

The Company clears all customer transactions for HTIN, an affiliate. Based on an agreement with this entity, the Company receives a fee for clearing HTIN trades. The net amount of fees received by the Company for clearing trades for this entity was approximately $432 for the year ended December 31, 2019. The Company also provides all accounting, administrative services, management services and office facilities to HTIN in accordance with an expense sharing agreement in the amount of $50 per year. Additionally, the Company collects all revenues and pays all expenses on behalf of HTIN.

The Company, as clearing broker for its affiliate, has the right to charge customer losses back to the affiliate.

The Company receives insurance fees from Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. (collectively, SWS Insurance). For the year ended December 31, 2019, the Company received $2,693 of insurance fees, which are included in other income in the statement of operations. Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. are affiliates of the Company. These entities hold insurance agency licenses to facilitate the sale of insurance and annuity products. The Company retains no underwriting risk related to the insurance and annuity products sold.

Clients and correspondents of the Company have the option to invest in a savings account called Bank Insured Deposits at the Company's banking affiliate, PlainsCapital Bank ("Bank"). These funds are FDIC insured up to $250. For the year ended December 31, 2019, the Company received a maintenance fee of $11,444 on these bank insured funds from the Bank.

The Bank charges the Company a processing fee for client checks written on money market accounts. The fee paid to the Bank for this service was $93 for the year ended December 31, 2019, included in other expense on the statement of operations.

The Company makes loans to employees, primarily financial advisors, mainly for recruiting and retention purposes. The amount of loans to employees is included in other assets in the statement of financial condition in the amount of $12,749. The Company has recorded an allowance, included in other assets in the statement of financial condition, of $2,755 for terminated relationships.

The Company is named as the lessee for a lease, which is subleased to the Bank. During the year ended December 31, 2019, the Company received and recorded in other revenue on the statement of operations $102 of rental income for these subleases with the Bank. Additionally, the Company subleases office space and utilizes space in a property owned by the Bank for its business recovery centers. During the year ended December 31, 2019, the Company paid and recorded in occupancy, equipment and computer service costs on the statement of operations $123 of rental expense for these subleases with the Bank.

Securities Holdings loaned the Company $42,000 as part of a merger transaction between the Company and FSC. The Company paid interest at a rate of 4.35% per annum. Additionally, as part of this transaction, in January 2016, First Southwest Holdings LLC loaned the Company $88,127, bearing an interest at a rate of 5% per annum. During August of 2018, the notes were contributed to the Parent (see **Note 11**). During the year ended December 31, 2019, the Company paid interest of $1,852 on the $42,000 note and $2,867 on the $88,127 note.

The Company has various expense sharing arrangements with the Parent, Securities Holdings and other subsidiaries of the Parent. These expense sharing agreements outline the types of expenses that will be passed through to the Company, including but not limited to compensation expense, use of Parent assets, and administrative services performed by the Parent or subsidiaries of the Parent. During the year ended December 31, 2019, the total Parent expenses passed through to the Company were $13,945. On the statement of financial condition, the total receivable includes $3,144 from First Southwest Holdings LLC and its subsidiaries, $921 from the Bank and its subsidiaries and $185 from Southwest Insurance Agency. The total payable includes $6,714 to Securities Holdings, $4,022 to the Parent, $3,260 to First Southwest

Holdings LLC and its subsidiaries, including $457, which is reported in payable to brokers, dealers, and clearing organizations on the statement of financial condition, $2,099 to HTIN, $1,545 to Southwest Insurance Agency, $39 to National Lloyds, a wholly owned subsidiary of the Parent and a $300 clearing deposit to HTIN, which is reported in payable to clients on the statement of financial condition.

15. Employee Benefits

The Parent has a defined contribution retirement plan pursuant to Section 401 of the Internal Revenue Code (the Code) whereby eligible participants may elect to contribute a percentage of their compensation up to a maximum allowed under the Code. In addition, the plan also provides for a matching contribution by the Company based on a percentage of participants' contributions. The Company's matching contributions vest in three equal annual installments and the expense totaled approximately $3,243 for the year ended December 31, 2019.

Pursuant to the Hilltop Holdings Inc. 2012 Equity Incentive Plan (the "2012 Plan"), the Parent may grant nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance awards, divided equivalent rights and other awards to employees of the Parent, its subsidiaries and outside directors of the Parent.

From January 1, 2016 through December 31, 2019, the Compensation Committee awarded certain executives and key employees of the Company a total of 409,895 RSUs pursuant to the 2012 Plan. These awards and the associated costs are amortized over a vesting period of three years. The grant date weighted average fair value of these awards was $21.53 per share resulting in expected compensation expense of $8,826.

At December 31, 2019, the Company had unrecognized compensation expense related to restricted stock grants of approximately $3,219. For the year ended December 31, 2019, the Company has recognized compensation expense of $1,895 for all restricted stock granted to the Company's employees.

Upon vesting of the shares granted under the Parent's restricted stock plans, the grantees may choose to sell a portion of their vested shares to the Parent to cover the tax liabilities arising from the vesting.

16. Leases

The Company leases space, primarily for corporate offices, branch facilities and certain equipment under operating lease agreements. Certain of the Company's leases have options to extend, with the longest extension option being ten years, and some of the Company's leases include options to terminate within one year. The Company's leases contain customary restrictions and covenants. The Company has certain intercompany leases and subleases with the Parent's other subsidiaries and are reflected in the table and information presented below.

Lease rental cost of ROU assets is included within occupancy, equipment and computer services costs in the statements of operations. For the year ended December 31, 2019, the total lease expense for those leases not subject to ASC 842 was $625. The Company does not generally enter into leases that contain variable payments, other than due to the passage of time.

(dollars in thousands, except par and redemption values)

The components of lease costs, including short-term lease costs, are as follows:

Operating lease cost	$	9,896
Less: operating lease and sublease income		(1,554)
Net operating lease cost	$	8,342

The Company's weighted average remaining lease term and weighted average discount rate as of December 31, 2019 were 5 years and 6.18%, respectively.

Future minimum lease payments under the leasing standard as of December 31, 2019, under lease agreements that had commenced as of January 1, 2019, are presented below:

2020	$	9,433
2021		5,093
2022		3,369
2023		2,604
2024		1,200
Thereafter		1,440
Total Minimum lease payments	$	23,139
Amount representing interest		(2,343)
Present value of minimum lease payments	$	20,796

17. Commitments and Contingencies

Underwriting. Through its participation in underwriting corporate and municipal securities, the Company could expose itself to material risk that securities the Company has committed to purchase cannot be sold at the initial offering price. Federal and state securities laws and regulations also affect the activities of underwriters and impose substantial potential liabilities for violations in connection with sales of securities by underwriters to the public. At December 31, 2019, the Company had no liabilities due under outstanding underwriting arrangements.

Litigation. In the general course of its brokerage business and the business of clearing for other brokerage firms, the Company has been named as a defendant in various lawsuits and arbitration proceedings. These claims allege violation of federal and state securities laws among other matters. Management believes that resolution of these claims will not result in any material adverse effect on the Company's financial position or results of operations.

Guarantees. The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. These indemnifications generally are standard contractual indemnifications and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company is a member of multiple exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is unlikely. Accordingly, no contingent liability is recorded in the financial statements for these arrangements.

18. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company engages in activities involving the execution, settlement and financing of various securities transactions. These activities may expose the Company to off-balance-sheet credit and market risks in the event the customer or counterparty is unable to fulfill its contractual obligation. Such risks may be increased by volatile trading markets.

As part of its normal brokerage activities, the Company sells securities not yet purchased (short sales) for its own account. The establishment of short positions exposes the Company to market risk if prices increase, as the Company may be obligated to acquire the securities at prevailing market prices.

The Company seeks to control the risks associated with its customers' activities, including those of customer accounts of its correspondents for which it provides clearing services, by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The required margin levels are monitored daily and, pursuant to such guidelines, customers are required to deposit additional collateral or to reduce positions when necessary.

A portion of the Company's customer activity involves short sales and the writing of option contracts. Such transactions may require the Company to purchase or sell financial instruments at prevailing market prices in order to fulfill the customers' obligations.

At times, the Company lends money using reverse repurchase agreements. These positions are collateralized by U.S. government and government agency securities. Such transactions may expose the Company to off-balance-sheet risk in the event such borrowers do not repay the loans and the value of collateral held is less than that of the underlying receivable. These agreements provide the Company with the right to maintain the relationship between market value of the collateral and the receivable.

The Company arranges secured financing by pledging securities owned and unpaid customer securities for short-term borrowings to satisfy margin deposits of clearing organizations. The Company also actively participates in the borrowing and lending of securities. In the event the counterparty in these and other securities loaned transactions is unable to return such securities pledged or borrowed or to repay the deposit placed with them, the Company may be exposed to the risks of acquiring the securities at prevailing market prices or holding collateral possessing a market value less than that of the related pledged securities. The Company seeks to control the risks by monitoring the market value of securities pledged and requiring adjustments of collateral levels where necessary.

19. Preferred Stock

On October 17, 1997, the Company's Board of Directors ("Board") authorized 100,000 shares of preferred stock. Simultaneously, the Board designated 5,000 shares of the authorized preferred stock as Series A Preferred Stock. Up to 50 shares of the Series A Preferred Stock, which has a par value of $20, can be issued to each of up to 100 qualified participants. Qualified participants are broker/dealers registered under the Exchange Act who clear their proprietary transactions through the Company and who represent that they are subject to net capital rules of the SEC and other self-regulatory organizations to which such broker/dealers report. The Series A Preferred Stock is nonvoting and nonconvertible to common stock, and it is entitled to noncumulative cash dividends when, as and if declared by the Board. The Series A Preferred Stock is redeemable at any time by the Company at a redemption price of $1,000 per share.

20. Proprietary Accounts of Broker/Dealers ("PAB") Reserve Requirements

The Company performs calculations of PAB reserve requirements. At December 31, 2019, the Company did not have a PAB reserve requirement and has no amount on deposit.

Supplemental Schedules

Hilltop Securities Inc.
Supplemental Schedule I – Computation of Net Capital Pursuant to Rule 15c3-1 of The Securities Exchange Act of 1934 and Regulation 1.17 of the Commodity Futures Trading Commission
December 31, 2019

(in thousands)

Total stockholder's equity from statement of financial condition		$ 390,682
Add liabilities subordinated to claims of general creditors allowable in computation of net capital		42,000
Total capital and allowable subordinated liabilities		432,682
Deductions and /or charges:		
Receivable from affiliates	$ (4,250)	
Fixed assets, net	(16,539)	
Securities owned, not readily marketable	(1,687)	
Other receivables from broker/dealers and clearing organizations	(9,570)	
Other investments, not readily marketable	(2,380)	
Other nonallowable assets	(55,064)	
Aged fails to deliver	(97)	
Aged short security differences	(329)	
Other deductions and/or charges	(3,762)	(93,678)
Net capital before haircuts on securities positions		339,004
Haircuts on securities positions		(20,272)
Net capital		318,732
Net capital requirement: Greater of 2% of aggregate debit items as shown in computation of special reserve requirement on Schedule II ($387,507 x 2% = $7,750) or $1,000		7,750
Excess net capital		$ 310,982
Net capital in excess of the greater of 5% of aggregate debit items or 120% of minimum net capital requirement		$ 299,356

Note: The above computation does not differ materially from the computation of net capital prepared by the Company as of December 31, 2019 filed with the Financial Industry Regulatory Authority on January 27, 2020.

Hilltop Securities Inc.
Supplemental Schedule II – Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934
December 31, 2019

(in thousands)

Credit balances:		
Free credit balances and other credit balances in customers' security accounts	$	433,901
Monies payable against customers' securities loaned		45,528
Customers' securities failed to receive		6,840
Credit balances in firm accounts which are attributable to principal sales to customers		1,173
Market value of short securities and credits in all suspense accounts over 30 calendar days		4
Other		37,321
Total credits		524,767
Debit balances:		
Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection		315,564
Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver		28,094
Failed to deliver of customers' securities not older than 30 calendar days		7,033
Margin required and on deposit with the Options Clearing Corporation for all option contracts with or purchased in customer accounts		36,816
Total debits		387,507
Less 3% haircut		(11,625)
Total debits		375,882
Excess of total credits over total debits	$	148,885
Reserve requirement at December 31, 2019:		
Amount of cash held in "Reserve Bank Accounts" at December 31, 2019	$	157,436
Cash deposit made within required time frames (January 2, 2020)		(780)
Amount of cash held in "Reserve Bank Accounts"	$	156,656

Note: The above computation does not differ materially from the computation of special reserve requirement prepared by the Company as of December 31, 2019 filed with the Financial Industry Regulatory Authority on January 27, 2020.

Hilltop Securities Inc.
Supplemental Schedule III – Information for Possession or Control Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934
December 31, 2019

State the market valuation and the number of items of:

1. Customers fully paid securities and excess margin securities not in the respondent's possession or control as of December 31, 2019 for which instructions to reduce to possession or control had been issued as of December 31, 2019 but for which the required action was not taken by respondent within the time frames specified under Exchange Act Rule 15c3-3

   (dollars in thousands)

Number of items		7
Market value	$	-

2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of December 31, 2019 excluding items arising from "temporary lags which result from normal business operations" as permitted under Exchange Act Rule 15c3-3

   (dollars in thousands)

Number of items		-
Market value	$	-

Hilltop Securities Inc.
Supplemental Schedule IV – Reserve Computation for Proprietary Accounts of Broker/Dealers Pursuant to Exhibit A of Rule 15c3-3 of the Securities Exchange Act of 1934
December 31, 2019

(in thousands)

Credit balances:		
Free credit balances and other credit balances in PAB security accounts	$	144,736
Monies borrowed collateralized by securities carried for the accounts of PAB		111,000
Monies payable against PAB securities loaned		530
PAB securities failed to receive		1,518
Credit balances in firm accounts which are attributable to principal sales to PAB		1,014
Other		3,962
Total PAB credits		262,760
Debit balances:		
Debit balances in PAB cash and margin accounts excluding unsecured accounts and accounts doubtful of collection		363,154
Securities borrowed to effectuate short sales by PAB and securities borrowed to make delivery on PAB securities failed to deliver		68,345
Failed to deliver of PAB securities not older than 30 calendar days		826
Total PAB debits		432,325
Excess of total PAB debits over total PAB credits	$	(169,565)
PAB reserve requirement at December 31, 2019	$	-

Note: The above computation does not differ materially from the computation of the PAB requirement prepared by the Company as of December 31, 2019 filed with the Financial Industry Regulatory Authority on January 27, 2020.

Hilltop Securities Inc.'s Compliance Report

Hilltop Securities Inc. (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). As required by 17 C.F.R. § 240.17a-5(d)(1) and (3), the Company states as follows:

1. The Company has established and maintained Internal Control Over Compliance, as that term is defined in paragraph (d)(3)(ii) of Rule 17a-5.
2. The Company's Internal Control Over Compliance was effective during the most recent fiscal year ended December 31, 2019;
3. The Company's Internal Control Over Compliance was effective as of the end of the most recent fiscal year ended December 31, 2019;
4. The Company was in compliance with 17 C.F.R. § 240.15c3-1 and 17 C.F.R. §240.15c3-3(e) as of the end of the most recent fiscal year ended December 31, 2019; and
5. The information the Company used to state that the Company was in compliance with 17 C.F.R. §240.15c3-1 and 17 C.F.R. §240.15c3-3(e) was derived from the books and records of the Company.

Hilltop Securities Inc.

I, M. Bradley Winges, swear (or affirm) that, to my best knowledge and belief, this Compliance Report is true and correct.

By: M. Bradley Winges

President and Chief Executive Officer

February 24, 2020

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Management of Hilltop Securities Inc.

We have examined Hilltop Securities Inc.'s assertions, included in the accompanying Hilltop Securities Inc.'s Compliance Report, that

(1) the Company's internal control over compliance with the financial responsibility rules (as defined below) was effective during the year ended December 31, 2019 based on controls necessary to achieve the objectives of the financial responsibility rules,

(2) the Company's internal control over compliance with the financial responsibility rules was effective as of December 31, 2019 based on controls necessary to achieve the objectives of the financial responsibility rules,

(3) the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 (the "net capital rule") and 240.15c3-3(e) (the "reserve requirements rule") as of December 31, 2019, and

(4) the information used to assert that the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records.

The Company's management is responsible for establishing and maintaining a system of internal control over compliance that has the objective of providing the Company with reasonable assurance that non-compliance with 17 C.F.R. § 240.15c3-1, 17 C.F.R. § 240.15c3-3 (the "customer protection rule"), 17 C.F.R. § 240.17a-13 ("the quarterly securities count rule"), or Rule 2340 of National Association of Securities Dealers (the "account statements rule"), which requires account statements to be sent to the customers of the Company (collectively, the "financial responsibility rules") will be prevented or detected on a timely basis. The Company's management is also responsible for compliance with the net capital rule and the reserve requirements rule and that the information used to assert compliance was derived from the books and records. Our responsibility is to express an opinion on the Company's assertions based on our examination.

We conducted our examination in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the examination to obtain reasonable assurance about whether (1) the Company's internal control over compliance with the financial responsibility rules was effective as of and during the year ended December 31, 2019, (2) the Company complied with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2019, and (3) the information used to assert compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2019 was derived from the Company's books and records. Our examination included testing and evaluating the design and operating effectiveness of internal control over compliance with the financial responsibility rules, testing and evaluating the Company's compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e), determining whether the information used to assert compliance with 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Hilltop Securities Inc.'s compliance with the financial responsibility rules.

PricewaterhouseCoopers LLP, 2121 N Pearl St., Dallas, Texas 75201
T: (214) 999-1400, F: (214) 754-7991, www.pwc.com/us

Because of its inherent limitations, internal control over compliance may not prevent or detect non-compliance with the financial responsibility rules. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hilltop Securities Inc. 's assertions referred to above are fairly stated, in all material respects.

PricewaterhouseCoopers LLP

Dallas, Texas
February 24, 2020

HilltopSecurities
A Hilltop Holdings Company℠

Hilltop Securities Inc.

Financial Statements and Supplemental Schedules
Pursuant to Rule 17a-5 of the
Securities and Exchange Commission
For the Year Ended December 31, 2018
With Report of Independent Registered Public Accounting Firm

This report is deemed CONFIDENTIAL in accordance
with Rule 17a-5(e)(3) under the Securities Exchange Act of 1934
A statement of financial condition, compliance report and examination report,
bound separately, have been filed with the
Securities and Exchange Commission
simultaneously herewith as a Public Document.

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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	August 31, 2020
Estimated average burden hours per response......	12.00

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

SEC FILE NUMBER
8-

FACING PAGE
Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING January 1, 2018 (MM/DD/YY) AND ENDING December 31, 2018 (MM/DD/YY)

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Hilltop Securities Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1201 Elm Street, Suite 3500
(No. and Street)

Dallas	TX	75270
(City)	(State)	(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Laura Leventhal — 214-859-1026
(Area Code – Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers
(Name – *if individual, state last, first, middle name*)

2121 N. Pearl Street	Dallas	TX	75201
(Address)	(City)	(State)	(Zip Code)

CHECK ONE:

- [x] Certified Public Accountant
- [ ] Public Accountant
- [ ] Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

**Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)*

SEC 1410 (06-02)

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

OATH OR AFFIRMATION

I, Hill A. Feinberg, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hilltop Securities Inc., as of December 31, 20 2018, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Hill A. Feinberg

Signature

Chairman

Title

Vilma I. Galvan

Notary Public

VILMA I GALVAN
Notary Public, State of Texas
Comm. Expires 02-17-2022
Notary ID 10749327

This report ** contains (check all applicable boxes):

- [x] (a) Facing Page.
- [x] (b) Statement of Financial Condition.
- [x] (c) Statement of Income (Loss).
- [x] (d) Statement of Changes in Financial Condition.
- [x] (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- [x] (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- [x] (g) Computation of Net Capital.
- [x] (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- [x] (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- [ ] (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- [ ] (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- [x] (l) An Oath or Affirmation.
- [ ] (m) A copy of the SIPC Supplemental Report.
- [ ] (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

***For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).*

Hilltop Securities Inc.
Index
December 31, 2018

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of Hilltop Securities Inc.

Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of Hilltop Securities Inc. (the "Company") as of December 31, 2018, and the related statements of operations, stockholder's equity, cash flows, and changes in subordinated borrowings for the year then ended, including the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Supplemental Information

The accompanying information contained in Schedules I, II, III and IV has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act. In our opinion, the information contained in Schedules I, II, III and IV is fairly stated, in all material respects, in relation to the financial statements as a whole.

PricewaterhouseCoopers LLP

Dallas, Texas
February 21, 2019

We have served as the Company's or its predecessor auditor since 2013.

Hilltop Securities Inc.
Statement of Financial Condition
December 31, 2018

(dollars in thousands, except par and redemption values)

Assets		
Cash	$	13,989
Assets segregated for regulatory purposes		133,993
Receivable from brokers, dealers and clearing organizations		1,760,315
Receivable from clients, net of allowance of $122		391,947
Securities owned, at fair value		737,549
Securities purchased under agreements to resell		61,611
Goodwill		7,008
Customer intangible, net of accumulated amortization of $10,874		5,926
Fixed assets, at cost, less accumulated depreciation of $18,196		16,980
Net deferred tax asset		9,188
Other assets (including $3,887 due from affiliates)		52,917
Total assets	$	3,191,423
Liabilities and Stockholder's Equity		
Short-term borrowings	$	189,000
Payable to brokers, dealers, and clearing organizations (including $457 due to affiliate)		1,295,381
Payable to clients (including $300 clearing deposit due to affiliate)		516,605
Drafts payable		23,722
Securities sold, not yet purchased, at fair value		81,667
Securities sold under agreements to repurchase		533,441
Notes payable due to affiliate		66,902
Subordinated debt due to affiliate		42,000
Accrued expenses and other liabilities (including $14,836 due to affiliates)		108,582
Total liabilities		2,857,300
Stockholder's equity:		
Series A preferred stock, $20 par value, $1,000 redemption value; authorized 100,000 shares; no shares issued and outstanding		-
Class A voting common stock of $1 par value; authorized 10,000 shares; issued and outstanding 2,820 shares		3
Class B nonvoting common stock of $1 par value; authorized 10,000 shares; none issued		-
Additional paid-in capital		288,349
Retained earnings		45,771
Total stockholder's equity		334,123
Total liabilities and stockholder's equity	$	3,191,423

The accompanying notes are an integral part of this financial statement.

