

Hilltop Holdings Inc.
Form 425
October 31, 2014

Merger with Hilltop Holdings Inc.
October 2014

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Filed by SWS Group, Inc.

Pursuant to Rule 425 of the Securities Act of 1933
and deemed filed pursuant to Rule 14a-6(b)
of the Securities Exchange Act of 1934

Subject Company: Hilltop Holdings, Inc.

(Commission File No. for Registration Statement on Form S-4: 333-196367)

The following updated presentation is being used by management of SWS Group, Inc. in investor meetings commencing on the date of this filing. All members of management of Hilltop Holdings Inc. may participate in some or all of these meetings.

Forward-Looking Statements

2

From
time
to
time
we
make
statements
(including
some
contained

in
this
presentation)
that
predict
or
forecast
future
events,
depend
on
future
events
for
their
accuracy,
or
otherwise
contain
"forward-looking"
information
and
constitute
forward-looking
statements
within
the
meaning
of
applicable
U.S.
securities
laws.
Such
statements
are
generally
identifiable
by
terminology
such
as
plans,
expects,
estimates,
budgets,
intends,
anticipates,
believes,
projects,

indicates,
targets,
objective,
could,
should,
potential,
may
or
other
similar
words.
By
their
very
nature,
forward-looking
statements
require
us
to
make
assumptions
that
may
not
materialize
or
that
may
not
be
accurate.
Readers
should
not
place
undue
reliance
on
forward-looking
statements
and
should
recognize
that
such
statements
are
predictions
of

future
results,
which
may
not
occur
as
anticipated.

Actual
results
may
differ
materially
as
a
result
of
various
factors,
some
of
which
are
outside
of
our
control,
including:

failure
to
obtain
the
approval
of
stockholders
of
SWS
Group,
Inc.
(SWS
or
the
Company
in
connection
with
the
proposed
transaction

with
Hilltop
Holdings
Inc.
(Hilltop);

the
failure
to
consummate
or
delay
in
consummating
the
proposed
transaction
for
other
reasons;

the
timing
to
consummate
the
proposed
transaction;

the
risk
that
a
condition
to
closing
of
the
proposed
transaction
may
not
be
satisfied;

the
risk
that
a
regulatory

approval
that
may
be
required
for
the
proposed
transaction
is
delayed,
is
not
obtained,
or
is
obtained
subject
to
conditions
that
are
not anticipated;

Hilltop's
ability
to
achieve
the
synergies
and
value
creation
contemplated
by
the
proposed
transaction;

Hilltop's
ability
to
promptly
and
effectively
integrate
its
and
SWS's
businesses;

the
diversion
of
management
time
on
transaction-related
issues;

the
interest
rate
environment;

the
volume
of
trading
in
securities;

the
liquidity
in
capital
markets;

the
volatility
and
general
level
of
securities
prices
and
interest
rates;

the
ability
to
meet
regulatory
capital
requirements
administered
by
federal agencies;

the
level
of
customer
margin
loan
activity
and
the
size
of
customer
account balances;

the
demand
for
real
estate
in
Texas,
New
Mexico
and
the
national
market;

the
credit-worthiness
of
our
correspondents,
trading
counterparties
and
of
our
banking
and
margin
customers;

the
demand
for
investment
banking
services;

general
economic
conditions,
especially
in
Texas
and
New
Mexico,
and
investor
sentiment
and
confidence;

the
value
of
collateral
securing
the
loans
we
hold;

competitive
conditions
in
each
of
our
business
segments;

changes
in
accounting,
tax
and
regulatory
compliance
requirements;

changes
in
federal,
state
and
local

tax
rates;

the
ability
to
attract
and
retain
key
personnel;

the
availability
of
borrowings
under
credit
lines,
credit
agreements
and
credit facilities;

the
potential
misconduct
or
errors
by
our
employees
or
by
entities
with
whom
we
conduct
business;

the
ability
of
borrowers
to
meet
their
contractual
obligations

and
the
adequacy
of
our
allowance
for
loan
losses;
and

the
potential
for
litigation
and
other
regulatory
liability.

3
Forward-Looking Statements (Continued)
Our
future
operating
results
also
depend
on
our
operating
expenses,

which
are
subject
to
fluctuation
due
to:

variations
in
the
level
of
compensation
expense
incurred
as
a
result
of
changes
in
the
number
of
total
employees,
competitive
factors
or
other
market
variables;

variations
in
expenses
and
capital
costs,
including
depreciation,
amortization
and
other non-
cash
charges
incurred
to
maintain

our
infrastructure;
and

unanticipated
costs
which
may
be
incurred
from
time
to
time
in
connection
with
litigation,
regulation
and
compliance,
loan
analyses
and
modifications
or
other
contingencies.