Confidential

Hilltop Securities Inc.
Statement of Operations
Year Ended December 31, 2018

(in thousands)

Revenues:		
Interest	$	129,308
Investment banking, advisory and administrative fees		111,721
Commissions		76,007
Net gains on principal transactions		47,755
Net revenues from clearing operations		13,691
Other		13,463
Total revenues		391,945
Expenses:		
Commissions and other employee compensation		187,510
Interest		83,872
Occupancy, equipment and computer service costs		40,933
Communications		14,781
Floor brokerage and clearing organization charges		7,317
Advertising and promotional		6,565
Other		28,461
Total expenses		369,439
Income before income tax expense		22,506
Income tax expense		4,529
Net income	$	17,977

The accompanying notes are an integral part of this financial statement.

Confidential

Hilltop Securities Inc.
Statement of Stockholder's Equity
Year Ended December 31, 2018

(dollars in thousands)

	Class A Voting Common Stock Shares	Class A Voting Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Total
Balance at December 31, 2017	2,820	$ 3	$ 287,678	$ 27,794	$ 315,475
Net income	-	-	-	17,977	17,977
Restricted stock plan	-	-	671	-	671
Balance at December 31, 2018	2,820	$ 3	$ 288,349	$ 45,771	$ 334,123

The accompanying notes are an integral part of this financial statement.

Confidential

Hilltop Securities Inc.
Statement of Cash Flows
Year Ended December 31, 2018

(in thousands)

Cash flows from operating activities:	
Net income	$ 17,977
Adjustments to reconcile net income to net cash used in operating activities:	
Deferred income tax expense	1,505
Depreciation and amortization	7,543
Loss on sale of fixed assets	40
Compensation expense for restricted stock	983
Provision for doubtful accounts	(230)
Changes in operating assets and liabilities:	
Brokers, dealers and clearing organizations accounts, net	23,814
Client accounts, net	(27,032)
Securities owned, at fair value	(16,685)
Securities purchased under agreements to resell	124,926
Other assets	11,292
Drafts payable	(1,430)
Securities sold, not yet purchased	(151,154)
Accrued expenses and other liabilities	(26,186)
Net cash used in operating activities	(34,637)
Cash flows from investing activities:	
Purchase of fixed assets	(6,831)
Proceeds from sale of fixed assets	84
Net cash used in investing activities	(6,747)
Cash flows from financing activities:	
Payments on short-term borrowings	(3,740,500)
Cash proceeds on short-term borrowings	3,614,000
Payments on loans payable to Hilltop Securities Holdings Inc.	(7,750)
Cash proceeds on securities sold under agreements to repurchase	124,383
Net cash used in financing activities	(9,867)
Net change in cash	(51,251)
Cash and restricted cash at beginning of year	199,233
Cash and restricted cash at end of year	$ 147,982
Reconciliation of Cash and Restricted Cash to Statement of Financial Condition	
Cash	$ 13,989
Assets segregated for regulatory purposes	133,993
Total cash and restricted cash	$ 147,982
Supplemental disclosure of cash flow information:	
Cash paid for interest	$ 83,427
Cash paid for taxes, net of refunds	$ 9,385
Supplemental disclosure of non-cash activities:	
Forfeitures of restricted stock awards	$ 312

The accompanying notes are an integral part of this financial statement.

Confidential

Hilltop Securities Inc.
Statement of Changes in Subordinated Borrowings
Year Ended December 31, 2018

(in thousands)

Subordinated borrowings at December 31, 2017	$	42,000
Increases		-
Decreases		-
Subordinated borrowings at December 31, 2018	$	42,000

The accompanying notes are an integral part of this financial statement.

1. Organization

Hilltop Securities Inc. (the "Company"), a Delaware Company and a wholly owned subsidiary of Hilltop Securities Holdings LLC ("Securities Holdings"), a wholly owned subsidiary of Hilltop Holdings Inc. ("Parent"), is a New York Stock Exchange ("NYSE") member broker/dealer, a registered investment advisor and a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is registered with the Securities and Exchange Commission (the "SEC") as a broker/dealer under the Securities Exchange Act of 1934 ("Exchange Act") and as a registered investment advisor under the Investment Advisors Act of 1940. The Company is also registered with the Commodity Futures Trading Commission ("CFTC") as a non-guaranteed introducing broker and is a member of the National Futures Association ("NFA").

Pursuant to the SEC Rule 11(a) of the Exchange Act, over 50% of the Company's revenues are comprised of Section 11(a) items, indicating the Company is primarily engaged in trading on behalf of customers.

2. Summary of Significant Accounting Policies

Securities Transactions

Proprietary securities transactions are recorded on trade date, as if they had settled. Clients' securities and commodities transactions are reported on a settlement date basis, which approximates trade date basis.

Marketable securities are valued at fair value, based on quoted market prices, and securities not readily marketable are valued at fair value as determined by management**.** The Company evaluates fair value measurements by considering observable data that may include prices from independent pricing services, dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, and the financial instruments' terms and conditions, among other factors. The increase or decrease in net unrealized appreciation or depreciation of securities owned is credited or charged to operations and is included in net gains on principal transactions in the Statement of Operations. Interest income is recorded on these securities when earned.

Fixed Assets and Depreciation

Fixed assets are comprised of furniture and equipment ($26,824) and leasehold improvements ($8,352) which are stated at cost. Depreciation of furniture and equipment is provided over the estimated useful lives of the assets (from three to seven years), and depreciation on leasehold improvements is provided over the shorter of the useful life or the lease term (up to fifteen years) using the straight-line method. Additions, improvements and expenditures for repairs and maintenance that significantly extend the useful life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to expense in the period incurred.

Goodwill and Customer Intangible

The Parent performs required annual impairment tests of its goodwill as of October 1st for each of its reporting units. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill. The goodwill impairment test requires the Parent to make judgments in determining what assumptions to use in the calculation. The process consists of estimating the fair value of each reporting unit based on valuation techniques, including a discounted cash flow model using revenue and profit forecasts and recent industry transaction and trading multiples of the Parent's peers, and comparing those estimated fair values with the carrying values of the assets and liabilities of the reporting unit, which includes the allocated goodwill. If the estimated fair value is less than the carrying value, the Parent will recognize an impairment charge, pushed down to the reporting unit, for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized will not exceed the total amount of goodwill allocated to that reporting unit.

(dollars in thousands, except par and redemption values)

At October 1, 2018, the Parent determined that the estimated fair value of each of its reporting units, including the Company, exceeded its carrying value. As a result, the Parent concluded that the Company's goodwill was fully realizable, indicating no impairment of the Company's goodwill.

The Company recorded two separate customer relationship intangibles as part of the acquisition of First Southwest Company, LLC ("FSC") by the Parent in November 2012 and the merger of the Company with the Parent in January 2015, which are being amortized over a 12 and 14 year period, respectively, at a rate based on the sum of the years digits.

The Company determined that no impairment for the Company's intangible assets was necessary upon their evaluation on October 1, 2018.

The estimated aggregate future amortization expense for the customer relationship intangibles at December 31, 2018 is as follows:

2019	$	1,302
2020		1,130
2021		958
2022		786
2023		614
Thereafter		1,136
	$	5,926

Resale and Repurchase Agreements
Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements or reverse repos) or sales of securities under agreements to repurchase (repurchase agreements or repos) are accounted for as collateralized financings. It is the policy of the Company to obtain possession of collateral with a fair value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate. Interest payable and interest receivable on these amounts are included in the Statement of Financial Condition in other liabilities and other assets, respectively.

Securities Borrowing and Lending Activities
Securities borrowed and securities loaned transactions are generally reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash, letters of credit, or other collateral with the lender. With respect to securities loaned, 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 borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Securities borrowed and securities loaned transactions are recorded at the amount of cash

collateral advanced or received adjusted for additional collateral obtained or received. Securities borrowed and securities loaned, as well as the interest accrued on such transactions are included in the Statement of Financial Condition in receivables from and payables to brokers, dealers and clearing organizations. Interest revenue and interest expense on securities borrowed and securities loaned transactions are included in the Statement of Operations in interest revenue and interest expense, respectively.

Drafts Payable

In the normal course of business, the Company uses drafts to make payments relating to its brokerage transactions. These drafts are presented for payment through an unaffiliated bank and are sent to the Company daily for review and acceptance. Upon acceptance, the drafts are paid.

Revenue Recognition

On January 1, 2018, the Company adopted the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*, using the modified, cumulative-effect approach wherein the guidance is applied only to existing contracts as of the date of initial application and to new contracts entered into thereafter. The new standard outlines a single comprehensive model for entities to depict the transfer of goods or services to customers in amounts that reflect the payment to which a company expects to be entitled in exchange for those goods or services. Interest revenue, net gains on principal transactions and money market management fees are not within the scope of ASC 606.

The Company’s revenue recognition policies were affected upon adoption of ASC 606. Specifically, the new guidance required changes to the principal versus agent conclusion for certain advisory and underwriting revenues and expenses which, as of January 1, 2018, are recorded on a gross basis while legacy guidance required these revenues to be recognized net of the related expenses. Conversely, certain contract costs related to the Company’s operations are now netted against the revenues while the legacy guidance required these revenues and expenses to be recognized on a gross basis. These changes did not have a material effect on the Company’s financial statements during 2018. As the measurement and timing of revenue recognition was not affected for any of the Company’s revenue streams, the implementation of the new guidance had no impact on opening retained earnings as of January 1, 2018.

Investment Banking, Advisory and Administrative Fees

Managed Money

The Company receives a management fee received in connection with management and investment advisory services performed for separately managed accounts. The performance obligation related to the transfer of these services is satisfied over time. These fees are recorded when earned based on the period-end value of account assets. Though these fees are variable in nature, the Company has determined that the fees are not constrained and are recognized as revenue during the period in which the services are provided.

Public Banking
Under financial advisory agreements, the Company provides public finance services for school districts, municipalities and government agencies to meet their financing needs such as assisting with the issuance of debt, advising on an on-going basis & providing disclosure statements. The Company also provides portfolio management and local government investment pool administration.

These agreements have six distinct performance obligations, financial advisory, retainer, consulting, continuing disclosure, placement and administration.

Financial advisory
Revenue from financial advisory service contracts is earned from services related to the bond issues. The fee is either fixed or calculated based on the par value of the bond. Revenue is recognized when the performance obligation for the transaction is satisfied, delivery of the bonds.

Retainer
Revenue from retainer service contracts is earned from on-going general financial services that may or may not lead to debt issuances. The Company provides on-going general financial services that will guide the client in making financial decisions which may include the issuance of debt. The fees are fixed, satisfied over time and recognized over the service period notated in the customer contract. Any up-front payments are deferred until recognized and are not material at December 31, 2018.

Consulting
Revenue from consulting service contracts is earned from debt services for bond issues, with fees generally based on an hourly rate and from non-debt issuance services, with fees either fixed or based on an hourly rate. Revenue from consulting fees relating to debt services is recognized at a point in time, when the performance obligation for the transaction is satisfied, date of issuance, and revenue from consulting fees relating to non-debt issuance services is recognized at a point in time when the performance obligation for the defined project is complete and made available to the customer. For consulting fees that are variable in nature, Company management has determined that the fees are 100% constrained and unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon completion of the consulting services.

Continuing disclosure
Revenue from continuing disclosure service contracts is earned from services provided to its customers in the form of disclosures made to the investing public pertaining to debt obligations as set forth by the SEC. The fees for these services are based on the percent of the transaction, on an hourly rate or are fixed. For the fees that are variable in nature, Company management has determined that the fees are 100% constrained and unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon completion of the continuing disclosure services. Revenue from continuing disclosure fees are recognized at a point in time when the work is completed.

Placement
Revenue from placement service contracts is earned from services to act as a placement agent in connection with the issuance of financial securities. Revenue is recognized when the performance obligation for the transaction is satisfied, date of debt issuance.

Administration
The Company provides administrative, marketing, and participant services for two investment pools. These pools provide government entities with the flexibility to meet their cash management objectives. The purpose of the pools is to group funds of municipalities into a larger fund size whereby they receive higher returns than if the funds were invested by the municipality on its own. As an administrator, the Company receives fees based on the net assets of the individual programs. Though these fees are variable in nature, Company management has determined that the fees are not constrained and are recognized on a monthly basis.

Underwriting
The Company underwrites securities for business entities and governmental entities that want to raise funds through a sale of securities. Revenues are earned from fees arising from securities offerings in which the Company acts as an underwriter. Revenue is recognized on the trade date (the date on which the Company purchases the securities from the issuer) for the portion the Company is contracted to buy. The Company believes that the trade date is the appropriate point in time to recognize revenue for securities underwriting transactions as there are no significant actions which the Company needs to take subsequent to this date and the issuer obtains the control and benefit of the capital markets offering at that point.

Structured housing and products
The Company assists housing finance corporations in issuing bonds and other financial structures to fund qualified home buyer mortgages or rental housing either by offering financial advisory services to the finance corporation or acting as the underwriter to the bond issue. The Company also assists customers in finding investment vehicles for the funds raised by public entities from bond issuances and provides financial advisory support to public entities by creating comprehensive financing and hedging plans applicable to balance sheet management while complying with Treasury Regulations. In addition, the Company provides periodic monitoring of these investment vehicles and an annual accounting valuation and effectiveness testing for derivative contracts. The transaction price varies depending on the services contracted by the customer. These fees are generally variable in nature and are based on the value of the underlying product. Company management has determined that the fees are 100% constrained and is unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon completion of the services.

Commissions
Brokerage
The Company buys and sells securities on behalf of its customers. Each time a customer enters into a buy or sell transaction, the Company charges a commission. Commissions and related clearing expenses are recorded on the trade date (the date that the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or

purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer.

Soft Dollar
The Company provides soft dollar arrangements to customers. In these arrangements, the Company provides research to customers in return for a certain volume of trade order flow to the Company. These types of transactions are governed by Section 28(e) of the Exchange Act, which allows the paying of a brokerage commission if the manager determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services provided. Management has identified two separate performance obligations with these arrangements, trade execution and research. The trade execution services are recognized on a consistent basis as noted above in *Commissions-Brokerage*. The recognition of research services revenue is based on the services specified by the customer contract. These services could be over a period of time and recognized as such or a one time service that is recognized at the time of completion of the service. Management has determined that the Company is an agent in the research transactions performed for customers. The Company contracts with a third-party to provide customers' requested research services. This third-party is primarily responsible for fulfilling the terms of the contracted research services. The Company does not have control of the research before it is distributed to the customer. As an agent, the Company records the fees earned for facilitating the transfer of the research services as revenue and presents them net in the Statement of Operations.

12b-1
As a mutual fund distributor, the Company incurs distribution costs and receives 12b-1 fees for marketing and distribution of mutual funds from the fund as compensation for these costs. The fees received from the fund are based on the assets/positions held by the Company at the end of the specified period notated in the contract. As these fees are variable in nature, Company management has determined that the fees are 100% constrained and is unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon receipt of funds from the mutual fund providers. Revenue from 12b-1 fees are recognized at a point in time when the fees become known, which is dictated by the contract payout terms, (i.e. weekly, bi-monthly, monthly and quarterly.)

Net Revenues from Clearing Operations
Under clearing agreements, the Company clears trades for unaffiliated correspondent brokers and Hilltop Securities Independent Network Inc. ("HTIN"), an affiliate and charges fees for its services. Management has determined that they are an agent in the transactions performed for the correspondent brokers. The correspondent is primarily responsible for fulfilling the terms of their customer contracts. The correspondent brokers have contracted with the Company to fulfill their customers' transactions. As an agent, the Company records the fees earned for facilitating the transfer of goods and services, and fees earned based on the correspondent broker contract less any fees earned by the correspondent broker on their customer transactions (i.e. commission) as revenue. The net revenue earned is satisfied over time as the services performed are unique to each correspondent broker and recognized on a monthly basis.

Other Revenue
Brokerage custody fees
Brokerage custody fees are specific fees contracted by the brokerage customer for services performed by the Company. Revenue for these fees are recognized in a manner similar to commissions, as noted above in *Commissions-Brokerage*.

Insurance
The Company receives commissions from the sale of insurance policies. The commissions are received in the form of up front commissions that are received upon the initial sale of the insurance product to the customer. Additional commissions are received over a stated period of time as long as the Company is the broker/dealer of record and the contract is viable. These commissions are variable in nature and the Company has determined that the additional commissions received subsequent to those received on the sale date are constrained and are only recognized as revenue to the extent that it is probable that a significant reversal will not occur when any uncertainty in the amount received from the carriers is ultimately resolved. The Company is unable to estimate these subsequent commissions due to the large number and broad range of possible amounts unknown at the time of the sale of the policy to the customer. As a result these amounts are recognized as revenue upon receipt of payment from the insurance carriers.

Contract Costs
Advisory services from public banking and underwriting costs are shown gross in the Statement of Operations as the Company has determined that the Company is a principal with respect to its portion of the services performed for the customer. The Company is responsible for fulfilling the terms of the contract and bears the risk of loss until the service has been transferred to the customer.

The Company pays fees to outside third parties for platform administration and model implementation associated with its management and investment advisory services. In regard to these services, the Company has determined that it is the principal in regard to the administrative services performed. Therefore, any revenue and expenses are reported gross on the statement of operations.

Amounts collected on behalf of third parties, such as postage fees, are not included in the transaction price as they are collected from the customer to cover the cost of sending out customer correspondence. The Company has determined that it acts as an agent in these transactions as it is collecting the postage on behalf of a third party. As a result, the fees associated with the postage for customer correspondence is netted against the funds received from the customer for this service, which are included in other revenue on the Statement of Operations.

(dollars in thousands, except par and redemption values)

The following table presents revenue by major source for the year ended December 31, 2018:

Revenue from contracts with customers		
Investment banking, advisory and administrative fees		
Advisory services--public banking	$	51,708
Advisory services--managed money		15,104
Underwriting fees		7,306
Structured housing and products		4,354
Other		2,747
	$	81,219
Commissions		
Brokerage commissions	$	67,559
Soft dollar		4,557
12b-1 fees		3,891
	$	76,007
Net revenues from clearing operations	$	13,691
Other		
Brokerage custody fees	$	5,989
Insurance income		3,048
Other		4,426
	$	13,463
Total Revenue from contracts with customers	$	184,380
Revenue not in scope of ASC 606		
Investment banking, advisory and administrative fees - money market fees	$	30,502
Interest		129,308
Net gains on principal transactions		47,755
	$	207,565
Total revenues	$	391,945

Cash Flow Reporting
For the purpose of presentation in the statements of cash flows, cash and restricted cash are defined as the amounts included in the Statement of Financial Condition's captions "Cash" and "Assets segregated for regulatory purposes." The Company considers cash to include cash on hand and in bank accounts. In addition, highly liquid debt instruments purchased with maturities of three months or less, when acquired, are considered to be cash equivalents. The Federal Deposit Insurance Corporation ("FDIC") insures deposit accounts up to $250. At December 31, 2018, the cash balances included $12,827 that was not federally insured because they exceeded federal insurance limits. This at-risk amount is subject to fluctuation on a daily basis, but management does not believe there is significant risk on these deposits.

Derivative Financial Instruments
Derivative financial instruments arise from the execution of forward purchase commitments of mortgage-backed securities with certain clients that allow those clients to make mortgage loans at agreed-upon rates. The Company hedges the interest rate risk generated by the forward purchase commitments by executing forward sales of to-be-announced mortgage-backed securities (TBA). The amount hedged is influenced by the Company's estimated ratio of the forward purchase commitments that will not be securitized into mortgage-backed securities as part of the program (fallout rate). The Company uses historical experience, changes in interest rates, and other factors to estimate the fallout rate.

Additionally, the Company enters into TBA agreements to assist clients (generally small to mid-size mortgage loan originators) in hedging the interest rate risk associated with the mortgages owned by the clients. In general, the Company will enter into a TBA purchase agreement with the client and then immediately enter into a TBA sale agreement with identical terms and the same settlement date with a separate counter-party. The Company mitigates interest rate risk and earnings volatility by selling TBAs with characteristics similar to the forward purchase commitments of mortgage-backed securities.

The Company also utilizes a portfolio of exchange-traded derivative instruments to achieve a fair value return that economically hedges changes in the fair value of their securities products. These derivative instruments include both Eurodollar and Treasury Futures.

While the forward purchase commitments, TBAs, and U.S. Treasury and Eurodollar futures and options meet the definition of a derivative under the provisions of ASC 815 "*Derivatives and Hedging*," they do not qualify for hedge accounting. These derivative securities are carried at fair value and recorded in other assets and other liabilities in the Statement of Financial Condition with unrealized and realized gains recorded in net gains (losses) on principal transactions in the Statement of Operations.

Income Taxes
The Company files a consolidated federal income tax return with its Parent. For purposes of these financial statements, income taxes are computed on the benefits-for-loss method.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Fair Value of Financial Instruments
Fair value accounting establishes a framework for measuring fair value. Under fair value accounting, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date in the principal market in which the reporting entity transacts. Further, fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, fair value accounting establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Under the standard, fair value measurements are separately disclosed by level within the fair value hierarchy.

The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 — Quoted prices in an active market for identical assets or liabilities. Assets and liabilities utilizing Level 1 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio. Valuation of these instruments does not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.

- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Assets and liabilities utilizing Level 2 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio and the Company's commitments to purchase and sell derivative securities. These financial instruments are valued by quoted prices that are less frequent than those in active markets or by models that use various assumptions that are derived from or supported by data that is generally observable in the marketplace. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying observable market assumptions.

- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. These assets and liabilities would have significant inputs that could not be validated by readily determinable market data and generally would involve considerable judgment by management. The Company does not have any financial instrument assets or liabilities utilizing Level 3 inputs.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Condition, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Securities Owned and Securities Sold, Not Yet Purchased Portfolio (including the Company's derivative securities).
Securities classified as Level 1 securities primarily consist of financial instruments whose values are based on quoted market prices in active markets such as corporate equity securities and U.S. government and government agency obligations primarily in U.S. treasury securities.

Securities classified as Level 2 securities include financial instruments that are valued using models or other valuation methodologies. These models are primarily industry standard models that consider various assumptions, including time value, yield curve, volatility factors, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Securities in this category include corporate obligations, U.S. government and government agency obligations, municipal obligations, unit investment trusts (UIT) and the Company's commitments to purchase and sell derivative securities.

Substantially all of the Company's financial assets and liabilities are carried at fair value or at amounts which, because of their short-term nature, approximate current fair value.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events
The Company has performed an evaluation of subsequent events from January 1, 2019 through February 21, 2019, the date of issuance of the financial statements. There have been no subsequent events that would require recognition or disclosure in the financial statements as of December 31, 2018.

3. Assets Segregated For Regulatory Purposes

At December 31, 2018, the Company held cash of $133,993 segregated in special reserve bank accounts for the exclusive benefit of customers under Rule 15c3-3 under the Securities Exchange Act of 1934 ("Exchange Act Rule 15c3-3").

(dollars in thousands, except par and redemption values)

4. Receivable From and Payable to Brokers, Dealers and Clearing Organizations

At December 31, 2018, the Company had receivable from and payable to brokers, dealers and clearing organizations related to the following:

Receivable:		
Securities borrowed	$	1,365,547
Correspondent broker/dealers		243,179
Clearing organizations		76,849
Securities failed to deliver		16,300
Trades in process of settlement, net		32,993
Other		25,447
	$	1,760,315
Payable:		
Securities loaned	$	1,186,073
Securities failed to receive		75,015
Correspondent broker/dealers		29,311
Other		4,982
	$	1,295,381

The Company participates in the securities borrowing and lending business by borrowing and lending securities other than those of its clients. Securities borrowed and loaned represent deposits made to or received from other broker/dealers relating to these transactions. These deposits approximate the market value of the underlying securities. All open positions are adjusted to market values daily. The Company obtains or releases collateral as prices of the underlying securities fluctuate.

The Company clears securities transactions for correspondent broker/dealers. Proprietary settled securities and related transactions for these correspondents are included in the receivable from and payable to brokers, dealers and clearing organizations. At December 31, 2018, the Company held collateral for the receivables from correspondents in the amount of $333,066.

Securities failed to deliver and receive represent the contractual value of securities that have not been delivered or received subsequent to settlement date.

Certain securities lending arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

(dollars in thousands, except par and redemption values)

The following table provides information about these receivables and payables subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2018:

Description	Gross amounts of recognized assets/ liabilities (2)	Gross amounts offset in the statement of financial condition	Net amounts of assets/liabilities presented in the statement of financial condition	Gross amounts not offset in the statement of financial condition: Financial instruments (3)	Cash Collateral	Net Amount
Securities borrowed	$ 1,365,547	$ -	$ 1,365,547	$ (1,307,121)	$ -	$ 58,426
Securities loaned (1)	1,186,073	-	1,186,073	(1,136,034)	-	50,039

(1)Under securities lending agreements, the Company repledged $1,156,687.
(2)Securities borrowed and loaned are not presented net on the Statement of Financial Condition.
(3)Amounts reflect fair value of underlying collateral.

Securities Lending Activities. The Company's securities lending activities includes 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. The Company's management sets credit limits with each counterparty and reviews these limits regularly to monitor the risk level with each counterparty. The Company is subject to credit risk through its securities lending activities if securities prices decline rapidly because the value of the Company's collateral could fall below the amount of the indebtedness it secures. In rapidly appreciating markets, credit risk increases due to short positions. The Company's securities lending business subjects the Company to credit risk if a counterparty fails to perform or if collateral securing its obligations is insufficient. In securities transactions, the Company is subject to credit risk during the period between the execution of a trade and the settlement by the customer.

(dollars in thousands, except par and redemption values)

The following table presents the remaining contractual maturities of securities lending transactions accounted for as secured borrowings at December 31, 2018:

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	**Up to 30 days**	**30-90 days**	**Greater than 90 days**	**Total**
Securities lending transactions					
Corporate securities	$ 113	$ -	$ -	$ -	$ 113
Equity securities	1,185,960	-	-	-	1,185,960
Total borrowings	$ 1,186,073	$ -	$ -	$ -	$ 1,186,073
Gross amount of recognized liabilities for securities lending					$ 1,186,073
Amount related to agreements not included in offsetting disclosure					$ -

5. Receivable From and Payable to Clients

Receivable from and payable to clients include amounts due on cash and margin transactions. Included in these amounts are receivable from and payable to noncustomers (as defined by Exchange Act Rule 15c3-3, principally officers, directors and related accounts), which aggregated approximately $2,088 and $7, respectively, at December 31, 2018. Securities accounts of noncustomers are subject to the same terms and regulations as those of customers. Securities owned by customers and noncustomers that collateralize the receivables are not reflected in the accompanying financial statements.

The Company pledges client securities as collateral in conjunction with the Company's securities lending activities. At December 31, 2018, the Company has approximately $466,335 of client securities under customer margin loans that are available to be pledged, of which the Company has repledged approximately $29,387 under securities loan agreements.

The Company pays interest on certain customer "free credit" balances available for reinvestment. The aggregate balance of such funds was approximately $393,685 at December 31, 2018. During the year ended December 31, 2018, the interest rates paid on these balances ranged from 0.20% to 0.85%. While the Company pays interest on these funds at varying rates, the rate paid at December 31, 2018 was 0.85% with the weighted average interest rate paid during the year ended December 31, 2018 was 0.44%.

The Company maintains an allowance for doubtful accounts of $122 which represents amounts that, in the judgment of management, are necessary to adequately absorb losses from known and inherent risks in receivables from customers. Provisions made to this allowance are charged to operations. At December 31, 2018, all unsecured customer receivables had been provided for in this allowance.

(dollars in thousands, except par and redemption values)

6. Securities Owned and Securities Sold, not yet Purchased

At December 31, 2018, securities owned and securities sold, not yet purchased, both of which are carried at fair value, included the following:

ASSETS		
Securities owned:		
U. S. treasury securities	$	7,945
U. S. government agencies:		
Bonds		1,494
Residential mortgage-backed securities		309,131
Collateralized mortgage obligations		206,813
Corporate debt securities		59,293
States and political subdivisions		126,748
Unit investment trusts:		
Corporate securities		8,720
Municipal securities		11,193
Private-label issuers:		
Mortgage-backed securities		5,430
Asset-backed securities		250
Certificates of deposit		525
Options		4
Equity securities		3
	$	737,549
LIABILITIES		
Securities sold, not yet purchased:		
U. S. treasury securities	$	15,036
U. S. government agencies:		
Bonds		1,361
Corporate debt securities		47,306
Equity securities		17,964
	$	81,667

At December 31, 2018, none of the above securities were pledged as security deposits at clearing organizations for the Company’s clearing business. Additional securities have been pledged to secure short-term borrowings, see **Note 10**.

(dollars in thousands, except par and redemption values)

7. Derivative Financial Instruments

As described in **Note 2**, the Company participates in various hedging activities and at December 31, 2018, the Company's derivative positions associated with these activities are presented below:

	Notional Amount	Estimated Fair Value
Commitments to purchase TBAs	$ 2,359,630	$ 10,467
Commitments to sell TBAs	2,272,450	(7,726)
U.S. Treasury futures and options	82,200	-
Eurodollar futures	78,000	-

At December 31, 2018, the Company advanced cash collateral totaling $915 on its U.S. Treasury bond futures and options and Eurodollar futures. This amount is included in other assets within the Statement of Financial Condition.

Certain derivative arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

The following table provides information about these derivative arrangements subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2018:

				Gross amounts not offset in the statement of financial condition		
Description	Gross amounts of recognized assets/ liabilities	Gross amounts offset in the statement of financial condition	Net amounts of assets/liabilities presented in the statement of financial condition	Financial instruments	Cash Collateral	Net Amount
Derivative assets	$ 10,469	$ -	$ 10,469	$ (10,469)	$ -	$ -
Derivative liabilities	7,728	-	7,728	(7,728)	-	-

8. Fair Value of Financial Instruments

The following table summarizes by level within the fair value hierarchy securities owned, at fair value, securities sold, not yet purchased, at fair value and derivative securities as of December 31, 2018:

(dollars in thousands, except par and redemption values)

	Level 1	Level 2	Level 3	Total
ASSETS				
Securities owned, at fair value				
U. S. treasury securities	$ 7,945	$ -	$ -	$ 7,945
U. S. government agencies:				
Bonds	-	1,494	-	1,494
Residential mortgage-backed securities	-	309,131	-	309,131
Collateralized mortgage obligations	-	206,813	-	206,813
Corporate debt securities	-	59,293	-	59,293
States and political subdivisions	-	126,748	-	126,748
Unit investment trusts:				
Corporate securities	-	8,720	-	8,720
Municipal securities	-	11,193	-	11,193
Private-label issuers:				
Mortgage-backed securities	-	5,430	-	5,430
Asset-backed securities	-	250	-	250
Certificates of deposit	-	525	-	525
Options	-	4	-	4
Equity securities	3	-	-	3
	$ 7,948	$ 729,601	$ -	$ 737,549
Derivative financial instruments				
Commitments to purchase TBAs	$ -	$ 10,469	$ -	$ 10,469

	Level 1	Level 2	Level 3	Total
LIABILITIES				
Securities sold, not yet purchased, at fair value				
U. S. treasury securities	$ 15,036	$ -	$ -	$ 15,036
U. S. government agencies:				
Bonds	-	1,361	-	1,361
Corporate debt securities	-	47,306	-	47,306
Equity securities	17,964	-	-	17,964
	$ 33,000	$ 48,667	$ -	$ 81,667
Derivative financial instruments				
Commitments to sell TBAs	$ -	$ 7,728	$ -	$ 7,728
Net assets (liabilities)	$ (25,052)	$ 683,675	$ -	$ 658,623

(dollars in thousands, except par and redemption values)

At the end of each respective quarterly reporting period, the Company recognizes transfers of financial instruments between levels. During the year ended December 31, 2018, the Company did not have any transfers of financial instruments between levels.

Changes in unrealized gains (losses) and realized gains (losses) for corporate and municipal obligations and corporate equity securities are presented in net gains on principal transactions in the Statement of Operations. There was no unrealized gains (losses) included in earnings related to assets and liabilities still held at December 31, 2018 for the year ended December 31, 2018.

9. Securities Purchased/Sold Under Agreements to Resell/Purchase

At December 31, 2018, the Company held reverse repurchase agreements, collateralized by U.S. government and government agency obligations and securities sold under repurchase agreements. These securities are reported on a gross basis in the Statement of Financial Condition.

Securities sold under repurchase agreements, which are secured borrowings, generally mature overnight with some maturing up to 30 days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company monitors the fair value of the underlying securities on a daily basis.

Certain reverse repurchase and repurchase agreements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

The following table provides information about these instruments subject to an enforceable master netting arrangement, repurchase agreements or similar agreements with offsetting rights and any related collateral amounts at December 31, 2018:

				Gross amounts not offset in the statement of financial condition		
Description	Gross amounts of recognized assets/ liabilities	Gross amounts offset in the statement of financial condition	Net amounts of assets/liabilities presented in the statement of financial condition	Financial instruments (1)	Cash Collateral	Net Amount
Reverse repurchase agreements	$ 61,611	$ -	$ 61,611	$ (61,390)	$ -	$ 221
Repurchase agreements	533,441	-	533,441	(533,441)	-	-

[1]Amounts reflect fair value of underlying collateral.

(dollars in thousands, except par and redemption values)

The following table presents the remaining contractual maturities of repurchase agreements accounted for as secured borrowings at December 31, 2018:

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Repurchase agreements					
U.S. treasury and agency securities	$ 88,582	$ -	$ -	$ -	$ 88,582
Asset backed securities	444,859	-	-	-	444,859
Total borrowings	$ 533,441	$ -	$ -	$ -	$ 533,441
Gross amount of recognized liabilities for repurchase agreements					$ 533,441
Amount related to agreements not included in offsetting disclosure					$ -

10. Short-Term Borrowings

Uncommitted lines of credit

The Company has credit arrangements with commercial banks, which include broker loan lines up to $725,000. These lines of credit are used primarily to finance securities owned, securities held for correspondent broker/dealer accounts, receivables in customers' margin accounts and underwriting activities. These lines may also be used to release pledged collateral against day loans. These credit arrangements are provided on an "as offered" basis and are not committed lines of credit. These arrangements can be terminated at any time by the lender. Any outstanding balances under these credit arrangements are due on demand and bear interest at rates indexed to the federal funds rate (2.50% at December 31, 2018). At December 31, 2018, the amount outstanding under these secured arrangements was $189,000, which was collateralized by securities held for firm and correspondent broker/dealer accounts valued at $545,604.

Committed lines of credit

At December 31, 2018, the Company had a $50,000 committed revolving credit facility with an unaffiliated bank. The commitment fee is 25 basis points per annum, and when drawn, the interest rate is equal to the federal funds rate plus 100 basis points. The agreement requires the Company to maintain a tangible net worth of at least $170,000. At December 31, 2018, there were no outstanding amounts under the committed revolving credit facility.

The Company pledges customer securities to the Option Clearing Corporation to support open customer positions. At December 31, 2018, the Company had pledged $134,906 to support these open customer positions.

11. Note Payable Due to Affiliate & Subordinated Debt Due to Affiliate

In January 2016, the Company entered into an agreement with First Southwest Holdings LLC for a non collateralized, 10 year, $88,127 promissory note paying interest semi-annually at a rate of 5% per annum and a $42,000 subordinated loan agreement with Securities Holdings paying interest semi-annually at a rate of 4.35% per annum. Both the agreements were entered into as part of the merger of FSC with the

(dollars in thousands, except par and redemption values)

Company. In August of 2018, the promissory note held by First Southwest Holdings LLC and the subordinated loan with Securities Holdings were contributed to the Parent, with the remaining balance of $111,652, at the time of the contribution, plus interest to be paid to the Parent. At December 31, 2018, there was $108,902 outstanding under these agreements.

12. Income Taxes

Income tax expense for the fiscal year ended December 31, 2018, (effective rate of 20.1%) differs from the amount that would otherwise have been calculated by applying the U.S. federal corporate tax rate (21%) to income before income taxes and is comprised of the following:

Income tax expense at the statutory rate	$	4,726
State income taxes, net of federal tax benefit		516
Non-deductible expenses		374
Reserve for uncertain tax positions		98
Tax-exempt income, net		(724)
Share-based compensation benefit		(35)
Other, net		(426)
	$	4,529

Income taxes as set forth in the statement of operations consist of the following components:

Current		
Federal	$	2,838
State		186
		3,024
Deferred		
Federal	$	1,038
State		467
		1,505
Total income tax expense	$	4,529

(dollars in thousands, except par and redemption values)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2018 are presented below:

Deferred tax assets:		
Compensation and benefits	$	5,309
Realized built-in loss carryforward		2,528
Deferred income		1,692
Deferred rent		1,364
Legal and other reserves		646
Other		618
Total gross deferred tax asset		12,157
Deferred tax liabilities:		
Intangible assets		(1,369)
Fixed Assets		(996)
Other		(604)
Total gross deferred tax liability		(2,969)
Net deferred tax asset	$	9,188

The Company assesses the ability to realize its deferred tax assets based upon the weight of available evidence, both positive and negative. To the extent the Company believes that it is more likely than not that some portion or all of the deferred tax assets will not be realized, the Company will establish a valuation allowance. The Company evaluated the realizability of its deferred tax assets and concluded, based on the Company's past history of profitability and future earnings projections, that a valuation allowance was not required.

At December 31, 2018, the Company had recognized built-in losses ("RBIL") of $2,528 from the 2015 merger with the Parent. At December 31, 2018, the Company had net operating loss ("NOL") carryforwards for state income tax purposes of $712. These net operating loss carryforwards expire in 2030 and later years. The RBILs and NOLs are expected to be fully realized prior to any expiration.

At December 31, 2018, the total amount of gross unrecognized tax benefits was $293, if recognized, and the total amount that would favorably impact the Company's effective tax rate and reduce income tax expense was $231.

The aggregate changes in gross unrecognized tax benefits, which exclude interest and penalties, are as follows:

Balance at December 31, 2017	$	162
Increases related to tax positions taken during a prior year		125
Increases related to tax positions taken during the current year		6
Balance at December 31, 2018	$	293

Interest and penalties incurred related to tax matters are charged to other interest expense or other noninterest expense, respectively. There is no accrued interest and penalties, net of federal benefit included in the net liability at December 31, 2018.

With limited exception, the Company is no longer subject to U.S. federal, state or local tax audits by taxing authorities for years preceding 2015.

The amount of current federal and state taxes receivable from the Parent included in other assets on the Statement of Financial Condition was $1,125 and $556, respectively, at December 31, 2018.

13. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (the "Rule"), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the Rule, which requires that it maintain minimum net capital, as defined in Rule 15c3-1 under the Exchange Act, equal to the greater of $1,000 or 2% of aggregate debit balances, as defined in Exchange Act Rule 15c3-3. At December 31, 2018, the Company had net capital of approximately $193,995 which is approximately $183,097 in excess of its minimum net capital requirement of approximately $10,898 at that date. Additionally, the Rule provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of aggregate debit items. At December 31, 2018, the Company had net capital of approximately $166,750 in excess of 5% of aggregate debit items.

14. Affiliate Transactions

The Company clears all customer transactions for HTIN, an affiliate. Based on an agreement with this entity, the Company receives a fee for clearing HTIN trades. The net amount of fees received by the Company for clearing trades for this entity was approximately $514 for the year ended December 31, 2018. The Company also provides all accounting, administrative services, management services and office facilities to HTIN in accordance with an expense sharing agreement in the amount of $50 per year. Additionally, the Company collects all revenues and pays all expenses on behalf of HTIN.

The Company, as clearing broker for its affiliate, has the right to charge customer losses back to the affiliate.

The Company receives insurance fees from Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. (collectively, SWS Insurance). For the year ended December 31, 2018, the Company received $3,048 of insurance fees which are included in other income in the Statement of Operations. Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. are affiliates of the Company. These entities hold insurance agency licenses for the purpose of facilitating the sale of insurance and annuity products. The Company retains no underwriting risk related to the insurance and annuity products sold.

Clients and correspondents of the Company have the option to invest in a savings account called Bank Insured Deposits at the Company's banking affiliate, PlainsCapital Bank ("Bank"). These funds are FDIC insured up to $250. For the year ended December 31, 2018, the Company received a maintenance fee of $11,240 on these bank insured funds from the Bank.

The Bank charges the Company a processing fee for client checks written on money market accounts. The fee paid to the Bank for this service was $88 for the year ended December 31, 2018, included in other expense on the Statement of Operations.

The Company makes loans to employees, primarily financial advisors, mainly for recruiting and retention purposes. The amount of loans to employees is included in other assets in the Statement of Financial Condition in the amount of $15,373 for which the Company has recorded an allowance, included in other assets in the Statement of Financial Condition, of $2,555 for terminated relationships.

The Company is named as the lessee for two leases which are subleased to the Bank. During the year ended December 31, 2018, the Company received and recorded in other revenue on the Statement of Operations $100 of rental income for these subleases with the Bank. Additionally, the Company subleases office space and utilizes space in a property owned by the Bank for its business recovery centers. During the year ended December 31, 2018, the Company paid and recorded in occupancy, equipment and computer service costs on the Statement of Operations $116 of rental expense for these subleases with the Bank.

Securities Holdings loaned the Company $42,000 as part of a merger transaction between the Company and FSC. The Company paid interest at a rate of 4.35% per annum. Additionally, as part of this transaction, in January 2016, First Southwest Holdings LLC loaned the Company $88,127, bearing an interest at a rate of 5% per annum. During August of 2018, the notes were contributed to the Parent (see **Note 11**). During the year ended December 31, 2018, the Company paid interest of $1,852 on the $42,000 note and $3,459 on the $88,127 note.

The Company has various expense sharing arrangements with the Parent, Securities Holdings and other subsidiaries of the Parent. These expense sharing agreements outline the types of expenses that will be passed through to the Company, including but not limited to compensation expense, use of Parent assets, and administrative services performed by the Parent or subsidiaries of the Parent. During the year ended December 31, 2018, the total Parent expenses passed through to the Company were $9,472. On the Statement of Financial Condition, the total receivable includes $2,779 from First Southwest Holdings LLC and its subsidiaries, $951 from the Bank, $119 from Southwest Insurance Agency and $38 from the National Lloyds Corporation, a wholly owned subsidiary of the Parent. The total payable includes $6,703 to Securities Holdings, $1,521 to Southwest Insurance Agency, $3,478 to the Parent, $2,429 to First Southwest Holdings LLC and its subsidiaries, including $457, which is reported in payable to brokers, dealers, and clearing organizations on the Statement of Financial Condition, $1,162 to HTIN and a $300 clearing deposit to HTIN, which is reported in payable to clients on the Statement of Financial Condition.

15. Employee Benefits

The Parent has a defined contribution retirement plan pursuant to Section 401 of the Internal Revenue Code (the Code) whereby eligible participants may elect to contribute a percentage of their compensation up to a maximum allowed under the Code. In addition, the plan also provides for a matching contribution by the Company based on a percentage of participants' contributions. The Company's matching contributions vest in three equal annual installments and the expense totaled approximately $3,044 for the year ended December 31, 2018.

On January 1, 2015, under the terms of the merger agreement, the Parent's stockholders, including the Company's officers and employees who held stock issued under the SWS Group, Inc.'s, the former parent of the Company restricted stock plans, received per share consideration of 0.2496 shares of Hilltop Holdings Inc. common stock and $1.94 of cash. Each restricted share of the Parent's common stock granted prior to the date of the merger agreement vested in full on January 1, 2015 and the holders of such restricted shares received the merger consideration for each such share on the same basis as the Parent's stockholders, less applicable withholding taxes, which were withheld first from the cash portion of the merger consideration payable in respect of each such share. The restricted shares of SWS Group, Inc. common stock converted into the right to receive an aggregate of 62,994 restricted shares of Hilltop Holdings Inc. common stock. The shares vesting schedule did not accelerate, generally vested in three equal annual installments beginning on August 20, 2015, and were subject to service conditions set forth in the award agreements, with associated costs recognized on a straight-line basis over the respective vesting periods. These shares were fully vested on August 20, 2018.

Pursuant to the Hilltop Holdings Inc. 2012 Equity Incentive Plan (the "2012 Plan"), the Parent may grant nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance awards, divided equivalent rights and other awards to employees of the Parent, its subsidiaries and outside directors of the Parent.