Other
factors,
risks
and
uncertainties
that
could
cause
actual
results
to
differ
materially
from
our
expectations
discussed
in
this
presentation
and
those

discussed
in
our
reports
filed
with
and
available
from
the
Securities
and
Exchange
Commission
(the
"SEC").
Our
forward-looking
statements
are
based
on
current
beliefs,
assumptions
and
expectations.
All
forward-looking
statements
speak
only
as
of
the
date
on
which
they
are
made
and,
except
as
required
by
law,
we
expressly
disclaim

any
obligation
or
undertaking
to
disseminate
any
updates
or
revisions
to
any
forward-looking
statements
contained
herein
to
reflect
any
change
in
our
expectations
with
regard
thereto
or
any
change
in
events,
conditions
or
circumstances
upon
which
any
statement
is
based.

Agenda
Executive Summary
Transaction Overview
SWS Independent Special Committee
Transaction Background
Transaction Rationale
Hilltop
2011 Credit Agreement
Shareholder Approval
Appendix
4

Executive Summary

5

On

March

31,

2014,

SWS

entered

into

an

agreement

to

merge
into
a
subsidiary
of
Hilltop
SWS
Board
(other
than
Messrs.
Ford
1
and
Crandall
2
,
who
recused
themselves
from
voting)
unanimously
approved
the
merger
agreement
and
recommend
SWS
stockholders
vote
FOR
the
merger
on
or
before
the
Special Meeting of Stockholders to be held on November 21, 2014
SWS
holders
of
record
on
October
3,
2014
are
entitled

to
vote

importantly,
failing
to
vote
has
the
same
effect
as a vote against the transaction

Hilltop's price represents a significant premium to SWS's unaffected stock price³ and a substantial multiple in light of SWS's historical losses and low prospective earnings

Hilltop's
merger
delivers
immediate
cash
value
and
allows
SWS
stockholders
to
participate
in
significant
upside
potential of a larger, more profitable, more diversified organization with ample capital to grow

Hilltop is the ideal buyer for SWS:
Hilltop owns complementary broker / dealer and banking businesses based in Dallas, TX
Low risk execution from regulatory and financing perspective

Alleviated
SWS
repayment
risk
on
\$100
million
unsecured
debt
and
burdensome
conditions
in
related
Credit
Agreement

1

Refers to Gerald J. Ford, Chairman of the Board of Hilltop Holdings Inc.

2

Refers to J. Taylor Crandall, a founding Managing Partner of Oak Hill Capital Management, LLC

3

Unaffected SWS share price was \$6.06 on January 9, 2014; the day before the Hilltop initial proposal was made public

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Executive Summary (Continued)

Due to the anticipated scrutiny of merging with Hilltop, SWS formed an independent Special Committee, solicited numerous potential acquirers and discussed potential transactions with other parties

Agreement with Hilltop was reached after SWS successfully negotiated enhanced economics, though no other party submitted a binding proposal

Hilltop has since exercised all of its warrants, is the largest stockholder of SWS and is no longer a lender to SWS sacrificing certain rights and protections in the 2011 Credit Agreement

Oak

Hill

consented

to

the
merger
with
Hilltop
and
has
since
exercised
75%
of
its
warrants

becoming
the
second
largest common stockholder. Oak Hill is not subject to a voting agreement

Transaction Overview

Per share deal value at announcement was \$7.88

Hilltop originally offered \$7.00 per share on 1/9/14

Value will fluctuate with Hilltop market price

SWS per share merger consideration of 0.2496 Hilltop shares
plus \$1.94 in cash

Approximate mix 75% stock / 25% cash

Aggregate

value

of

SWS

at

announcement

of

\$398

million

1

Hilltop existing investment in SWS of \$80 million

Merger consideration to other SWS holders of \$318

million

Transaction multiples at announcement:

Price/Fully Diluted Tangible Book Value Per Share:

97%

2

Price/Estimated FY 2015 EPS (Street): 88x

Unaffected

market

premium:

30%

3

Premium to 52 week low: 52%

7

1

Aggregate value includes Hilltop and Oak Hill warrants

2

Fully diluted tangible book value per share equaled \$8.15 at announcement

3

Based on SWS share price on January 9, 2014 of \$6.06 per share

Financial Terms

Legal Requirements

Stockholder approval requires affirmative vote of >50% of
outstanding SWS shares as of record date

Hilltop has exercised all of its warrants and has agreed to
vote its 10.2 million outstanding shares FOR the merger
(21% outstanding)

There is no voting agreement for Oak Hill's 6.5 million
outstanding shares (14% outstanding)

Conditions to close merger include regulatory approvals;

Hilltop does not have financing or other outs

SWS Board can change its recommendation of the merger,
but not terminate the merger agreement, if SWS receives an
unsolicited superior proposal or in certain other limited
circumstances