From May of 2013 through April of 2015, the compensation committee of the board of directors of the Parent ("Compensation Committee") awarded certain executives and key employees of FSC a total of 60,000 restricted shares of common stock ("RSAs") and 100,729 RSUs pursuant to the 2012 Plan. These RSAs and RSUs were subject to service conditions set forth in the grant agreements with associated costs recognized on a straight-line basis over the vesting period. The weighted average grant date fair value related to these RSAs and RSUs was $17.59 per share, resulting in expected compensation expense of $2,828. These awards are fully vested as of December 31, 2018.

From January 1, 2015 through December 31, 2018, the Compensation Committee awarded certain executives and key employees of the Company a total of 274,962 RSUs pursuant to the 2012 Plan. These awards and the associated costs are amortized over a vesting period of three years. The grant date weighted average fair value of these awards was $22.34 per share resulting in expected compensation expense of $6,141.

At December 31, 2018, the Company had unrecognized compensation expense related to restricted stock grants of approximately $1,734. For the year ended December 31, 2018, the Company has recognized compensation expense of $983 for all restricted stock granted to the Company's employees.

Upon vesting of the shares granted under the Parent's restricted stock plans, the grantees may choose to sell a portion of their vested shares to the Parent to cover the tax liabilities arising from the vesting.

16. Commitments and Contingencies

Leases. The Company leases its offices and certain equipment under noncancelable operating lease agreements. The Company recognizes escalating lease payments on a straight line basis over the term of each respective lease with the difference between cash payment and rent expense recorded as deferred rent and included in other liabilities in the Statement of Financial Condition. Rental expense relating to the facilities and equipment leases for the year ended December 31, 2018 aggregated to $9,212.

(dollars in thousands, except par and redemption values)

At December 31, 2018, the future rental payments for the noncancelable operating leases for each of the following five years and thereafter follows:

2019	$	10,781
2020		9,784
2021		6,326
2022		4,871
2023		4,095
Thereafter		8,963
	$	44,820

Underwriting. Through its participation in underwriting corporate and municipal securities, the Company could expose itself to material risk that securities the Company has committed to purchase cannot be sold at the initial offering price. Federal and state securities laws and regulations also affect the activities of underwriters and impose substantial potential liabilities for violations in connection with sales of securities by underwriters to the public. At December 31, 2018, the Company had no liabilities due under outstanding underwriting arrangements.

Litigation. In the general course of its brokerage business and the business of clearing for other brokerage firms, the Company has been named as a defendant in various lawsuits and arbitration proceedings. These claims allege violation of federal and state securities laws among other matters. Management believes that resolution of these claims will not result in any material adverse effect on the Company's financial position or results of operations.

Guarantees. The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. These indemnifications generally are standard contractual indemnifications and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company is a member of multiple exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is unlikely. Accordingly, no contingent liability is recorded in the financial statements for these arrangements.

17. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company engages in activities involving the execution, settlement and financing of various securities transactions. These activities may expose the Company to off-balance-sheet credit and market risks in the event the customer or counterparty is unable to fulfill its contractual obligation. Such risks may be increased by volatile trading markets.

As part of its normal brokerage activities, the Company sells securities not yet purchased (short sales) for its own account. The establishment of short positions exposes the Company to market risk if prices increase, as the Company may be obligated to acquire the securities at prevailing market prices.

The Company seeks to control the risks associated with its customers' activities, including those of customer accounts of its correspondents for which it provides clearing services, by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The required margin levels are monitored daily and, pursuant to such guidelines, customers are required to deposit additional collateral or to reduce positions when necessary.

A portion of the Company's customer activity involves short sales and the writing of option contracts. Such transactions may require the Company to purchase or sell financial instruments at prevailing market prices in order to fulfill the customers' obligations.

At times, the Company lends money using reverse repurchase agreements. These positions are collateralized by U.S. government and government agency securities. Such transactions may expose the Company to off-balance-sheet risk in the event such borrowers do not repay the loans and the value of collateral held is less than that of the underlying receivable. These agreements provide the Company with the right to maintain the relationship between market value of the collateral and the receivable.

The Company arranges secured financing by pledging securities owned and unpaid customer securities for short-term borrowings to satisfy margin deposits of clearing organizations. The Company also actively participates in the borrowing and lending of securities. In the event the counterparty in these and other securities loaned transactions is unable to return such securities pledged or borrowed or to repay the deposit placed with them, the Company may be exposed to the risks of acquiring the securities at prevailing market prices or holding collateral possessing a market value less than that of the related pledged securities. The Company seeks to control the risks by monitoring the market value of securities pledged and requiring adjustments of collateral levels where necessary.

18. Preferred Stock

On October 17, 1997, the Company's Board of Directors ("Board") authorized 100,000 shares of preferred stock. Simultaneously, the Board designated 5,000 shares of the authorized preferred stock as Series A Preferred Stock. Up to 50 shares of the Series A Preferred Stock, which has a par value of $20, can be issued to each of up to 100 qualified participants. Qualified participants are broker/dealers registered under the Exchange Act who clear their proprietary transactions through the Company and who represent that they are subject to net capital rules of the SEC and other self-regulatory organizations to which such broker/dealers report. The Series A Preferred Stock is nonvoting and nonconvertible to common stock, and it is entitled to noncumulative cash dividends when, as and if declared by the Board. The Series A Preferred Stock is redeemable at any time by the Company at a redemption price of $1,000 per share.

19. Proprietary Accounts of Broker/Dealers ("PAB") Reserve Requirements

The Company performs calculations of PAB reserve requirements. At December 31, 2018, the Company did not have a PAB reserve requirement and has no amount on deposit.

Supplemental Schedules

Hilltop Securities Inc.

Supplemental Schedule I – Computation of Net Capital Pursuant to Rule 15c3-1 of The Securities Exchange Act of 1934 and Regulation 1.17 of the Commodity Futures Trading Commission
December 31, 2018

(in thousands)

Total stockholder's equity from statement of financial condition		$ 334,123
Add liabilities subordinated to claims of general creditors allowable in computation of net capital		42,000
Total capital and allowable subordinated liabilities		376,123
Deductions and /or charges:		
Receivable from affiliates	$ (3,887)	
Fixed assets, net	(16,980)	
Securities owned, not readily marketable	(7,020)	
Other receivables from broker/dealers and clearing organizations	(16,974)	
Other investments, not readily marketable	(2,370)	
Other nonallowable assets	(63,734)	
Aged fails to deliver	(486)	
Aged short security differences	(338)	
Other deductions and/or charges	(5,402)	(117,191)
Net capital before haircuts on securities positions		258,932
Haircuts on securities positions		(64,937)
Net capital		193,995
Net capital requirement:		
Greater of 2% of aggregate debit items as shown in computation of special reserve requirement on Schedule II ($544,886 x 2% = $10,898) or $1,000		10,898
Excess net capital		$ 183,097
Net capital in excess of the greater of 5% of aggregate debit items or $1,200		$ 166,750

Note: The above computation does not differ materially from the computation of net capital prepared by the Company as of December 31, 2018 filed with the Financial Industry Regulatory Authority on January 24, 2019.

Hilltop Securities Inc.
Supplemental Schedule II – Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934
December 31, 2018

(in thousands)

Credit balances:		
Free credit balances and other credit balances in customers' security accounts	$	540,868
Monies borrowed collateralized by securities carried for the accounts of customers		2
Monies payable against customers' securities loaned		29,387
Customers' securities failed to receive		72,315
Credit balances in firm accounts which are attributable to principal sales to customers		3,395
Other		78,518
Total credits		724,485
Debit balances:		
Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection		389,860
Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver		70,049
Failed to deliver of customers' securities not older than 30 calendar days		11,478
Margin required and on deposit with the Options Clearing Corporation for all option contracts with or purchased in customer accounts		73,499
Total debits		544,886
Less 3% haircut		(16,347)
Total debits		528,539
Excess of total credits over total debits	$	195,946
Reserve requirement at December 31, 2018:		
Amount of cash held in "Reserve Bank Accounts" at December 31, 2018	$	133,993
Cash deposit made within required time frames (January 2, 2019)		72,275
Amount of cash held in "Reserve Bank Accounts"	$	206,268

Note: The above computation does not differ materially from the computation of special reserve requirement prepared by the Company as of December 31, 2018 filed with the Financial Industry Regulatory Authority on January 24, 2019.

Hilltop Securities Inc.
Supplemental Schedule III – Information for Possession or Control Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934
December 31, 2018

State the market valuation and the number of items of:

1. Customers fully paid securities and excess margin securities not in the respondent's possession or control as of December 31, 2018 for which instructions to reduce to possession or control had been issued as of December 31, 2018 but for which the required action was not taken by respondent within the time frames specified under Exchange Act Rule 15c3-3

(dollars in thousands)

Number of items		8
Market value	$	26,913

2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of December 31, 2018 excluding items arising from "temporary lags which result from normal business operations" as permitted under Exchange Act Rule 15c3-3

(dollars in thousands)

Number of items		-
Market value	$	-

Hilltop Securities Inc.
Supplemental Schedule IV – Reserve Computation for Proprietary Accounts of Broker/Dealers Pursuant to Exhibit A of Rule 15c3-3 of the Securities Exchange Act of 1934
December 31, 2018

(in thousands)

Credit balances:		
Free credit balances and other credit balances in PAB security accounts	$	119,594
Monies borrowed collateralized by securities carried for the accounts of PAB		145,000
Monies payable against PAB securities loaned		255
PAB securities failed to receive		2,372
Credit balances in firm accounts which are attributable to principal sales to PAB		4,721
Other		1,505
Total PAB credits		273,447
Debit balances:		
Debit balances in PAB cash and margin accounts excluding unsecured accounts and accounts doubtful of collection		329,607
Securities borrowed to effectuate short sales by PAB and securities borrowed to make delivery on PAB securities failed to deliver		48,674
Failed to deliver of PAB securities not older than 30 calendar days		1,295
Total PAB debits		379,576
Excess of total PAB debits over total PAB credits	$	(106,129)
PAB reserve requirement at December 31, 2018	$	-

Note: The above computation does not differ materially from the computation of the PAB requirement prepared by the Company as of December 31, 2018 filed with the Financial Industry Regulatory Authority on January 24, 2019.

Hilltop Securities Inc.'s Compliance Report

Hilltop Securities Inc. (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). As required by 17 C.F.R. § 240.17a-5(d)(1) and (3), the Company states as follows:

1. The Company has established and maintained Internal Control Over Compliance, as that term is defined in paragraph (d)(3)(ii) of Rule 17a-5.
2. The Company's Internal Control Over Compliance was effective during the most recent fiscal year ended December 31, 2018;
3. The Company's Internal Control Over Compliance was effective as of the end of the most recent fiscal year ended December 31, 2018;
4. The Company was in compliance with 17 C.F.R. § 240.15c3-1 and 17 C.F.R. §240.15c3-3(e) as of the end of the most recent fiscal year ended December 31, 2018; and
5. The information the Company used to state that the Company was in compliance with 17 C.F.R. §240.15c3-1 and 17 C.F.R. §240.15c3-3(e) was derived from the books and records of the Company.

Hilltop Securities Inc.

I, Hill A. Feinberg, swear (or affirm) that, to my best knowledge and belief, this Compliance Report is true and correct.

By: Hill A Feinberg

Chairman

February 21, 2019

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Management of Hilltop Securities Inc.

We have examined Hilltop Securities Inc.'s (the "Company") assertions, included in the accompanying Hilltop Securities Inc.'s Compliance Report, that

(1) the Company's internal control over compliance with the financial responsibility rules (as defined below) was effective during the year ended December 31, 2018 based on controls necessary to achieve the objectives of the financial responsibility rules,

(2) the Company's internal control over compliance with the financial responsibility rules was effective as of December 31, 2018 based on controls necessary to achieve the objectives of the financial responsibility rules,

(3) the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 (the "net capital rule") and 240.15c3-3(e) (the "reserve requirements rule") as of December 31, 2018, and

(4) the information used to assert that the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records.

The Company's management is responsible for establishing and maintaining a system of internal control over compliance that has the objective of providing the Company with reasonable assurance that non-compliance with 17 C.F.R. § 240.15c3-1, 17 C.F.R. § 240.15c3-3 (the "customer protection rule"), 17 C.F.R. § 240.17a-13 ("the quarterly securities count rule"), or Rule or Rule 2340 of National Association of Securities Dealers (the "account statements rule"), which requires account statements to be sent to the customers of the Company (collectively, the "financial responsibility rules") will be prevented or detected on a timely basis. The Company's management is also responsible for compliance with the net capital rule and the reserve requirements rule and that the information used to assert compliance was derived from the books and records. Our responsibility is to express an opinion on the Company's assertions based on our examination.

We conducted our examination in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the examination to obtain reasonable assurance about whether (1) the Company's internal control over compliance with the financial responsibility rules was effective as of and during the year ended December 31, 2018, (2) the Company complied with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2018, and (3) the information used to assert compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2018 was derived from the Company's books and records. Our examination included testing and evaluating the design and operating effectiveness of internal control over compliance with the financial responsibility rules, testing and evaluating the Company's compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e), determining whether the information used to assert compliance with 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Hilltop Securities Inc.'s compliance with the financial responsibility rules.

Because of its inherent limitations, internal control over compliance may not prevent or detect non-compliance with the financial responsibility rules. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hilltop Securities Inc.'s assertions referred to above are fairly stated, in all material respects.

PricewaterhouseCoopers LLP

Dallas, Texas
February 21, 2019

Hilltop Securities Inc.

Financial Statements and Supplemental Schedules
Pursuant to Rule 17a-5 of the
Securities and Exchange Commission
For the Year Ended December 31, 2017
With Report of Independent Registered Public Accounting Firm

This report is deemed CONFIDENTIAL in accordance
with Rule 17a-5(e)(3) under the Securities Exchange Act of 1934
A statement of financial condition, compliance report and examination report,
bound separately, have been filed with the
Securities and Exchange Commission
simultaneously herewith as a Public Document.

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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	August 31, 2020
Estimated average burden hours per response......	12.00

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

SEC FILE NUMBER
8-

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING January 1, 2017 (MM/DD/YY) AND ENDING December 31, 2017 (MM/DD/YY)

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Hilltop Securities Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1201 Elm Street, Suite 3500
(No. and Street)

Dallas	TX	75270
(City)	(State)	(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Laura Leventhal 214-859-1026
(Area Code – Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers
(Name – *if individual, state last, first, middle name*)

2001 Ross Ave, Suite 1800	Dallas	TX	75201
(Address)	(City)	(State)	(Zip Code)

CHECK ONE:

- ☑ Certified Public Accountant
- ☐ Public Accountant
- ☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

**Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)*

OATH OR AFFIRMATION

I, Hill A. Feinberg, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hilltop Securities Inc., as of December 31, 20 17, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

RENEE P VARELA
Commission # 11287216
My Commission Expires
October 18, 2019

NOTARY PUBLIC STATE OF TEXAS

Hill A. Feinberg

Signature

Chief Executive Officer

Title

Renee P. Varela

Notary Public

This report ** contains (check all applicable boxes):

- [x] (a) Facing Page.
- [x] (b) Statement of Financial Condition.
- [x] (c) Statement of Income (Loss).
- [x] (d) Statement of Changes in Financial Condition.
- [x] (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- [x] (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- [x] (g) Computation of Net Capital.
- [x] (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- [x] (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- [ ] (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- [ ] (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- [x] (l) An Oath or Affirmation.
- [ ] (m) A copy of the SIPC Supplemental Report.
- [ ] (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

***For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).*

Hilltop Securities Inc.
Index
December 31, 2017

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of Hilltop Securities Inc.

Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of Hilltop Securities Inc. as of December 31, 2017, and the related statements of operations, stockholder's equity, cash flows, and changes in subordinated borrowings for the year then ended, including the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Supplemental Information

The accompanying information contained in Schedules I, II, III and IV is supplemental information required by Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act. The supplemental information is the responsibility of the Company's management. The supplemental information has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act. In our opinion, the information contained in Schedules I, II, III and IV is fairly stated, in all material respects, in relation to the financial statements as a whole.

PricewaterhouseCoopers LLP

February 22, 2018

We have served as the Company's or its predecessor auditor since 2013.

PricewaterhouseCoopers LLP, 2001 Ross Avenue, Suite 1800, Dallas, Texas 75201
T: (214) 999 1400, F: (214) 754 7991, www.pwc.com/us

Hilltop Securities Inc.
Statement of Financial Condition
December 31, 2017

(dollars in thousands, except par and redemption values)

Assets		
Cash	$	12,655
Assets segregated for regulatory purposes		186,578
Receivable from brokers, dealers and clearing organizations (including $75 due from affiliates)		1,776,768
Receivable from clients, net of allowance of $353		379,101
Securities owned, at fair value		720,864
Securities purchased under agreements to resell		186,537
Goodwill		7,008
Customer intangible, net of accumulated amortization of $9,399		7,401
Fixed assets, at cost, less accumulated depreciation of $12,732		16,330
Net deferred tax asset		10,741
Other assets (including $1,974 due from affiliates)		64,484
Total assets	$	3,368,467
Liabilities and Stockholder's Equity		
Short-term borrowings	$	315,500
Payable to brokers, dealers, and clearing organizations (including $457 due to affiliates)		1,288,020
Payable to clients (including $300 clearing deposit due to affiliate)		531,021
Drafts payable		25,152
Securities sold, not yet purchased, at fair value		232,821
Securities sold under agreements to repurchase		409,058
Notes payable due to affiliate		74,652
Subordinated debt due to affiliate		42,000
Accrued expenses and other liabilities (including $10,799 due to affiliates)		134,768
Total liabilities		3,052,992
Stockholder's equity:		
Series A preferred stock, $20 par value, $1,000 redemption value; authorized 100,000 shares; no shares issued and outstanding		-
Class A voting common stock of $1 par value; authorized 10,000 shares; issued and outstanding 2,820 shares		3
Class B nonvoting common stock of $1 par value; authorized 10,000 shares; none issued		-
Additional paid-in capital		287,678
Retained earnings		27,794
Total stockholder's equity		315,475
Total liabilities and stockholder's equity	$	3,368,467

The accompanying notes are an integral part of this financial statement.

Confidential

Hilltop Securities Inc.
Statement of Operations
Year Ended December 31, 2017

(in thousands)

Revenues:		
Investment banking, advisory and administrative fees	$	129,347
Net gains on principal transactions		91,114
Commissions		83,692
Interest		83,092
Net revenues from clearing operations		13,955
Other		12,174
Total revenues		413,374
Expenses:		
Commissions and other employee compensation		220,158
Interest		47,299
Occupancy, equipment and computer service costs		39,811
Communications		15,550
Floor brokerage and clearing organization charges		6,551
Advertising and promotional		5,790
Other		26,026
Total expenses		361,185
Income before income tax expense		52,189
Income tax expense		23,701
Net income	$	28,488

The accompanying notes are an integral part of this financial statement.

Confidential

Hilltop Securities Inc.
Statement of Stockholder's Equity
Year Ended December 31, 2017

(dollars in thousands)

	Class A Voting Common Stock		Additional Paid-in	Retained Earnings (Accumulated	
	Shares	Amount	Capital	Deficit)	Total
Balance at December 31, 2016	2,820	$ 3	$ 275,465	$ (694)	$ 274,774
Net income (loss)	-	-	-	28,488	28,488
Capital contribution from Hilltop Securities Holdings Inc.	-	-	11,000	-	11,000
Restricted stock plan	-	-	1,213	-	1,213
Balance at December 31, 2017	2,820	$ 3	$ 287,678	$ 27,794	$ 315,475

The accompanying notes are an integral part of this financial statement.

Confidential

Hilltop Securities Inc.
Statement of Cash Flows
Year Ended December 31, 2017

(in thousands)

Cash flows from operating activities:		
Net income	$	28,488
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred income tax expense		21,339
Depreciation and amortization		7,232
Loss on sale of fixed assets		9
Compensation expense for restricted stock		1,615
Provision for doubtful accounts		197
Changes in operating assets and liabilities:		
Assets segregated for regulatory purposes		(5,585)
Brokers, dealers and clearing organizations accounts, net		(100,512)
Client accounts, net		28,788
Securities owned, at fair value		(474,375)
Securities purchased under agreements to resell		(97,107)
Other assets		(2,864)
Drafts payable		(1,619)
Securities sold, not yet purchased		78,932
Accrued expenses and other liabilities		(25,563)
Net cash used in operating activities		(541,025)
Cash flows from investing activities:		
Purchase of fixed assets		(6,844)
Proceeds from sale of fixed assets		4
Net cash used in investing activities		(6,840)
Cash flows from financing activities:		
Payments on short-term borrowings		(3,782,600)
Cash proceeds on short-term borrowings		3,963,100
Payments on loans payable to Hilltop Securities Holdings Inc.		(13,475)
Capital contribution from Hilltop Securities Holdings Inc.		11,000
Cash proceeds on securities sold under agreements to repurchase		369,089
Net cash provided by financing activities		547,114
Net change in cash		(751)
Cash at beginning of year		13,406
Cash at end of year	$	12,655
Supplemental disclosure of cash flow information:		
Cash paid for interest	$	45,271
Cash paid for taxes, net of refunds	$	6,896
Supplemental disclosure of non-cash activities:		
Forfeitures of restricted stock awards	$	402

The accompanying notes are an integral part of this financial statement.

Confidential

Hilltop Securities Inc.
Statement of Changes in Subordinated Borrowings
Year Ended December 31, 2017

(in thousands)

Subordinated borrowings at December 31, 2016	$	42,000
Increases		-
Decreases		-
Subordinated borrowings at December 31, 2017	$	42,000

The accompanying notes are an integral part of this financial statement.

Confidential

1. Organization

Hilltop Securities Inc. (the "Company"), a Delaware Company and a wholly owned subsidiary of Hilltop Securities Holdings LLC ("Securities Holdings"), a wholly owned subsidiary of Hilltop Holdings Inc. ("Parent"), is a New York Stock Exchange ("NYSE") member broker/dealer, a registered investment advisor and a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is registered with the Securities and Exchange Commission (the "SEC") as a broker/dealer under the Securities Exchange Act of 1934 ("Exchange Act") and as a registered investment advisor under the Investment Advisors Act of 1940. The Company is also registered with the Commodity Futures Trading Commission ("CFTC") as a non-guaranteed introducing broker and is a member of the National Futures Association ("NFA").

Pursuant to the SEC Rule 11(a) of the Exchange Act, over 50% of the Company's revenues are comprised of Section 11(a) items, indicating the Company is primarily engaged in trading on behalf of customers.

2. Summary of Significant Accounting Policies

Securities Transactions

Proprietary securities transactions are recorded on trade date, as if they had settled. Clients' securities and commodities transactions are reported on a settlement date basis with related commission income and expenses reported on a trade date basis.

Marketable securities are valued at fair value, based on quoted market prices, and securities not readily marketable are valued at fair value as determined by management**.** The Company evaluates fair value measurements by considering observable data that may include prices from independent pricing services, dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, and the financial instruments' terms and conditions, among other factors. The increase or decrease in net unrealized appreciation or depreciation of securities owned is credited or charged to operations and is included in net gains on principal transactions in the Statement of Operations. Interest income is recorded on these securities when earned.

Fixed Assets and Depreciation

Fixed assets are comprised of furniture and equipment ($20,775) and leasehold improvements ($8,287) which are stated at cost. Depreciation of furniture and equipment is provided over the estimated useful lives of the assets (from three to seven years), and depreciation on leasehold improvements is provided over the shorter of the useful life or the lease term (up to fifteen years) using the straight-line method. Additions, improvements and expenditures for repairs and maintenance that significantly extend the useful life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to expense in the period incurred.

Goodwill and Customer Intangible

The Parent performs required annual impairment tests of its goodwill as of October 1st for each of its reporting units. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill. As of January 1, 2017, the Parent adopted the provisions of Accounting Standard Update ("ASU") 2017-04 which removes Step 2 from the goodwill impairment test and eliminates the determination of goodwill impairment through calculation of the implied fair value when the carrying amount of a reporting unit exceeds its fair value. The goodwill impairment test requires the Parent to make judgments in determining what assumptions to use in the calculation. The process consists of estimating the fair value of each reporting unit based on valuation techniques, including a discounted cash flow model using revenue and profit forecasts and recent industry transaction and trading multiples of the Parent's peers, and comparing those estimated fair values with the carrying values of the assets and liabilities of the reporting unit, which includes the allocated goodwill. If the estimated fair value is less than the carrying value, the Parent will recognize an impairment charge, pushed down to the reporting unit, for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized will not exceed the total amount of goodwill allocated to that reporting unit.

(dollars in thousands, except par and redemption values)

At October 1, 2017, the Parent determined that the estimated fair value of each of its reporting units, including the Company, exceeded its carrying value. As a result, the Parent concluded that the Company's goodwill was fully realizable, indicating no impairment of the Company's goodwill.

The Company recorded two separate customer relationship intangibles as part of the acquisition of the Company by the Parent in November 2012 and the merger with the Parent in January 2015, which are being amortized over a 12 and 14 year period, respectively, at a rate based on the sum of the years digits.

Intangible assets with indefinite useful lives are tested for impairment annually as of October 1st, or more often if events or circumstances indicate there may be impairment, and not amortized until their lives are determined to be definite by the Parent. If impaired, the intangible assets are recorded at fair value.

The Company did not determine that an impairment for the Company's intangible assets was deemed necessary upon their evaluation on October 1, 2017.

The estimated aggregate future amortization expense for the customer relationship at December 31, 2017 is as follows:

2018	$	1,474
2019		1,302
2020		1,130
2021		958
2022		786
Thereafter		1,751
	$	7,401

Resale and Repurchase Agreements

Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements or reverse repos) or sales of securities under agreements to repurchase (repurchase agreements or repos) are accounted for as collateralized financings. It is the policy of the Company to obtain possession of collateral with a fair value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate. Interest payable and interest receivable on these amounts are included in the Statement of Financial Condition in other liabilities and other assets, respectively.

Securities Borrowing and Lending Activities
Securities borrowed and securities loaned transactions are generally reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash, letters of credit, or other collateral with the lender. With respect to securities loaned, 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 borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received adjusted for additional collateral obtained or received. Securities borrowed and securities loaned, as well as the interest accrued on such transactions are included in the Statement of Financial Condition in receivables from and payables to brokers, dealers and clearing organizations. Interest revenue and interest expense on securities borrowed and securities loaned transactions are included in the Statement of Operations in interest revenue and interest expense, respectively.

Investment Banking and Advisory Fees
Investment banking revenues include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking management fees are recorded on offering date, sales concessions on settlement date, and underwriting fees at the time the underwriting is completed and the income is reasonably determinable. Investment advisory fees are recorded when earned based on the period-end assets in customer accounts.

Net Revenues from Clearing Operations
Under clearing agreements, the Company clears trades for unaffiliated correspondent brokers and Hilltop Securities Independent Network Inc. ("HTIN"), an affiliate and charges fees for its services. Net revenues from clearing operations are recorded net of commissions remitted.

Insurance
The Company received insurance fees from Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. (collectively, "SWS Insurance") of $2,897, included in other income in the Statement of Operations, for the year ended December 31, 2017. Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. are affiliates of the Company. These entities hold insurance agency licenses for the purpose of facilitating the sale of insurance and annuity products. The Company retains no underwriting risk related to the insurance and annuity products sold.

Drafts Payable
In the normal course of business, the Company uses drafts to make payments relating to its brokerage transactions. These drafts are presented for payment through an unaffiliated bank and are sent to the Company daily for review and acceptance. Upon acceptance, the drafts are paid and charged against cash.

Cash Flow Reporting
For purposes of the statement of cash flows, the Company considers cash to include cash on hand and in bank accounts. In addition, highly liquid debt instruments purchased with maturities of three months or less, when acquired, are considered to be cash equivalents. The Federal Deposit Insurance Corporation ("FDIC") insures deposit accounts up to $250. At December 31, 2017, the cash balances included $11,363 that was not federally insured because they exceeded federal insurance limits. This at-risk

amount is subject to fluctuation on a daily basis, but management does not believe there is significant risk on these deposits.

Assets segregated for regulatory purposes are not included as cash equivalents for purposes of the statement of cash flows because such assets are segregated for the benefit of customers only.

Derivative Financial Instruments
Derivative financial instruments arise from the execution of forward purchase commitments of mortgage-backed securities with certain clients that allow those clients to make mortgage loans at agreed-upon rates. The Company hedges the interest rate risk generated by the forward purchase commitments by executing forward sales of to-be-announced mortgage-backed securities (TBA). The amount hedged is influenced by the Company's estimated ratio of the forward purchase commitments that will not be securitized into mortgage-backed securities as part of the program (fallout rate). The Company uses historical experience, changes in interest rates, and other factors to determine the fallout rate.

Additionally, the Company enters into TBA agreements to assist clients (generally small to mid-size mortgage loan originators) in hedging the interest rate risk associated with the mortgages owned by the clients. In general, the Company will enter into a TBA purchase agreement with the client and then immediately enter into a TBA sale agreement with identical terms and the same settlement date with a separate counter-party.

While both the forward purchase commitments and TBAs meet the definition of a derivative under the provisions of the Accounting Standards Codification ("ASC") 815 "Derivatives and Hedging," they do not qualify for hedge accounting. However, the Company mitigates interest rate risk and volatility in reported earnings by selling TBAs with characteristics similar to the forward purchase commitments of mortgage-backed securities. The securities are carried at fair value and recorded in other assets and other liabilities in the Statement of Financial Condition with unrealized and realized gains recorded in net gains/losses on principal transactions in the Statement of Operations.

Income Taxes
The Company files a consolidated federal income tax return with its Parent. For purposes of these financial statements, income taxes are computed on the benefits-for-loss method.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

F**air Value of Financial Instruments**
Fair value accounting establishes a framework for measuring fair value. Under fair value accounting, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date in the principal market in which the reporting entity transacts. Further, fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, fair value accounting

establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Under the standard, fair value measurements are separately disclosed by level within the fair value hierarchy.

The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 — Quoted prices in an active market for identical assets or liabilities. Assets and liabilities utilizing Level 1 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio. Valuation of these instruments does not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.

- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Assets and liabilities utilizing Level 2 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio and the Company's commitments to purchase and sell TBA derivative securities. These financial instruments are valued by quoted prices that are less frequent than those in active markets or by models that use various assumptions that are derived from or supported by data that is generally observable in the marketplace. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying observable market assumptions.

- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. These assets and liabilities would have significant inputs that could not be validated by readily determinable market data and generally would involve considerable judgment by management. The Company does not have any financial instrument assets or liabilities utilizing Level 3 inputs.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Condition, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Securities Owned and Securities Sold, Not Yet Purchased Portfolio (including the Company's derivative TBA securities).
Securities classified as Level 1 securities primarily consist of financial instruments whose values are based on quoted market prices in active markets such as corporate equity securities and U.S. government and government agency obligations primarily in U.S. treasury securities.

Securities classified as Level 2 securities include financial instruments that are valued using models or other valuation methodologies. These models are primarily industry standard models that consider various assumptions, including time value, yield curve, volatility factors, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Securities in this category include corporate obligations, U.S. government and government agency obligations, municipal obligations, unit investment trusts (UIT) and the Company's commitments to purchase and sell TBA derivative securities.

(dollars in thousands, except par and redemption values)

Substantially all of the Company's financial assets and liabilities are carried at fair value or at amounts which, because of their short-term nature, approximate current fair value.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events
The Company has performed an evaluation of subsequent events from January 1, 2018 through February 22, 2018, the date of issuance of the financial statements. There have been no subsequent events that would require recognition or disclosure in the financial statements as of December 31, 2017.

3. Assets Segregated For Regulatory Purposes

At December 31, 2017, the Company held cash of $186,578 segregated in special reserve bank accounts for the exclusive benefit of customers under Rule 15c3-3 under the Securities Exchange Act of 1934 ("Exchange Act Rule 15c3-3").

4. Receivable From and Payable to Brokers, Dealers and Clearing Organizations

At December 31, 2017, the Company had receivable from and payable to brokers, dealers and clearing organizations related to the following:

Receivable:		
Securities borrowed	$	1,386,821
Correspondent broker/dealers		226,701
Clearing organizations		85,614
Securities failed to deliver		25,491
Trades in process of settlement, net		29,412
Other		22,729
	$	1,776,768
Payable:		
Securities loaned	$	1,215,093
Securities failed to receive		37,864
Correspondent broker/dealers		30,160
Other		4,903
	$	1,288,020

(dollars in thousands, except par and redemption values)

The Company participates in the securities borrowing and lending business by borrowing and lending securities other than those of its clients. Securities borrowed and loaned represent deposits made to or received from other broker/dealers relating to these transactions. These deposits approximate the market value of the underlying securities. All open positions are adjusted to market values daily. The Company obtains or releases collateral as prices of the underlying securities fluctuate.

The Company clears securities transactions for correspondent broker/dealers. Proprietary settled securities and related transactions for these correspondents are included in the receivable from and payable to brokers, dealers and clearing organizations. At December 31, 2017, the Company held collateral for the receivables from correspondents in the amount of $317,388.

Securities failed to deliver and receive represent the contractual value of securities that have not been delivered or received subsequent to settlement date.

Certain securities lending arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

The following table provides information about these receivables and payables subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2017:

				Gross amounts not offset in the statement of financial condition		
Description	**Gross amounts of recognized assets/ liabilities** [2]	**Gross amounts offset in the statement of financial condition**	**Net amounts of assets/liabilities presented in the statement of financial condition**	**Financial instruments** [3]	**Cash Collateral**	**Net Amount**
Securities borrowed	$ 1,386,821	$ -	$ 1,386,821	$ (1,327,536)	$ -	$ 59,285
Securities loaned [1]	1,215,093	-	1,215,093	(1,157,198)	-	57,895

[1]Under securities lending agreements, the Company repledged $1,173,705.
[2]Securities borrowed and loaned are not presented net on the Statement of Financial Condition.
[3]Amounts reflect fair value of underlying collateral.

Securities Lending Activities. The Company's securities lending activities includes 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. The Company's management sets credit limits with each counterparty and reviews these limits regularly to monitor the risk level with each counterparty. The Company is subject to credit risk through its securities lending activities if securities prices decline rapidly because the value of the Company's collateral could fall below the amount of the indebtedness it secures. In rapidly appreciating markets, credit risk increases due to short positions. The Company's securities lending business subjects the Company to credit risk if a counterparty fails to perform or if collateral securing its obligations is insufficient. In securities transactions, the Company is subject to credit risk during the period between the execution of a trade and the settlement by the customer.

(dollars in thousands, except par and redemption values)

The following table presents the remaining contractual maturities of securities lending transactions accounted for as secured borrowings at December 31, 2017:

	December 31, 2017				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Securities lending transactions					
Corporate securities	$ 11,499	$ -	$ -	$ -	$ 11,499
Equity securities	1,203,594	-	-	-	1,203,594
Total borrowings	$ 1,215,093	$ -	$ -	$ -	$ 1,215,093
Gross amount of recognized liabilities for securities lending					$ 1,215,093
Amount related to agreements not included in offsetting disclosure					$ -

5. Receivable From and Payable to Clients

Receivable from and payable to clients include amounts due on cash and margin transactions. Included in these amounts are receivable from and payable to noncustomers (as defined by Exchange Act Rule 15c3-3, principally officers, directors and related accounts), which aggregated approximately $1,385 and $101, respectively, at December 31, 2017. Securities accounts of noncustomers are subject to the same terms and regulations as those of customers. Securities owned by customers and noncustomers that collateralize the receivables are not reflected in the accompanying financial statements.

The Company pledges client securities as collateral in conjunction with the Company's securities lending activities. At December 31, 2017, the Company has approximately $489,725 of client securities under customer margin loans that are available to be pledged, of which the Company has repledged approximately $41,388 under securities loan agreements.

(dollars in thousands, except par and redemption values)

The Company pays interest on certain customer "free credit" balances available for reinvestment. The aggregate balance of such funds was approximately $411,771 at December 31, 2017. At December 31, 2017 and during the year ended December 31, 2017, the weighted average interest rate was 0.09% and the interest rate paid on these balances ranged from 0.05% to 0.20%.

The Company maintains an allowance for doubtful accounts of $353 which represents amounts that, in the judgment of management, are necessary to adequately absorb losses from known and inherent risks in receivables from customers. Provisions made to this allowance are charged to operations. At December 31, 2017, all unsecured customer receivables had been provided for in this allowance.

6. Securities Owned and Securities Sold, not yet Purchased

At December 31, 2017, securities owned and securities sold, not yet purchased, both of which are carried at fair value, included the following:

ASSETS		
Securities owned:		
U. S. government agencies:		
Bonds	$	52,078
Residential mortgage-backed securities		372,388
Collateralized mortgage obligations		5,122
Commercial mortgage-backed securities		60
Corporate debt securities		96,182
States and political subdivisions		170,413
Unit investment trusts:		
Corporate securities		14,586
Municipal securities		8,026
Private-label issuers:		
Mortgage-backed securities		403
Asset-backed securities		1,228
Certificates of deposit		367
Options		9
Equity securities		2
	$	720,864
LIABILITIES		
Securities sold, not yet purchased:		
U. S. treasury securities	$	147,639
U. S. government agencies:		
Bonds		11,201
Corporate debt securities		65,034
Equity securities		8,947
	$	232,821

(dollars in thousands, except par and redemption values)

At December 31, 2017, none of the above securities were pledged as security deposits at clearing organizations for the Company's clearing business. Additional securities have been pledged to secure short-term borrowings, see **Note 10**.

7. Derivative Financial Instruments

The Company participates in programs in which it issues forward purchase commitments of mortgage-backed securities to certain clients and sells TBAs as described in **Note 2**. At December 31, 2017, the Company's derivative positions associated with its TBA program are presented below:

	Notional Amount	Estimated Fair Value
Commitments to purchase TBAs	$ 2,831,635	$ (921)
Commitments to sell TBAs	2,965,986	3,202

Certain derivative arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

The following table provides information about these derivative arrangements subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2017:

				Gross amounts not offset in the statement of financial condition		
Description	Gross amounts of recognized assets/ liabilities	Gross amounts offset in the statement of financial condition	Net amounts of assets/liabilities presented in the statement of financial condition	Financial instruments	Cash Collateral	Net Amount
Derivative asset--TBA	$ 3,576	$ -	$ 3,576	$ (3,576)	$ -	$ -
Derivative liability--TBA	1,295	-	1,295	(1,295)	-	-

8. Fair Value of Financial Instruments

The following table summarizes by level within the fair value hierarchy securities owned, at fair value, securities sold, not yet purchased, at fair value and derivative securities as of December 31, 2017:

(dollars in thousands, except par and redemption values)

	Level 1	Level 2	Level 3	Total
ASSETS				
Securities owned, at fair value				
U. S. government agencies:				
Bonds	$ -	$ 52,078	$ -	$ 52,078
Residential mortgage-backed securities	-	372,388	-	372,388
Collateralized mortgage obligations	-	5,122	-	5,122
Commercial mortgage-backed securities	-	60	-	60
Corporate debt securities	-	96,182	-	96,182
States and political subdivisions	-	170,413	-	170,413
Unit investment trusts:				
Corporate securities	-	14,586	-	14,586
Municipal securities	-	8,026	-	8,026
Private-label issuers:				
Mortgage-backed securities	-	403	-	403
Asset-backed securities	-	1,228	-	1,228
Certificates of deposit	-	367	-	367
Options	-	9	-	9
Equity securities	2	-	-	2
	$ 2	$ 720,862	$ -	$ 720,864
Derivative financial instruments				
Commitments to purchase TBAs	$ -	$ 3,576	$ -	$ 3,576

	Level 1	Level 2	Level 3	Total
LIABILITIES				
Securities sold, not yet purchased, at fair value				
U. S. treasury securities	$ 147,639	$ -	$ -	$ 147,639
U. S. government agencies:				
Bonds	-	11,201	-	11,201
Corporate debt securities	-	65,034	-	65,034
Equity securities	8,947	-	-	8,947
	$ 156,586	$ 76,235	$ -	$ 232,821
Derivative financial instruments				
Commitments to sell TBAs	$ -	$ 1,295	$ -	$ 1,295
Net assets (liabilities)	$ (156,584)	$ 646,908	$ -	$ 490,324

(dollars in thousands, except par and redemption values)

At the end of each respective quarterly reporting period, the Company recognizes transfers of financial instruments between levels. During the year ended December 31, 2017, the Company did not have any transfers of financial instruments between levels.

Changes in unrealized gains (losses) and realized gains (losses) for corporate and municipal obligations and corporate equity securities are presented in net gains on principal transactions in the Statement of Operations. There were no unrealized gains (losses) included in earnings related to assets and liabilities still held at December 31, 2017 for the year ended December 31, 2017.

9. Securities Purchased/Sold Under Agreements to Resell/Purchase

At December 31, 2017, the Company held reverse repurchase agreements, collateralized by U.S. government and government agency obligations and securities sold under repurchase agreements. These securities are reported on a gross basis in the Statement of Financial Condition.

Securities sold under repurchase agreements, which are secured borrowings, generally mature overnight with some maturing up to 30 days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company monitors the fair value of the underlying securities on a daily basis.

Certain reverse repurchase and repurchase agreements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

The following table provides information about these instruments subject to an enforceable master netting arrangement, repurchase agreements or similar agreements with offsetting rights and any related collateral amounts at December 31, 2017:

				Gross amounts not offset in the statement of financial condition		
Description	**Gross amounts of recognized assets/ liabilities**	**Gross amounts offset in the statement of financial condition**	**Net amounts of assets/liabilities presented in the statement of financial condition**	**Financial instruments (1)**	**Cash Collateral**	**Net Amount**
Reverse repurchase agreements	$ 186,537	$ -	$ 186,537	$ (186,026)	$ -	$ 511
Repurchase agreements	409,058	-	409,058	(409,058)	-	-

(1) Amounts reflect fair value of underlying collateral.

(dollars in thousands, except par and redemption values)

The following table presents the remaining contractual maturities of repurchase agreements accounted for as secured borrowings at December 31, 2017:

	December 31, 2017				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Repurchase agreements					
U.S. treasury and agency securities	$ 51,824	$ -	$ -	$ -	$ 51,824
Asset backed securities	357,234	-	-	-	357,234
Total borrowings	$ 409,058	$ -	$ -	$ -	$ 409,058
Gross amount of recognized liabilities for repurchase agreements					$ 409,058
Amount related to agreements not included in offsetting disclosure					$ -

10. Short-Term Borrowings

Uncommitted lines of credit

The Company has credit arrangements with commercial banks, which include broker loan lines up to $725,000. These lines of credit are used primarily to finance securities owned, securities held for correspondent broker/dealer accounts, receivables in customers' margin accounts and underwriting activities. These lines may also be used to release pledged collateral against day loans. These credit arrangements are provided on an "as offered" basis and are not committed lines of credit. These arrangements can be terminated at any time by the lender. Any outstanding balances under these credit arrangements are due on demand and bear interest at rates indexed to the federal funds rate (1.33% at December 31, 2017). At December 31, 2017, the amount outstanding under these secured arrangements was $315,500, which was collateralized by securities held for firm and correspondent broker/dealer accounts valued at $546,798.

Committed lines of credit

At December 31, 2017, the Company had a $50,000 committed revolving credit facility with an unaffiliated bank. The commitment fee is 25 basis points per annum, and when drawn, the interest rate is equal to the federal funds rate plus 100 basis points. The agreement requires the Company to maintain a tangible net worth of at least $170,000. At December 31, 2017, there were no outstanding amounts under the committed revolving credit facility.

The Company pledges customer securities to the Option Clearing Corporation to support open customer positions. At December 31, 2017, the Company had pledged $88,185 to support these open customer positions.

11. Note Payable Due to Affiliate & Subordinated Debt Due to Affiliate

In January 2016, the Company entered into an agreement with First Southwest Holdings LLC for a non collateralized, 10 year, $88,127 promissory note paying interest semi-annually at a rate of 5% per annum and a $42,000 subordinated loan agreement with Securities Holdings paying interest semi-annually at a rate of 4.35% per annum. Both the agreements were entered into as part of the merger of First Southwest Company, LLC ("FSC") with the Company. At December 31, 2017, there was $116,652 outstanding under these agreements.

(dollars in thousands, except par and redemption values)

12. Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Legislation") was enacted. The Tax Legislation significantly revises the U.S. corporate income tax by lowering corporate income tax rates. Based on current available information, the Company estimates that the enactment of the Tax Legislation will result in an earnings charge to current tax expense of approximately $5,634 for the year ending December 31, 2017. This charge is primarily due to the write down of its deferred tax assets as a result of the reduction in the corporate tax rate from 35% to 21% and other anticipated impacts associated with the Tax Act. The change resulting from the tax legislation is expected to be recovered through lower projected effective tax rates from a reduction of the corporate tax rate to 21%, offset by additional non-deductible expenses. The impact of the Tax Legislation may differ from this estimate, possibly significantly, due to, among other things, changes in interpretations and assumptions the Company has made, guidance that may be issued and actions the Company may take as a result of the Tax Legislation.

Income tax expense for the fiscal year ended December 31, 2017, (effective rate of 45.4%) differs from the amount that would otherwise have been calculated by applying the U.S. federal corporate tax rate (35%) to income before income taxes and is comprised of the following:

Income tax expense at the statutory rate	$	18,266
Tax Legislation		5,634
State income taxes, net of federal tax benefit		772
Non-deductible expenses		304
Reserve for uncertain tax positions		42
Tax-exempt income, net		(876)
Share-based compensation benefit		(79)
Other, net		(362)
	$	23,701

Income taxes as set forth in the statement of operations consist of the following components:

Current		
Federal	$	2,613
State		(251)
		2,362
Deferred		
Federal	$	19,900
State		1,439
		21,339
Total income tax expense	$	23,701

(dollars in thousands, except par and redemption values)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2017 are presented below:

Deferred tax assets:		
Compensation and benefits	$	5,839
Deferred income		3,057
Realized built-in loss carryforward		2,564
Legal and other reserves		1,054
Other		860
Total gross deferred tax asset		13,374
Deferred tax liabilities:		
Intangible assets		(1,734)
Other		(899)
Total gross deferred tax liability		(2,633)
Net deferred tax asset	$	10,741

The Company assesses the ability to realize its deferred tax assets based upon the weight of available evidence, both positive and negative. To the extent the Company believes that it is more likely than not that some portion or all of the deferred tax assets will not be realized, the Company will establish a valuation allowance. The Company evaluated the realizability of its deferred tax assets and concluded, based on the Company's past history of profitability and future earnings projections, that a valuation allowance was not required.

At December 31, 2017, the Company had recognized built-in losses ("RBIL") of $2,564 from the 2015 merger with the Parent. At December 31, 2017, the Company had net operating loss ("NOL") carryforwards for state income tax purposes of $816. These net operating loss carryforwards expire in 2030 and later years. The RBILs and NOLs are expected to be fully realized prior to any expiration.

At December 31, 2017, the total amount of gross unrecognized tax benefits was $162, if recognized, and the total amount that would favorably impact the Company's effective tax rate and reduce income tax expense was $128.

The aggregate changes in gross unrecognized tax benefits, which exclude interest and penalties, are as follows:

Balance at December 31, 2016	$	281
Increases related to tax positions taken during a prior year		49
Decreases related to tax positions taken during a prior year		(236)
Increases related to tax positions taken during the current year		68
Balance at December 31, 2017	$	162

Interest and penalties incurred related to tax matters are charged to other interest expense or other noninterest expense, respectively. There is no accrued interest and penalties, net of federal benefit included in the net liability at December 31, 2017.

With limited exception, the Company is no longer subject to U.S. federal, state or local tax audits by taxing authorities for years preceding 2014.

The amount of current federal and state taxes receivable from the Parent included in other assets on the Statement of Financial Condition was $12,887 and $2,099, respectively, at December 31, 2017.

13. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (the "Rule"), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the Rule, which requires that it maintain minimum net capital, as defined in Rule 15c3-1 under the Exchange Act, equal to the greater of $1,000 or 2% of aggregate debit balances, as defined in Exchange Act Rule 15c3-3. At December 31, 2017, the Company had net capital of approximately $186,770 which is approximately $176,257 in excess of its minimum net capital requirement of approximately $10,513 at that date. Additionally, the Rule provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of aggregate debit items. At December 31, 2017, the Company had net capital of approximately $160,487 in excess of 5% of aggregate debit items.

14. Affiliate Transactions

The Company clears all customer transactions for HTIN, an affiliate. Based on an agreement with this entity, the Company receives a fee for clearing HTIN trades. The net amount of fees received by the Company for clearing trades for this entity was approximately $478 for the year ended December 31, 2017. The Company also provides all accounting, administrative services, management services and office facilities to HTIN in accordance with an expense sharing agreement in the amount of $50 per year. Additionally, the Company collects all revenues and pays all expenses on behalf of HTIN.

The Company, as clearing broker for its affiliate, has the right to charge customer losses back to the affiliate.

Clients and correspondents of the Company have the option to invest in a savings account called Bank Insured Deposits at the Company's banking affiliate, PlainsCapital Bank ("Bank"). These funds are FDIC insured up to $250. For the year ended December 31, 2017, the Company received a maintenance fee of $9,081 on these bank insured funds from the Bank.

The Bank charges the Company a processing fee for client checks written on money market accounts. The fee paid to the Bank for this service was $110 for the year ended December 31, 2017, included in other expense on the Statement of Operations.

The Company makes loans to employees, primarily financial advisors, mainly for recruiting and retention purposes. The amount of loans to employees is included in other assets in the Statement of Financial Condition in the amount of $18,821 for which the Company has recorded an allowance, included in other liabilities in the Statement of Financial Condition, of $2,344 for terminated relationships.

The Company is named as the lessee for two leases which are subleased to the Bank. During the year ended December 31, 2017, the Company received and recorded in other revenue on the Statement of

Operations $94 of rental income for these subleases with the Bank. Additionally, the Company subleases office space and utilizes space in a property owned by the Bank for its business recovery centers. During the year ended December 31, 2017, the Company paid and recorded in occupancy, equipment and computer service costs on the Statement of Operations $111 of rental expense for these subleases with the Bank.

Securities Holdings loaned the Company $42,000 as part of a merger transaction between the Company and FSC. The Company paid interest at a rate of 4.35% per annum. During the year ended December 31, 2017, the Company paid interest of $1,852. Additionally, as part of this transaction, in January 2016, First Southwest Holdings LLC loaned the Company $88,127, (see **Note 11**). The Company paid interest at a rate of 5% per annum. During the year ended December 31, 2017, the Company paid interest of $4,232.

The Company has various expense sharing arrangements with the Parent, Securities Holdings and other subsidiaries of the Parent. These expense sharing agreements outline the types of expenses that will be passed through to the Company, including but not limited to compensation expense, use of Parent assets, and administrative services performed by the Parent or subsidiaries of the Parent. On the Statement of Financial Condition, the total receivable includes $911 from the Bank, $911 from First Southwest Holdings LLC and its subsidiaries, $111 from Southwest Insurance Agency, $75 from HTIN, which is reported in receivable from brokers, dealers, and clearing organizations and $41 from the National Lloyds Corporation, a wholly owned subsidiary of the Parent. The total payable includes $8,420 to Securities Holdings, $1,223 to Southwest Insurance Agency, $846 to First Southwest Holdings LLC and its subsidiaries, including $457, which is reported in payable to brokers, dealers, and clearing organizations on the Statement of Financial Condition, $767 to the Parent and a $300 clearing deposit to HTIN, which is reported in payable to clients on the Statement of Financial Condition.

15. Employee Benefits

The Parent has a defined contribution retirement plan pursuant to Section 401 of the Internal Revenue Code (the Code) whereby eligible participants may elect to contribute a percentage of their compensation up to a maximum allowed under the Code. In addition, the plan also provides for a matching contribution by the Company based on a percentage of participants' contributions. The Company's matching contributions vest in three equal annual installments and the expense totaled approximately $2,897 for the year ended December 31, 2017.

On January 1, 2015, under the terms of the merger agreement, the Parent's stockholders, including the Company's officers and employees who held stock issued under the SWS Group, Inc.'s, the former parent of the Company restricted stock plans, received per share consideration of 0.2496 shares of Hilltop common stock and $1.94 of cash. Each restricted share of the Parent's common stock granted prior to the date of the merger agreement vested in full on January 1, 2015 and the holders of such restricted shares received the merger consideration for each such share on the same basis as the Parent's stockholders, less applicable withholding taxes, which were withheld first from the cash portion of the merger consideration payable in respect of each such share. The restricted shares of SWS Group, Inc. common stock converted into the right to receive an aggregate of 62,994 restricted shares of Hilltop Holdings Inc. common stock. The shares vesting schedule did not accelerate, generally vest in three equal annual installments beginning on August 20, 2015, and are subject to service conditions set forth in the award agreements, with associated costs recognized on a straight-line basis over the respective vesting periods.

Pursuant to the Hilltop Holdings Inc. 2012 Equity Incentive Plan (the "2012 Plan"), the Parent may grant nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance awards, divided equivalent rights and other awards to employees of the Parent, its subsidiaries and outside directors of the Parent.

From May of 2013 through April of 2015, the compensation committee of the board of directors of the Parent ("Compensation Committee") awarded certain executives and key employees of FSC a total of 60,000 restricted shares of common stock ("RSAs") and 99,121 RSUs pursuant to the 2012 Plan. These RSAs and RSUs are subject to service conditions set forth in the grant agreements with associated costs recognized on a straight-line basis over the vesting period. The weighted average grant date fair value related to these RSAs and RSUs was $17.94 per share, resulting in expected compensation expense of $2,854.

During the year end December 31, 2015, the Compensation Committee awarded certain executives and key employees of the Company a total of 42,730 RSUs pursuant to the 2012 Plan. These awards and the associated costs are amortized over a vesting period of three years. The grant date weighted average fair value of these awards was $19.98 per share resulting in expected compensation expense of $854.

During the year end December 31, 2016, the Compensation Committee awarded certain executives and key employees of the Company a total of 85,932 RSUs pursuant to the 2012 Plan. These awards and the associated costs are amortized over a vesting period of three years. The grant date weighted average fair value of these awards was $18.08 per share resulting in expected compensation expense of $1,553.

During the year end December 31, 2017, the Compensation Committee awarded certain executives and key employees of the Company a total of 81,085 RSUs pursuant to the 2012 Plan. These awards and the associated costs are amortized over a vesting period of three years. The grant date weighted average fair value of these awards was $26.28 per share resulting in expected compensation expense of $2,131.

At December 31, 2017, the Company had unrecognized compensation expense related to restricted stock grants of approximately $2,308. For the year ended December 31, 2017, the Company has recognized compensation expense of $1,615 for all restricted stock granted to the Company's employees.

Upon vesting of the shares granted under the Parent's restricted stock plans, the grantees may choose to sell a portion of their vested shares to the Parent to cover the tax liabilities arising from the vesting.

16. Commitments and Contingencies

Leases. The Company leases its offices and certain equipment under noncancelable operating lease agreements. The Company recognizes escalating lease payments on a straight line basis over the term of each respective lease with the difference between cash payment and rent expense recorded as deferred rent and included in other liabilities in the Statement of Financial Condition. Rental expense relating to the facilities and equipment leases for the year ended December 31, 2017 aggregated to $11,868.

(dollars in thousands, except par and redemption values)

At December 31, 2017, the future rental payments for the noncancelable operating leases for each of the following five years and thereafter follows:

2018	$	10,967
2019		10,321
2020		9,644
2021		6,234
2022		4,777
Thereafter		12,983
	$	54,926

Underwriting. Through its participation in underwriting corporate and municipal securities, the Company could expose itself to material risk that securities the Company has committed to purchase cannot be sold at the initial offering price. Federal and state securities laws and regulations also affect the activities of underwriters and impose substantial potential liabilities for violations in connection with sales of securities by underwriters to the public. At December 31, 2017, the Company had no liabilities due under outstanding underwriting arrangements.

Litigation. In the general course of its brokerage business and the business of clearing for other brokerage firms, the Company has been named as a defendant in various lawsuits and arbitration proceedings. These claims allege violation of federal and state securities laws among other matters. Management believes that resolution of these claims will not result in any material adverse effect on the Company's financial position or results of operations.

Guarantees. The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. These indemnifications generally are standard contractual indemnifications and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company is a member of multiple exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is unlikely. Accordingly, no contingent liability is recorded in the financial statements for these arrangements.

17. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company engages in activities involving the execution, settlement and financing of various securities transactions. These activities may expose the Company to off-balance-sheet credit and market risks in the event the customer or counterparty is unable to fulfill its contractual obligation. Such risks may be increased by volatile trading markets.

As part of its normal brokerage activities, the Company sells securities not yet purchased (short sales) for its own account. The establishment of short positions exposes the Company to market risk if prices increase, as the Company may be obligated to acquire the securities at prevailing market prices.

The Company seeks to control the risks associated with its customers' activities, including those of customer accounts of its correspondents for which it provides clearing services, by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The required margin levels are monitored daily and, pursuant to such guidelines, customers are required to deposit additional collateral or to reduce positions when necessary.

A portion of the Company's customer activity involves short sales and the writing of option contracts. Such transactions may require the Company to purchase or sell financial instruments at prevailing market prices in order to fulfill the customers' obligations.

At times, the Company lends money using reverse repurchase agreements. These positions are collateralized by U.S. government and government agency securities. Such transactions may expose the Company to off-balance-sheet risk in the event such borrowers do not repay the loans and the value of collateral held is less than that of the underlying receivable. These agreements provide the Company with the right to maintain the relationship between market value of the collateral and the receivable.

The Company arranges secured financing by pledging securities owned and unpaid customer securities for short-term borrowings to satisfy margin deposits of clearing organizations. The Company also actively participates in the borrowing and lending of securities. In the event the counterparty in these and other securities loaned transactions is unable to return such securities pledged or borrowed or to repay the deposit placed with them, the Company may be exposed to the risks of acquiring the securities at prevailing market prices or holding collateral possessing a market value less than that of the related pledged securities. The Company seeks to control the risks by monitoring the market value of securities pledged and requiring adjustments of collateral levels where necessary.

18. Preferred Stock

On October 17, 1997, the Company's Board of Directors ("Board") authorized 100,000 shares of preferred stock. Simultaneously, the Board designated 5,000 shares of the authorized preferred stock as Series A Preferred Stock. Up to 50 shares of the Series A Preferred Stock, which has a par value of $20, can be issued to each of up to 100 qualified participants. Qualified participants are broker/dealers registered under the Exchange Act who clear their proprietary transactions through the Company and who represent that they are subject to net capital rules of the SEC and other self-regulatory organizations to which such broker/dealers report. The Series A Preferred Stock is nonvoting and nonconvertible to common stock, and it is entitled to noncumulative cash dividends when, as and if declared by the Board. The Series A Preferred Stock is redeemable at any time by the Company at a redemption price of $1,000 per share.

19. Proprietary Accounts of Broker/Dealers ("PAB") Reserve Requirements

The Company performs calculations of PAB reserve requirements. At December 31, 2017, the Company did not have a PAB reserve requirement and has no amount on deposit.

Supplemental Schedules

Hilltop Securities Inc.
Supplemental Schedule I – Computation of Net Capital Pursuant to Rule 15c3-1 of The Securities Exchange Act of 1934 and Regulation 1.17 of the Commodity Futures Trading Commission
December 31, 2017

(in thousands)

Total stockholder's equity from statement of financial condition		$ 315,475
Add liabilities subordinated to claims of general creditors allowable in computation of net capital		42,000
Total capital and allowable subordinated liabilities		357,475
Deductions and /or charges:		
Receivable from affiliates	$ (2,049)	
Fixed assets, net	(16,330)	
Securities owned, not readily marketable	(2,582)	
Other receivables from broker/dealers and clearing organizations	(14,040)	
Other investments, not readily marketable	(3,017)	
Other nonallowable assets	(80,881)	
Aged fails to deliver	(299)	
Aged short security differences	(8)	
Other deductions and/or charges	(5,649)	(124,855)
Net capital before haircuts on securities positions		232,620
Haircuts on securities positions		(45,850)
Net capital		186,770
Net capital requirement: Greater of 2% of aggregate debit items as shown in computation of special reserve requirement on Schedule II ($525,660 x 2% = $10,513) or $1,000		10,513
Excess net capital		$ 176,257
Net capital in excess of the greater of 5% of aggregate debit items or $1,200		$ 160,487

Note: The above computation does not differ materially from the computation of net capital prepared by the Company as of December 31, 2017 filed with the Financial Industry Regulatory Authority on January 25, 2018.

Hilltop Securities Inc.
Supplemental Schedule II – Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934
December 31, 2017

(in thousands)

Credit balances:		
Free credit balances and other credit balances in customers' security accounts	$	556,429
Monies payable against customers' securities loaned		41,388
Customers' securities failed to receive		33,630
Credit balances in firm accounts which are attributable to principal sales to customers		4,028
Other		60,020
Total credits		695,495
Debit balances:		
Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection		377,716
Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver		71,594
Failed to deliver of customers' securities not older than 30 calendar days		20,037
Margin required and on deposit with the Options Clearing Corporation for all option contracts with or purchased in customer accounts		56,313
Total debits		525,660
Less 3% haircut		(15,770)
Total debits		509,890
Excess of total credits over total debits	$	185,605
Reserve requirement at December 31, 2017:		
Amount of cash held in "Reserve Bank Accounts" at December 31, 2017	$	186,578
Cash deposit made within required time frames (January 2, 2018)		8,530
Amount of cash held in "Reserve Bank Accounts"	$	195,108

Note: The above computation does not differ materially from the computation of special reserve requirement prepared by the Company as of December 31, 2017 filed with the Financial Industry Regulatory Authority on January 25, 2018.

Hilltop Securities Inc.
Supplemental Schedule III – Information for Possession or Control Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934
December 31, 2017

State the market valuation and the number of items of:

1. Customers fully paid securities and excess margin securities not in the respondent's possession or control as of December 31, 2017 for which instructions to reduce to possession or control had been issued as of December 31, 2017 but for which the required action was not taken by respondent within the time frames specified under Exchange Act Rule 15c3-3

(dollars in thousands)

Number of items		9
Market value	$	64,567

2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of December 31, 2017 excluding items arising from "temporary lags which result from normal business operations" as permitted under Exchange Act Rule 15c3-3

(dollars in thousands)

Number of items		-
Market value	$	-

Hilltop Securities Inc.
Supplemental Schedule IV – Reserve Computation for Proprietary Accounts of Broker/Dealers Pursuant to Exhibit A of Rule 15c3-3 of the Securities Exchange Act of 1934
December 31, 2017

(in thousands)

Credit balances:		
Free credit balances and other credit balances in PAB security accounts	$	120,271
Monies borrowed collateralized by securities carried for the accounts of PAB		109,000
Monies payable against PAB securities loaned		83
PAB securities failed to receive		3,784
Credit balances in firm accounts which are attributable to principal sales to PAB		4,290
Other		2,600
Total PAB credits		240,028
Debit balances:		
Debit balances in PAB cash and margin accounts excluding unsecured accounts and accounts doubtful of collection		303,119
Securities borrowed to effectuate short sales by PAB and securities borrowed to make delivery on PAB securities failed to deliver		50,461
Failed to deliver of PAB securities not older than 30 calendar days		1,585
Total PAB debits		355,165
Excess of total PAB debits over total PAB credits	$	(115,137)
PAB reserve requirement at December 31, 2017	$	-

Note: The above computation does not differ materially from the computation of the PAB requirement prepared by the Company as of December 31, 2017 filed with the Financial Industry Regulatory Authority on January 25, 2018.

Hilltop Securities Inc.'s Compliance Report

Hilltop Securities Inc. (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). As required by 17 C.F.R. § 240.17a-5(d)(1) and (3), the Company states as follows:

1. The Company has established and maintained Internal Control Over Compliance, as that term is defined in paragraph (d)(3)(ii) of Rule 17a-5.
2. The Company's Internal Control Over Compliance was effective during the most recent fiscal year ended December 31, 2017;
3. The Company's Internal Control Over Compliance was effective as of the end of the most recent fiscal year ended December 31, 2017;
4. The Company was in compliance with 17 C.F.R. § 240.15c3-1 and 17 C.F.R. §240.15c3-3(e) as of the end of the most recent fiscal year ended December 31, 2017; and
5. The information the Company used to state that the Company was in compliance with 17 C.F.R. §240.15c3-1 and 17 C.F.R. §240.15c3-3(e) was derived from the books and records of the Company.

Hilltop Securities Inc.

I, Hill A. Feinberg, swear (or affirm) that, to my best knowledge and belief, this Compliance Report is true and correct.

By: Hill A. Feinberg

Chief Executive Officer

February 22, 2018

pwc

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Management of Hilltop Securities Inc.

We have examined Hilltop Securities Inc.'s (the "Company") assertions, included in the accompanying Hilltop Securities Inc.'s Compliance Report, that

(1) the Company's internal control over compliance with the financial responsibility rules (as defined below) was effective during the year ended December 31, 2017 based on controls necessary to achieve the objectives of the financial responsibility rules,

(2) the Company's internal control over compliance with the financial responsibility rules was effective as of December 31, 2017 based on controls necessary to achieve the objectives of the financial responsibility rules,

(3) the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 (the "net capital rule") and 240.15c3-3(e) (the "reserve requirements rule") as of December 31, 2017, and

(4) the information used to assert that the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records.

The Company's management is responsible for establishing and maintaining a system of internal control over compliance that has the objective of providing the Company with reasonable assurance that non-compliance with 17 C.F.R. § 240.15c3-1, 17 C.F.R. § 240.15c3-3 (the "customer protection rule"), 17 C.F.R. § 240.17a-13 ("the quarterly securities count rule"), or Rule 2340 of National Association of Securities Dealers (the "account statements rule"), which requires account statements to be sent to the customers of the Company (collectively, the "financial responsibility rules") will be prevented or detected on a timely basis. The Company's management is also responsible for compliance with the net capital rule and the reserve requirements rule and that the information used to assert compliance was derived from the books and records. Our responsibility is to express an opinion on the Company's assertions based on our examination.

We conducted our examination in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the examination to obtain reasonable assurance about whether (1) the Company's internal control over compliance with the financial responsibility rules was effective as of and during the year ended December 31, 2017, (2) the Company complied with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2017, and (3) the information used to assert compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2017 was derived from the Company's books and records. Our examination included testing and evaluating the design and operating effectiveness of internal control over compliance with the financial responsibility rules, testing and evaluating the Company's compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e), determining whether the information used to assert compliance with 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable

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basis for our opinion. Our examination does not provide a legal determination on Hilltop Securities Inc.'s compliance with the financial responsibility rules.

Because of its inherent limitations, internal control over compliance may not prevent or detect non-compliance with the financial responsibility rules. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hilltop Securities Inc.'s assertions referred to above are fairly stated, in all material respects.

PricewaterhouseCoopers LLP

February 22, 2018

Since January 2018, the firm has participated in the following Series for the Programs:

State of Mississippi Master Lease Purchase Programs

- **Series 2018A Master Lease Program for State Agencies and School Districts, dated 6/29/2018**
  - $3,415,000 Privately-Placed Lease Revenue Certificates of Participation (unrated; uninsured)
  - Participating Users - Department of Revenue, Department of Agriculture & Commerce, Cleveland Municipal School District, North Panola School District
  - Aggregate Equipment Amount - $3,350,547
- **Series 2018B Master Lease Program for State Agencies and School Districts, dated 10/18/2018**
  - $3,685,000 Privately-Placed Lease Revenue Certificates of Participation (unrated; uninsured)
  - Participating Users - Department of Transportation, Alcorn School District
  - Aggregate Equipment Amount - $3,624,250
- **Series 2019A Master Lease Program for State Agencies and School Districts, dated 7/18/2019**
  - $4,105,000 Privately-Placed Lease Revenue Certificates of Participation (unrated; uninsured)
  - Participating Users - Department of Corrections, Board of Animal Health, Cleveland School District, Greene County School District
  - Aggregate Equipment Amount - $4,037,213.04
- **Series 2020A Master Lease Program for State Agencies and School Districts, dated 3/5/2020**
  - $1,305,000 Privately-Placed Lease Revenue Certificates of Participation (unrated; uninsured)
  - Participating Users - Ellisville State School, Copiah-Lincoln Community College District
  - Aggregate Equipment Amount - $1,277,532
- **Series 2020B Master Lease Program for State Agencies, dated 12/17/2020**
  - $1,945,000 Privately-Placed Lease Revenue Certificates of Participation (unrated; uninsured)
  - Participating Users - Ellisville State School, Boswell Regional Center, Board of Animal Health
  - Aggregate Equipment Amount - $1,906,712

Mississippi Institutions of Higher Learning

- **Tax-Exempt Series 2020A Master Lease Program for State Universities, dated 7/10/2020**
  - $5,670,000 Privately-Placed Lease Revenue Certificates of Participation (unrated; uninsured)
  - Participating Users - University of Mississippi Medical Center
  - Aggregate Equipment Amount - $5,591,349
- **Taxable Series 2020B Master Lease Program for State Universities, dated 7/10/2020**
  - $1,735,000 Privately-Placed Lease Revenue Certificates of Participation (unrated; uninsured)
  - Participating Users - University of Mississippi Medical Center
  - Aggregate Equipment Amount - $1,700,000

Suggested Closing Schedule for a Competitive Sale of State of Mississippi Lease Revenue Certificates of Participation)

The following is an optimal timetable and assumes a competitively-bid series of COPs under the documentation for the existing Program; note, however, that the schedule is subject to change based on a number of factors. For instance, the time period between distribution of the demand survey and the deadline to return the survey forms may be decreased or increased, which affects the final timing of the series.

Ongoing

- As necessary, HilltopSecurities will conduct informational/educational one-on-one Participating User meetings.

Weeks 1-2

- Prepare and distribute Demand Survey to Participating Users

Week 3

- Deadline for Participating Users to return demand survey forms. Deadline for collecting equipment descriptions from Participating Users
- Draft documents distributed to DFA, rating agency, insurer (if required), special tax counsel, trustee, Participating Users and Office of the Attorney General
- Draft notice to The Bond Buyer
- Submit draft preliminary offering circular to I-deal

Week 4

- Notice published in The Bond Buyer
- I-deal electronically distributes the Preliminary Offering Circular to prospective underwriters

Week 5

- Coordinate with the Office of Bond Advisory to conduct competitive sale of the COPs. Receive bids, calculate results; make award
- Contact winning underwriter. Obtain Underwriter's Certificate. Confirm number of final offering circulars needed and delivery addresses
- Prepare final offering circulars, submit to I-deal for printing and distribution
- Amortization Schedules are prepared and incorporated into the final documents. Coordinate with DFA to schedule pre-closing

Week 6

- Preclose in Jackson, Mississippi, typically the day before settlement
- Settlement and Funding

Post-Closing

- Copy, assemble and distribute closing transcripts
- File Form 8038-G with Internal Revenue Service
- Complete and file UCC Financing Statements

Note that the above schedule can be condensed for negotiated or an unrated / privately-placed series.

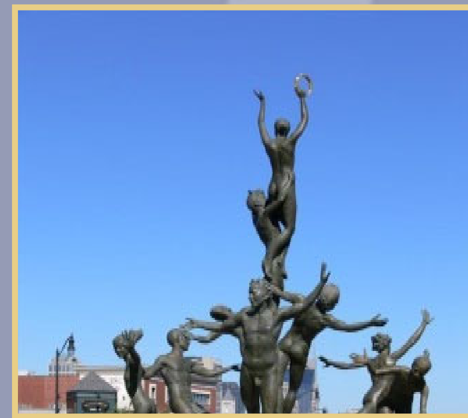
STATE OF MISSISSIPPI - 06.0672ML/Series 2018A Trustee: US Bank 08/19/21

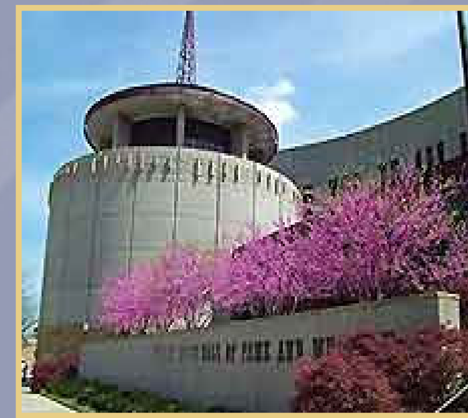
Funded: 06/29 Matures: 4/15/2028

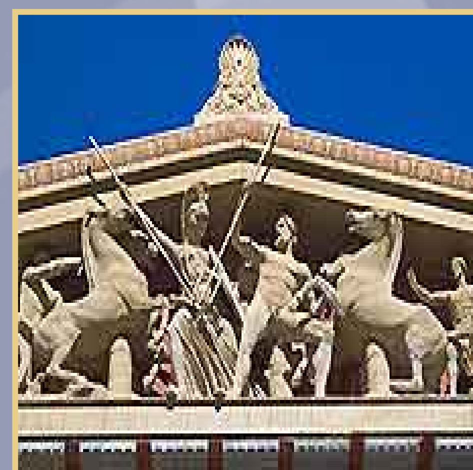
DISB #	DISB DATE	VENDOR	DEBIT AMOUNT	DISB AMOUNT	BALANCE	
DEPT OF AGRICULTURE & COMMERCE		**a/c #238925003**				
					1,500,000.00	1,500,000.00
DAC-01	09/25/18	MNJ Technologies		84,971.66	1,415,028.34	
DAC-02	01/15/19	MNJ Technologies		2,226.22	1,412,802.12	
DAC-03	02/19/19	MNJ Technologies		2,808.06	1,409,994.06	
DAC-04	03/07/19	Business Furniture Solutions		1,105.00	1,408,889.06	
DAC-05	04/17/19	Logista		3,790.00	1,405,099.06	
DAC-06	04/24/19	Cannon Chrysler Dodge		41,910.00	1,363,189.06	
DAC-07	05/13/19	Logista		80,595.00	1,282,594.06	
DAC-08	06/10/19	Middle South Computer		5,999.00	1,276,595.06	
DAC-09	06/10/19	Lander's Dodge		44,800.00	1,231,795.06	
DAC-10	06/20/19	Gary's Pawn & Gun		7,122.50	1,224,672.56	
DAC-11	07/31/19	Gourtesy Motors, Inc		30,717.00	1,193,955.56	
DAC-12	10/07/19	Logista		20,388.00	1,173,567.56	
DAC-13	10/10/19	Dell Marketing		35,182.40	1,138,385.16	
DAC-14	11/01/19	Dell Marketing		855.48	1,137,529.68	
DAC-15	11/14/19	Lander's Dodge		44,800.00	1,092,729.68	
DAC-16	12/23/19	Logista		12,792.00	1,079,937.68	
DAC-17	02/18/20	Courtesy Motors, Inc.		31,524.00	1,048,413.68	
DAC-18	02/18/20	Brookway Corporation/DBA Paul Barnett Nissan		85,000.00	963,413.68	
DAC-19	02/24/20	Logista		10,310.00	953,103.68	
DAC-20	03/20/20	Hotel & Restaurant Supply, Inc.		4,995.00	948,108.68	
DAC-21	03/27/20	Lander's Dodge		22,565.00	925,543.68	
DAC-22	04/02/20	Upchurch Services, LLC		15,437.00	910,106.68	
DAC-23	05/21/20	Deviney Rental & Supply		1,485.00	908,621.68	
DAC-24	07/01/20	MNJ Technologies Direct, Inc.		17,399.23	891,222.45	
DAC-25	07/09/20	MNJ Technologies Direct, Inc.		4,588.72	886,633.73	
DAC-26	08/03/20	Dell Marketing L.P.		2,511.81	884,121.92	
DAC-27	09/14/20	Lander's Dodge		22,450.00	861,671.92	
DAC-28	10/12/20	Deviney Rental & Supply		35,258.09	826,413.83	
DAC-29	11/18/20	Business Furniture Solutions		1,186.00	825,227.83	
DAC-30	01/05/21	Upchurch Services, LLC		26,632.00	798,595.83	
DAC-31	01/08/21	Hotel & Restaurant Supply, Inc.		35,300.00	763,295.83	
DAC-32	02/04/21	Kanawha Scales & Systems, Inc.		232,200.00	531,095.83	
DAC-33	03/30/21	Hotel & Restaurant Supply, Inc.		2,100.00	528,995.83	
DAC-34	03/30/21	Mel Luna Saw Company		10,009.23	518,986.60	
DAC-35	04/12/21	Ben Nelson Golf & Outdoor		11,167.00	507,819.60	
DAC-36	04/15/21	Lakeland Music		7,045.00	500,774.60	
DAC-37	08/03/21	Upchurch Services, LLC		49,950.00	450,824.60	
DAC-38	08/03/21	Ozborn Communications, LLC		2,415.00	448,409.60	
		TOTAL DEPT OF AGRICULTURE & COMMERCE			1,500,000.00	
		BALANCE OF EQPT FUNDS			448,409.60	
DEPT OF REVENUE		**a/c #238925002**				
					319,190.00	319,190.00
DOR-1	03/21/19	Presidio Networked Solutions		76,026.28	243,163.72	
DOR-2	03/21/19	Pinnacle Business Systems		35,227.28	207,936.44	
DOR-3	07/17/19	Butch Oustalet Inc		135,200.00	72,736.44	
DOR-4	01/15/20	Shaw Material Handling Systems		66,646.00	6,090.44	
					6,090.44	
		TOTAL DEPT OF REVENUE			319,190.00	
		BALANCE OF EQPT FUNDS			6,090.44	
CLEVELAND SCHOOL DISTRICT		**a/c #238925004**				
					1,218,607.00	1,218,607.00
CSD-1	07/10/18	Empire Truck Sales		1,218,607.00	0.00	
					0.00	

STATE OF MISSISSIPPI - 06.0672ML/Series 2018A Trustee: US Bank 08/19/21
Funded: 06/2(Matures: 4/15/2028

DISB #	DISB DATE	VENDOR	DEBIT AMOUNT	DISB AMOUNT	BALANCE	
		TOTAL CLEVELAND SCHOOL DISTRICT			1,218,607.00	
		BALANCE OF EQPT FUNDS			0.00	
NORTH PANOLA SCHOOL DISTRICT		**a/c #238925005**				
					312,750.00	312,750.00
NPSD-1	12/21/18	Water's Truck & Tractor		312,750.00	0.00	
					0.00	
		TOTAL NORTH PANOLA SCHOOL DISTRICT			312,750.00	
		BALANCE OF EQPT FUNDS			0.00	
Total Equipment Cost					3,350,547.00	
Total Disbursements					-1,364,689.96	
Net Equipment Funds					1,985,857.04	







The Metropolitan Government of Nashville and Davidson County

$571,725,000 General Obligation Improvement Bonds, Series 2021C

Transaction Pricing Summary

February 19, 2021

Transaction Overview

- $571,725,000 General Obligation Improvement Bonds, Series 2021C were sold through a competitive sale on Wednesday, February 17, 2021
- The Proceeds from the Series 2021C Bonds will be used for the purpose of:
  - Retiring outstanding commercial paper, and
  - Paying certain costs of issuance related to the sale of the Series 2021C Bonds
- Moody's Investors Service, Inc. and S&P Global Ratings, have assigned ratings of "Aa2 (stable outlook)" and "AA (stable outlook)", respectively to the Series 2021C Bonds
- The 2021C Bonds received six bids from BofA Securities, Inc., Citigroup Global Markets Inc., UBS Financial Services Inc., J.P. Morgan Securities LLC, Goldman, Sachs & Co., and Morgan Stanley & Co., LLC
- BofA Securities, Inc bid the lowest True-Interest Cost (TIC) and was awarded the Series 2021C Bonds
- The Series 2021C Bonds resulted in:
  - 1.509% True Interest Cost
  - 1.518% All-In True Interest Cost

Metro Nashville

Competitive Sale Bid Results

- The following bids were submitted using PARITY® and displayed ranked by lowest TIC.

Bidder Name	TIC
BofA Securities, Inc.	1.522088%
Citigroup Global Markets Inc.	1.563318%
UBS Financial Services Inc.	1.612745%
J.P. Morgan Securities LLC	1.647812%
Goldman, Sachs & Co.	1.685462%
Morgan Stanley & Co., LLC	1.695465%

Metro Nashville

Yield Comparison to MMD

	Series 2021C		Compare To:			
Maturity	Bond Coupon	Bond Yield	2/17/2021 'AAA' MMD Yield	*'AAA' Difference from Bond Yield*	2/17/2021 'AA' MMD Yield	*'AA' Difference from Bond Yield*
2022	5.000%	0.060%	0.060%	*0.000%*	0.080%	*-0.020%*
2023	5.000%	0.090%	0.100%	*-0.010%*	0.120%	*-0.030%*
2024	5.000%	0.140%	0.150%	*-0.010%*	0.190%	*-0.050%*
2025	5.000%	0.180%	0.200%	*-0.020%*	0.240%	*-0.060%*
2026	5.000%	0.290%	0.260%	*0.030%*	0.310%	*-0.020%*
2027	5.000%	0.380%	0.320%	*0.060%*	0.420%	*-0.040%*
2028	5.000%	0.500%	0.440%	*0.060%*	0.540%	*-0.040%*
2029	5.000%	0.620%	0.560%	*0.060%*	0.690%	*-0.070%*
2030	5.000%	0.730%	0.680%	*0.050%*	0.810%	*-0.080%*
2031	4.000%	0.860%	0.760%	*0.100%*	0.890%	*-0.030%*
2032	4.000%	0.960%	0.810%	*0.150%*	0.940%	*0.020%*
2033	3.000%	1.110%	0.860%	*0.250%*	1.010%	*0.100%*
2034	3.000%	1.200%	0.920%	*0.280%*	1.070%	*0.130%*
2035	3.000%	1.330%	0.980%	*0.350%*	1.140%	*0.190%*
2036	1.750%	1.710%	1.020%	*0.690%*	1.180%	*0.530%*
2037	1.750%	1.760%	1.060%	*0.700%*	1.230%	*0.530%*
2038	2.000%	1.850%	1.100%	*0.750%*	1.270%	*0.580%*
2039	2.000%	1.890%	1.140%	*0.750%*	1.310%	*0.580%*
2040	2.000%	1.930%	1.180%	*0.750%*	1.350%	*0.580%*
2041	2.000%	1.970%	1.220%	*0.750%*	1.390%	*0.580%*

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Transaction Statistics

	February 17, 2021 Final Pricing
Dated / Delivery Dates	02/25/2021
First Coupon	01/01/2022
First Maturity	01/01/2022
Final Maturity	01/01/2041
Average Annual Debt Service	$ 37,830,860
True Interest Cost (TIC)	1.509%
All-In-TIC	1.518%

Metro Nashville

Transaction Statistics (Cont.)

February 17, 2021 Final Pricing	
Source of Funds	**Series 2021C**
Par Amount	$ 571,725,000.00
Original Issue Premium	80,735,289.60
Total Sources	**$ 652,460,289.60**
Use of Funds	**Series 2021C**
Retirement of Commercial Paper	$ 650,000,000.00
Cost of Issuance	612,582.46
Underwriter's Discount	1,847,707.14
Total Uses	**$ 652,460,289.60**

Metro Nashville

Debt Service Schedule

Period Ending	Outstanding Debt Service	General Obligation Improvement Bonds, Series 2021C Principal	Interest	Debt Service	Total GO Debt Service
6/30/2021	$ 321,258,219	$ -	$ -	$ -	$ 321,258,219
6/30/2022	311,444,446	21,205,000	16,624,916	37,829,916	349,274,362
6/30/2023	312,448,761	19,330,000	18,498,475	37,828,475	350,277,236
6/30/2024	315,426,640	20,300,000	17,531,975	37,831,975	353,258,615
6/30/2025	306,818,857	21,315,000	16,516,975	37,831,975	344,650,832
6/30/2026	279,463,374	22,380,000	15,451,225	37,831,225	317,294,599
6/30/2027	256,938,534	23,500,000	14,332,225	37,832,225	294,770,759
6/30/2028	248,550,543	24,675,000	13,157,225	37,832,225	286,382,768
6/30/2029	200,890,306	25,905,000	11,923,475	37,828,475	238,718,781
6/30/2030	200,335,374	27,200,000	10,628,225	37,828,225	238,163,599
6/30/2031	195,635,645	28,560,000	9,268,225	37,828,225	233,463,870
6/30/2032	195,046,670	29,705,000	8,125,825	37,830,825	232,877,495
6/30/2033	194,433,077	30,895,000	6,937,625	37,832,625	232,265,702
6/30/2034	153,202,981	31,820,000	6,010,775	37,830,775	191,033,756
6/30/2035	149,151,691	32,775,000	5,056,175	37,831,175	186,982,866
6/30/2036	89,105,900	33,760,000	4,072,925	37,832,925	126,938,825
6/30/2037	89,104,200	34,350,000	3,482,125	37,832,125	126,936,325
6/30/2038	53,819,300	34,950,000	2,881,000	37,831,000	91,650,300
6/30/2039	53,815,200	35,650,000	2,182,000	37,832,000	91,647,200
6/30/2040	-	36,360,000	1,469,000	37,829,000	37,829,000
6/30/2041	-	37,090,000	741,800	37,831,800	37,831,800
Total	**$ 3,926,889,717**	**$ 571,725,000**	**$184,892,191**	**$ 756,617,191**	**$ 4,683,506,909**

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Transaction Team

- Bond Counsel – Bass, Berry & Sims PLC
- Financial Advisor – Hilltop Securities Inc.
- Paying Agent – U.S. Bank
- Purchaser – BofA Securities, Inc.

Metro Nashville

Market Update for Week of February 15th

Market Observations - Week of February 15th

Primary Market:

- 30-Day Visible Supply is approximately $7.6 billion
- Holiday-shortened calendar estimated to be $5.67 billion – approximately $4.2 billion of negotiated sales and $1.4 billion of competitive sales
- Largest negotiated deals are $658.075 million of City of Tucson taxable Certificates of Participation and Regional Transportation District of Colorado's $519 million of taxable sales tax Revenue Refunding Bonds and $298 million of tax-exempt Sales Tax Revenue Refunding Bonds

Secondary Market:

- Municipal Bond Funds reported $2.64 billion in net inflows last week, compared with $1.58 billion of inflows the prior week, the 14th straight week of inflows

General Market Overview:

- The 30-year U.S. Treasury reset at 2.01% last Friday after having remained below 2.00% since February 2020
- There continues to be a strong municipal new issue market with limited supply
- U.S. financial markets were closed on Monday, in observance of the Presidents' Day holiday. Investors will continue be focused on the earnings that will be released this week. Earnings beats coupled with positive economic data have propelled all major indexes to new record highs. Also, investors continue to monitor the ongoing negotiations regarding President Biden's efforts to pass the $1.9 trillion COVID-19 relief package.

Metro Nashville

Tab 8 - Fee Schedule

1. The fees listed in Section 8 – Fee Schedule for Master Lease Program Financial Advisor Services shall constitute the entire compensation due to the Advisor for services and all of the Advisor's obligations hereunder regardless of the difficulty, materials, or equipment required. The fees include, but are not limited to, all applicable taxes, fees, general office expense, travel, overhead, profit, and all other direct and indirect costs, incurred or to be incurred, by the Advisor. DFA shall not provide any prepayments or initial deposits in advance of services being rendered. Only those services agreed to by contract shall be considered for reimbursement/compensation by DFA. Payment for any and all services provided by Advisor to DFA shall be made only after said services have been duly performed and properly invoiced. The fees listed in in Section 8 – Fee Schedule for Master Lease Program Financial Advisor Services of this contract are firm for the duration of this contract and are not subject to escalation for any reason, unless this contract is duly amended.

2. In the event DFA requests and authorizes Advisor for the performance of any of the services covered under this Contract for which travel expenses are not already included, compensation to Advisor for travel, meals and/or lodging must be approved in advance and shall be allowed subject to the following criteria:

a. In order to be compensable by DFA, travel expenses must be reasonable and necessary for the fulfillment of the project and contractual obligations;

b. Air travel reimbursement will be limited to "Coach" or "Tourist" class rates, and must be supported by a copy of an original invoice;

c. Meals and lodging expenses will be reimbursed in the amount of actual costs, subject to the maximum per diem as defined in the Federal Register. A copy of all hotel receipts must be provided. A copy of meal receipts is not necessary;

d. Taxi fares, reasonable rental car expenses, and airport parking expenses will be reimbursed in the amount of actual costs, and must be supported by a copy of an original receipt/invoice;

e. Personal automobile mileage and related costs are not compensable expenses;

f. Time spent in "travel status" is not compensable.

Fee Schedule for Master Lease Programs Financial Advisor Services

Proposers are asked to indicate the cost per $1000 issued. As per the specifications, all costs not otherwise indicated should be included in the cost per $1000 issued and will be included in the proceeds and will be amortized to the participating Districts and State Agencies on their amortization schedule and annual invoice.

	Year 1	Year 2	3 year Total	Year 4*	Year 5*	5* year Total
K-12 School Districts and Community & Jr College Districts	$10/$1000	$10/$1000	$10/$1000	$10/$1000	$10/$1000	$10/$1000
State Agencies	$10/$1000	$10/$1000	$10/$1000	$10/$1000	$10/$1000	$10/$1000

**Indicates possible renewal year*

Indicate below or on an attached page, any costs which the DFA or the Districts and State Agencies will incur which are not included in the cost per $1000 issued. Include a complete description of the cost and the estimated cost. Any such costs shall also be included in the proceeds and be amortized to the participating Districts and State Agencies on their amortization schedule and annual invoice.

None; however, please note that other costs of issuance, including, but not limited to, rating fees (approximately $10000-$15000), trustee fees and trustee reserve fees (approximately $5000), special tax counsel fees (approximately $4500), special filing fees, such as aircraft filings, costs of distributing/printing offering documents through i-Deal, and arbitrage calculations (if applicable) will be included in each Series and will be passed through at cost.

Tab 9 - Signed Acknowledgment of RFP Amendments (if any)

To the best of our knowledge, the State did not publish any addenda in connection with RFx 3120002290.

Tab 10 - Resumes for Key Staff

Steven D. Johnson
Senior Vice President

717 N. Harwood Street, Suite 3400
Dallas, Texas 75201

Telephone: 214.953.4005
steven.d.johnson@hilltopsecurities.com

Areas of Focus

Specializes in public finance with experience in fixed and variable rate structures, interest rate swaps and other derivative contracts

Profile

- Joined the firm in 2004
- Has been in public finance since 1996
- Background includes structuring general obligation bond issues, refundings, transportation issues including toll road and airport financings, single-family and multi-family housing programs, revolving loan fund and pooled loan programs, convention center and arena financings as well as other tax and revenue supported projects
- Has provided services for an array of diverse issuers such as the cities of Dallas, Atlanta, Memphis, and Nashville; the Municipality of Anchorage; the State of North Carolina; the Commonwealth of Virginia; the State of Mississippi, and Arkansas Development Finance Authority, and the North Texas Tollway Authority.
- Responsible for structuring more than $50 billion in municipal bonds since 1996

Education

- Bachelor of Business Administration in Finance and Economics, Augsburg College, Minneapolis
- Juris Doctor, William Mitchell College of Law, Minneapolis

Current Affiliations

- National Council of State Housing Agencies

Licenses Held

- Registered Representative of the Financial Industry Regulatory Authority (FINRA)
    - General Securities Representative, Series 7
    - Municipal Advisor Representative, Series 50
    - Uniform Securities Agent, Series 63
    - Investment Banking Representative, Series 79

Vickie Hall
Vice President

717 N. Harwood Street, Suite 3400
Dallas, Texas 75201

Telephone: 214.953.8874
vickie.hall@hilltopsecurities.com

Areas of Focus

Municipal leasing; general public finance

Profile

- Joined the firm in 2003
- Responsible for preparation of offering documents in connection with lease transactions
- Reviews and prepares lease and master lease documents
- Analyzes legal issues
- Coordinates with bond counsel and underwriter counsel when applicable
- Prepares responses to requests for proposals for financial advisor, underwriting and ancillary services for the firm
- Previously specialized in public finance, serving as bond counsel and underwriters counsel in tax-exempt and taxable general obligation issuance

Education

- Bachelor of Science in Public Administration, University of Houston
- Juris Doctor, University of Houston Law Center

Licenses Held

- Registered Representative of the Financial Industry Regulatory Authority (FINRA)
    - General Securities Representative, Series 7
    - Municipal Advisor Representative, Series 50
    - Municipal Securities Principal, Series 53
    - Municipal Advisor Principal, Series 54
    - Uniform Securities Agent, Series 63
    - Investment Banking Representative, Series 79

Emily B. Hundley
Senior Vice President

717 N. Harwood Street, Suite 3400
Dallas, Texas 75201

Telephone: 214.953.8858
emily.hundley@hilltopsecurities.com

Areas of Focus

Specializes in technical and analytical investment banking services for a variety of clients

Profile

- Joined the firm in 2009
- Responsible for client, project and analytical support for each engagement
- Assists with bond sizing, spreadsheet modeling, refunding analyses, interest rate swap analyses, and documentation review for debt offerings
- Experience includes working with a wide range of bond and note transactions

Education

- Bachelor of Business Administration in Finance, Cox School of Business at Southern Methodist University

Current Affiliations

- Women in Public Finance – Texas Chapter Board

Licenses Held

- Registered Representative of the Financial Industry Regulatory Authority (FINRA)
  - General Securities Representative, Series 7
  - Municipal Advisor Representative, Series 50
  - Uniform Securities Agent, Series 63

Shari Goldberg
Accounting Specialist

717 N. Harwood Street, Suite 3400
Dallas, Texas 75201

Telephone: 214.859.6058
shari.goldberg@hilltopsecurities.com

Areas of Focus

Accounting

Profile

- Joined HilltopSecurities in 2015
- Post-closing responsibilities include analysis and reconciliation of disbursement requests, tailoring lease payment invoices to meet the specific requests of the lessees, coordinating document flow and investment of funds, monitoring the timeliness of lease payments, and working closely with the Trustee and the lessee to facilitate the administration of the transactions

Education

- Bachelor of Business Administration in Finance, University of Texas at Austin

Peter B. Stare
Managing Director

700 Milam Street, Suite 500
Houston, Texas 77002

Telephone: 713.654.8639
peter.stare@hilltopsecurities.com

Area of Focus

Long-term underwriting of municipal bonds

Profile

- First joined the firm in 1996
- Responsible for the negotiated underwriting efforts of both tax-exempt and taxable municipal issues
- Has been involved in the securities industry since 1974 in the areas of sales, trading, underwriting, and portfolio management
- Worked with several regional and nationally recognized firms managing their trading desks, municipal bond departments, and investment divisions

Education

- Bachelor of Business Administration, Southern Methodist University

Past Affiliations

- The Municipal Advisory Council of Texas, board member
- Municipal Bond Clubs of Dallas and Houston, president

Licenses Held

- Registered Representative of the Financial Industry Regulatory Authority (FINRA)
  - General Securities Representative, Series 7
  - Municipal Advisor Representative, Series 50
  - Municipal Securities Principal, Series 53
  - Uniform Securities Agent, Series 63

Tab 11- Any Additional Information

HilltopSecurities Ancillary Services Experience

As a leading advisor to state and local issuers nationwide, HilltopSecurities has responded to today's increasingly complex public finance landscape by raising the bar on the services, resources, and experience our firm offers. In fact, HilltopSecurities is arguably one of the most well-equipped and resourceful investment banking firms in the nation. HilltopSecurities possesses the experience, expertise and resources to provide Arbitrage Rebate services, Continuing Disclosure services, Asset Management services and Structured Finance services in-house. No other firm can provide all these services in-house. The following table summarizes the volume of our participation providing these select services.

Type of Service	Volume of Participation
Financial Advisory Services	During the five-year period ending July 31, 2021, HilltopSecurities provided financial advisory services on 4,134 issues totaling $178.70 billion par volume, ranking us **#2 in the nation** for number of issues. *Source: Ipreo MuniAnalytics*
Arbitrage Rebate Calculation Services	Provides calculations to approximately 520 clients across 27 states, on more than 3,200 bond issues, totaling $207 billion par amount, as of June 30, 2021. *Source: Internal Databases*
Continuing Disclosure Services	Assists over 850 state and local government clients in 19 states in meeting their continuing disclosure obligations and to comply with SEC Rule 15c2-12. *Source: Internal Databases*
Investment Management	As of June 30, 2021, actively manages $18.2 billion for 46 state and local governments; also serves as the investment advisor for an additional $8.7 billion for a total of $26.9 billion. *Source: Internal Databases* ***Investment Management services are calculated based on the amount of funds under management***
Structured Finance	For the five-year period ending June 30, 2021, the firm has served as swap advisor on 266 transactions totaling over $6.5 billion in notional amount. Additionally, the firm has served as the bidding agent for 555 municipal reinvestment transactions totaling over $46.1 billion in notional amount, including 483 escrow open market securities purchases totaling over $45.2 billion in notional amount. *Source: Internal Databases*
Underwriting*	During the five-year period ending July 31, 2021, served as senior or co-managing underwriter on 1,175 issues, exceeding $92.55 billion par amount. *Source: Ipreo MuniAnalytics*
OPEB Consulting**	Members of the firm have reviewed over 2,000 pension and OPEB actuarial studies and related CAFRs. Our firm has worked with independent actuaries to review pension studies, including TMRS members. In some cases, there were material changes. *Source: Internal Databases*

HilltopSecurities
A Hilltop Holdings Company.

State of Mississippi

Exhibit 1

Municipal Advisor Disclosure Statement

Exhibit 1

HilltopSecurities
A Hilltop Holdings Company.

MUNICIPAL ADVISOR DISCLOSURE STATEMENT

This disclosure statement ("Conflict Disclosures") is provided by Hilltop Securities Inc. ("the Firm") to disclose information regarding conflicts of interest and legal or disciplinary events of the Firm that are required to be disclosed to potential clients pursuant to MSRB Rule G-42(b) and (c)(ii).

PART A – Disclosures of Conflicts of Interest

MSRB Rule G-42 requires that municipal advisors provide to their clients disclosures relating to any actual or potential material conflicts of interest, including certain categories of potential conflicts of interest identified in Rule G-42, if applicable.

Material Conflicts of Interest – The Firm makes the disclosures set forth below with respect to material conflicts of interest in connection with the Scope of Services under the Agreement with the Firm, together with explanations of how the Firm addresses or intends to manage or mitigate each conflict.

General Mitigations – As general mitigations of the Firm's conflicts, with respect to all of the conflicts disclosed below, the Firm mitigates such conflicts through its adherence to its fiduciary duty to clients, which includes a duty of loyalty to clients in performing all municipal advisory activities for clients. This duty of loyalty obligates the Firm to deal honestly and with the utmost good faith with client and to act in the client's best interests without regard to the Firm's financial or other interests. In addition, because the Firm is a broker-dealer with significant capital due to the nature of its overall business, the success and profitability of the Firm is not dependent on maximizing short-term revenue generated from individualized recommendations to its clients but instead is dependent on long-term profitably built on a foundation of integrity, quality of service and strict adherence to its fiduciary duty. Furthermore, the Firm's municipal advisory supervisory structure, leveraging our long-standing and comprehensive broker-dealer supervisory processes and practices, provides strong safeguards against individual representatives of the Firm potentially departing from their regulatory duties due to personal interests. The disclosures below describe, as applicable, any additional mitigations that may be relevant with respect to any specific conflict disclosed below.

I. Affiliate Conflict. The Firm, The Firm, directly and through affiliated companies, provides or may provide services/advice/products to or on behalf of clients that are related to the Firm's advisory activities. Hilltop Securities Asset Management (HSAM), a SEC-registered affiliate of the Firm, provides post issuance services including arbitrage rebate and treasury management. The Firm's arbitrage team verifies rebate and yield restrictions on the investments of bond proceeds on behalf of clients in order to meet IRS restrictions. The treasury management division performs portfolio management/advisor services on behalf of public sector clients. The Firm, through affiliate Hilltop Securities Asset Management (HSAM), provides a multi-employer trust tailor-made for public entities which allows them to prefund Other Post-Employment Benefit liabilities. The Firm has a structured products desk that provides advice to help clients mitigate risk though investment management, debt management and commodity price risk management products. These products consist of but are not limited to swaps (interest rate, currency, commodity), options, repos, escrow structuring and other securities. Continuing Disclosure services provided by the Firm work with issuers to assist them in meeting disclosure requirements set forth in SEC rule 15c2-12. Services include but are not limited to ongoing maintenance of issuer compliance, automatic tracking of issuer's annual filings and public notification of material events. The Firm administers government investment pools. These programs offer governmental entities investment options for their cash management programs based on the entities specific needs. The Firm and the aforementioned affiliate's business with a client could create an incentive for the Firm to recommend to a client a course of action designed to increase the level of a client's business activities with the affiliates or to recommend against a course of action that would reduce or eliminate a client's business activities with the affiliates. This potential conflict is mitigated by the fact that the Firm and affiliates are subject to their own comprehensive regulatory regimes.

II. PlainsCapital Bank Affiliate Conflict. The Firm, directly and through affiliated companies, provides or may provide services/advice/products to or on behalf of clients that are related to the Firm's advisory activities. Affiliate, PlainsCapital Bank, provides banking services to municipalities including loans and custody. The Firm and the aforementioned affiliate's business with a client could create an incentive for the Firm to recommend to a client a course of action designed to increase the level of a client's business activities with the affiliates or to recommend against a course of action that would reduce or eliminate a client's business activities with the affiliates. This potential conflict is mitigated by the fact that the Firm and affiliates are subject to their own comprehensive regulatory regimes.

III. Other Municipal Advisor or Underwriting Relationships. The Firm serves a wide variety of other clients that may from time to time have interests that could have a direct or indirect impact on the interests of other clients. For example, the Firm serves as municipal advisor to other municipal advisory clients and, in such cases, owes a regulatory duty to such other clients just as it does to all its municipal advisory clients. These other clients may, from time to time and depending on the specific circumstances, have competing interests, such as accessing the new issue market with the most advantageous timing and with limited competition at the time of the offering. In acting in the interests of its various clients, the Firm could potentially face a conflict of interest arising from these competing client interests. In other cases, as a broker-dealer that engages in underwritings of new issuances of municipal securities by other municipal entities, the interests of the Firm to achieve a successful and profitable underwriting for its municipal entity underwriting clients could potentially constitute a conflict of interest if, as in the example above, the municipal entities that the Firm serves as underwriter or municipal advisor have competing interests in seeking to access the new issue market with the most advantageous timing and with limited competition at the time of the offering. None of these other engagements or relationships would impair the Firm's ability to fulfill its regulatory duties to any specific client.

IV. Secondary Market Transactions in Client's Securities. The Firm, in connection with its sales and trading activities, may take a principal position in securities, including securities of its clients, and therefore the Firm could have interests in conflict with a client with respect to the value of the client's securities while held in inventory and the levels of mark-up or mark-down that may be available in connection with purchases and sales thereof. In particular, the Firm or its affiliates may submit orders for and acquire a municipal advisory client's securities issued in an issue under a municipal advisory agreement from members of the underwriting syndicate, either for its own account or for the accounts of its customers. This activity may result in a conflict of interest with the client in that it could create the incentive for the Firm to make recommendations to the client that could result in more advantageous pricing of the client's bond in the marketplace. Any such conflict is mitigated by means of such activities being engaged in on customary terms through units of the Firm that operate independently from the Firm's municipal advisory business, thereby reducing the likelihood that such investment activities would have an impact on the services provided by the Firm to any client under a municipal advisory agreement.

V. Broker-Dealer and Investment Advisory Business. The Firm is dually registered as a broker-dealer and an investment advisor that engages in a broad range of securities-related activities to service its clients, in addition to serving as a municipal advisor or underwriter. Such securities-related activities, which may include but are not limited to the buying and selling of new issue and outstanding securities and investment advice in connection with such securities, including securities of the firm's municipal advisory clients, may be undertaken on behalf of, or as counterparty to, the client, personnel of the client, and current or potential investors in the securities of the client. These other clients may, from time to time and depending on the specific circumstances, have interests in conflict with those of the Firm's municipal advisory clients, such as when their buying or selling of the municipal advisory client's securities may have an adverse effect on the market for municipal advisory client's securities, and the interests of such other clients could create the incentive for the Firm to make recommendations to the municipal advisory client that could result in more advantageous pricing for the other clients. Furthermore, any potential conflict arising from the firm effecting or otherwise assisting such other clients in connection with such transactions is mitigated by means of such activities being engaged in on customary terms through units of the Firm that operate independently from the Firm's municipal advisory business, thereby reducing the likelihood that the interests of such other clients would have an impact on the services provided by the Firm to its municipal advisory client.

VI. Compensation-Based Conflicts. Fees that are based on the size of the issue are contingent upon the delivery of the Issue. While this form of compensation is customary in the municipal securities market, this may present a conflict because it could create an incentive for the Firm to recommend unnecessary financings or financings that are disadvantageous to its clients, or to advise clients to increase the size of the issue. This conflict of interest is mitigated by the general mitigations described above.

Fees based on a fixed amount are usually based upon an analysis by the client and the Firm of, among other things, the expected duration and complexity of the transaction and the scope of municipal services to be performed by the Firm. This form of compensation presents a potential conflict of interest because, if the transaction requires more work than originally contemplated, the Firm may suffer a loss. Thus, the Firm may recommend less time-consuming alternatives, or fail to do a thorough analysis of alternatives. This conflict of interest is mitigated by the general mitigations described above.

Hourly fees are calculated with, the aggregate amount equaling the number of hours worked by Firm personnel times an agreed-upon hourly billing rate. This form of compensation presents a potential conflict of interest if the client and the Firm do not agree on a reasonable maximum amount at the outset of the engagement, because the Firm does not have a financial incentive to recommend alternatives that would result in fewer hours worked. This conflict of interest is mitigated by the general mitigations described above.

PART B – Disclosures of Information Regarding Legal Events and Disciplinary History

MSRB Rule G-42 requires that municipal advisors provide to their clients certain disclosures of legal or disciplinary events material to its client's evaluation of the municipal advisor or the integrity of the municipal advisor's management or advisory personnel.

Accordingly, the Firm sets out below required disclosures and related information in connection with such disclosures.

I. Material Legal or Disciplinary Event. The Firm discloses the following legal or disciplinary events that may be material to a client's evaluation of the Firm or the integrity of the Firm's management or advisory personnel:

- For related disciplinary actions please refer to the Firm's BrokerCheck webpage.
- The Firm self-reported violations of SEC Rule 15c2-12: Continuing Disclosure. The Firm settled with the SEC on February 2, 2016. The firm agreed to retain independent consultant and adopt the consultant's finding. Firm paid a fine of $360,000.
- The Firm settled with the SEC in matters related to violations of MSRB Rules G-23(c), G-17 and SEC rule 15B(c) (1). The Firm disgorged fees of $120,000 received as financial advisor on the deal, paid prejudgment interest of $22,400.00 and a penalty of $50,000.00.
- The Firm entered into a Settlement Agreement with Rhode Island Commerce Corporation. Under the Settlement Agreement, the firm agreed to pay $16.0 million to settle any and all claims in connection with The Rhode Island Economic Development Corporation Job Creation Guaranty Program Taxable Revenue Bond (38 Studios, LLC Project) Series 2010, including the litigation thereto. The case, filed in 2012, arose out of a failed loan by Rhode Island Economic Development Corporation. The firm's predecessor company, First Southwest Company, LLC, was one of 14 defendants. HilltopSecurities' engagement was limited to advising on the structure, terms, and rating of the underlying bonds. Hilltop settled with no admission of liability or wrongdoing.
- On April 30, 2019, the Firm entered into a Settlement Agreement with Berkeley County School District of Berkeley County, South Carolina. The case, filed in March of 2019, arose in connection with certain bond transactions occurring from 2012 to 2014, for which former employees of Southwest Securities, Inc., a predecessor company, provided financial advisory services. The Firm agreed to disgorge all financial advisory fees related to such bond transactions, which amounted to $822,966.47, to settle any and all claims, including litigation thereto. Under the Settlement Agreement, the Firm was dismissed from the lawsuit with prejudice, no additional penalty, and with no admission of liability or wrongdoing.
- From July 2011 to October 2015, Hilltop failed to submit required MSRB Rule G-32 information to EMMA in connection with 122 primary offerings of municipal securities for which the Firm served as placement agent. During the period January 2012 to September 2015, the Firm failed to provide MSRB Rule G-17 letters to issuers in connection with 119 of the 122 offerings referenced above. From October 2014 to September 2015, the Firm failed to report on Form MSRB G-37 that it had engaged in municipal securities business as placement agent for 45 of these 122 offerings. This failure was a result of a misunderstanding by one branch office of Southwest Securities. Hilltop discovered these failures during the merger of FirstSouthwest and Southwest Securities and voluntarily reported them to FINRA. The Firm paid a fine of $100,000 for these self-reported violations.
- In connection with a settlement on July 9, 2021 , the U.S. Securities and Exchange Commission found that, between January 2016 and April 2018, the Firm bought municipal bonds for its own account from another broker-dealer and that, on occasion during that time period, the other broker-dealer mischaracterized the Firm's orders when placing them with the lead underwriter. The SEC found that, among other things, the Firm lacked policies and procedures with respect to how stock orders were submitted for new issues bonds to third parties, including the broker-dealer that mischaracterized the Firm's orders. The SEC found violations of MSRB Rules G-27, G-17, and SEC rule 15B(c)(1) and a failure to reasonably supervise within the meaning of Section 15(b)(4)(E) of the Securities Exchange Act of 1934. The Firm was censured and ordered to pay disgorgement of $206,606, prejudgment interest of $48,587 and a penalty of $85,000.

II. How to Access Form MA and Form MA-I Filings The Firm's most recent Form MA and each most recent Form MA-I filed with the SEC are available on the SEC's EDGAR system at system at Forms MA and MA-I. The SEC permits certain items of information required on Form MA or MA-I to be provided by reference to such required information already filed by the Firms in its capacity as a broker-dealer on Form BD or Form U4 or as an investment adviser on Form

ADV, as applicable. Information provided by the Firm on Form BD or Form U4 is publicly accessible through reports generated by BrokerCheck at http://brokercheck.finra.org/], and the Firm's most recent Form ADV is publicly accessible at the Investment Adviser Public Disclosure website at http://www.adviserinfo.sec.gov/. For purposes of accessing such BrokerCheck reports or Form ADV, click previous hyperlinks.

PART C – MSRB Rule G-10 Disclosure

MSRB Rule G-10 covers Investor and Municipal Advisory Client education and protection. This rule requires that municipal advisors make certain disclosures to all municipal advisory clients. This communication is a disclosure only and does not require any action by the firm's municipal advisory clients. The disclosures are noted below.

1. Hilltop Securities Inc. is registered with the U.S. Securities and Exchange Commission and the Municipal Securities Rulemaking Board as a Municipal Advisor.
2. You can access the website for the Municipal Securities Rulemaking Board at www.msrb.org
3. The Municipal Securities Rulemaking Board has posted a municipal advisory client brochure. A copy of the brochure is attached to the memo. This link will take to you to the electronic version MA_Client_Brochure.