Transaction is expected to close by year end 2014 with
merger agreement termination date of 3/31/15

SWS Independent Special Committee

On January 15, 2014, SWS formed a Special Committee to review Hilltop's unsolicited original offer, consider other strategic alternatives and lead the negotiations for any potential transaction

Members of the Special Committee:

SWS directors unaffiliated with Hilltop or Oak Hill

Disinterested and non-executives

Have relevant experience and industry knowledge

Able and willing to devote significant time and thoughtfulness

Special Committee engaged independent advisors after

discussions with several candidates

Legal advisor -

Davis Polk & Wardwell (Davis Polk)

was retained on 1/29/14

Investment bank -

Sandler O Neill (Sandler) was

retained on 2/3/14

From formation through the announcement of the Hilltop transaction, the Special Committee met a total of 21 times

8

Formation

Tyree Miller -

Chair

SWS director since November 2011

Has been in the private equity and money management business since 2004

Currently President of A.G. Hill Partners, LLC

From 2005 to 2008 served as a partner of Austin Ventures

From 1974 to 2004 built career at Bank One Corporation (merged with JP Morgan in 2004), advancing to roles which included Chairman and CEO of Bank One Texas from 1998 to 2000 and President and CEO of Global Treasury Services from 2000 to 2004

Robert Buchholz

SWS director since May 2008

Served as an officer of SWS from 1985 to 1995, advancing to President and a director

Chairman and founder of Town Center Holdings, former parent company to Town Center Bank

Prior experiences as an attorney and certified public accountant

Joel Williams III

SWS director since November 2009

President of Bristol Investment Company, Inc., a private investment firm, since 1985

Formerly served as President and CEO of Texas Federal Financial Corporation prior to its sale in 1984

Special Committee Bios

Transaction Background

Process Overview¹

9

1

The
information

in
this
section

and

in

the

Transaction
Background
set
forth
in
this
presentation
is
selected
from
the
definitive
SWS/Hilltop
Proxy
Statement/Prospectus
filed
with
the
Securities
and
Exchange
Commission
and
is
not
a
complete
summary
of
the
transaction
background.
For
the
complete
summary,
please
refer
to
the
Background
of
the
Merger
section
of
the
SWS/Hilltop
Proxy
Statement/Prospectus.

Notes

Hilltop offer in public domain for **81** days before signing merger agreement

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companies contacted (including all that contacted SWS)

Other than Hilltop, only **2** companies continued to pursue a transaction after early stage conversations

Other than Hilltop, only **1** suitor was financially capable of closing transaction but that party did not make a binding proposal

1/9/14:

Hilltop delivered to SWS Board an unsolicited letter of intent to acquire all shares it did not own for \$7.00 per share in a 50% stock / 50% cash transaction

2/13/14:

Special Committee instructed Sandler to contact third parties that:

2/14

3/14:

17

parties were contacted

2/14

3/14:

Special Committee, Sandler and/or Davis Polk held discussions with or negotiated potential transactions with:

3/31/14:

SWS entered into merger agreement with Hilltop following extensive negotiations

1/10/14:

Hilltop made its offer public

Hilltop

Esposito Global and Party B

Party A

Hilltop raised its offer price to \$7.75 and stock consideration to 75%

Neither of the other interested parties submitted a binding proposal with a firm price to acquire SWS

Were

financially

capable,

Were

likely

to
receive
regulatory
approval,
and
Would
not
require
material
conditions
to
complete
a
transaction
to
acquire
SWS

Transaction Background

Esposito Global & Party B

2/18/14:

Esposito Global publicly disclosed a proposal to acquire SWS for \$8.00 per share, expressly contingent on third-party financing being arranged

2/20/14:

Special Committee instructed Sandler and Davis Polk to speak with Esposito Global and its legal advisor to understand their plans for arranging outside financing and their ability to obtain regulatory approval

2/24/14:

Esposito Global and its legal advisors indicated that Esposito Global was not in a position to obtain regulatory approval and would require additional resources to meet financing requirements

2/27/14:

Esposito Global informed the Special Committee that it would be working with Party B, a bank holding company

Over the ensuing several weeks, multiple conversations were held with Esposito Global, Party B, and their financial and legal advisors

Party B informed the Special Committee that significant external financing would be required to complete a transaction; multiple private equity firms would need to be involved

3/17/14:

Party B's financial advisor indicated that sixty days would be required to finalize price and secure necessary financing

3/20/14:

Special Committee informed Party B that it was uncomfortable with the uncertainty surrounding their extended timeline to secure financing, complete due diligence and affirm their price

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Transaction Background
Party A
11
1
The
Merger
Covenant
in
the
Credit
Agreements
prohibits

SWS
from
undergoing
a
Fundamental
Change,
which
includes
any
merger
or
substantial
asset
sale,
without
the
approval
of
each
lender
2/18/14:

Initial conversation with Party A regarding a potential acquisition of SWS

During late February and early March, SWS's financial advisor had several calls with Party A

3/18/14:

CEO of Party A stated they were valuing SWS at approximately \$8.00 per share, though the price could be higher

3/25/14:

SWS and Party A executed a non-disclosure agreement

3/27/14:

Party

A

was

informed

that

SWS

was

under

a

deadline

to

execute

a

merger

agreement

by

March

31,

2014

3/29/14

3/31/14:

Party A conducted in-person due diligence at SWS headquarters in Dallas

3/31/14:

SWS received a letter from Party A stating they:

Party A indicated an interest in acquiring SWS at a price approximating tangible book value of SWS liquid assets ; believed approximate the fully diluted tangible book value of \$8.15 per share as of December 31, 2013

Also discussed were issues regarding the Merger Covenant, due diligence and terms of a non-disclosure agreement

Party A provided a non-binding indication of interest to acquire SWS for \$8.65 per share, subject to due diligence and describing the process that it would require to meet the March 31, 2014 deadline

Were

not

able

to

execute

a

definitive

agreement

by

the

March

31,

2014

deadline,

Had

serious

concerns

agreeing

to

a

transaction

if

Hilltop

would

not

waive

the

Merger

Covenant,

and

Needed

more

time

for

their

due

diligence

Party

A

also

discussed

the

Merger

Covenant

1

with

Hilltop's

financial

advisor

-

who

informed

Party

A

that

Hilltop

would

not

waive it

Transaction Background

Hilltop

3/3/14:

Special Committee rejected Hilltop's original offer

3/5/14:

Hilltop

indicated

that

it

did

not

believe

book
value
(\$8.15
per
share)
was
the
correct
method
to
value
SWS,
based
on,
among
other
things,

its lack of historical and prospective earnings

3/19/14:

Hilltop submitted a revised proposal at \$7.50 per share, 75% stock / 25% cash

Hilltop indicated that it was approaching its limit on price and would not leave the offer outstanding for a prolonged period time

3/20/14:

Hilltop
agreed
to
increase

offer
price

to
\$7.75

per
share,
75%
stock

/
25%
cash

Hilltop reiterated its intention not to waive the Merger Covenant with respect to any deal with another party

3/24/14:

Hilltop said that if the merger agreement was not signed by March 31, 2014, Hilltop would withdraw its offer; this position was subsequently repeated on several occasions

3/31/14:

Special Committee members met with Hilltop to negotiate remaining issues of merger agreement

Hilltop refused again to eliminate the force the vote

provision and refused to accept a possible two-tier termination fee that would provide for a lower payment if a deal was done with Party A

Hilltop did agree to reduce the termination fee to \$8 million from original \$12 million

3/31/14:

Later in the day, SWS Board (other than Messrs. Ford and Crandall, who were recused from voting) unanimously approved the

agreement and recommended its adoption by SWS stockholders based on, among other things:

Enhanced value and improved terms (including higher price and lower termination fee) achieved through negotiations with Hilltop

Risk of Hilltop withdrawing its offer without a binding proposal

from either of the interested parties

Concern over the repayment risk of the \$100 million of loans under the 2011 Credit Agreement and Hilltop's unwillingness to

Merger Covenant

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13

Transaction Rationale

SWS Six-Year Financial Performance

(\$ in Millions, Except per Share Data)

Source: SWS SEC Filings. SWS fiscal years ending June 30.

1

Fully Diluted Tangible Book Value per Share is Non-GAAP and includes Hilltop and Oak Hill warrant shares. See calculation

Bank credit losses,

prolonged low short-

term interest rates

and declining broker /

dealer revenues have
primarily resulted in
net losses over past 5
years

Hilltop's deal value is
attractive given
limited earnings
visibility of SWS as
standalone company

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Transaction Rationale
SWS Stock Price Performance
Prior to 2011
July
2010:
Bank
entered
into
MOU
with
OTS

Dec.
2010:
Terminates
planned
debt
offering
Feb. 2011: Bank enters
into C&D with OTS
March 2011: Agrees to
\$100M capital raise with
Hilltop and Oak Hill
(closed July 2011)
Historical price has
lingered around
warrant exercise price
as company
performance has
declined and exercise
price provided floor
For the three years
prior to Hilltop's initial
proposal, SWS's stock
price averaged \$5.77
August 2011:
Announces
FY 2011 loss
per share of
\$0.71
Sep. 2012:
Announces
FY 2012 loss
per share of
\$0.14
August 2013:
Announces
FY 2013 loss
per share of
\$1.02
Jan. 2014:
Hilltop
Announces
LOI for \$7.00
per share
March 2014:
Announces
definitive
agreement for
\$7.88 per share
Jan. 2013: OCC
lifts C&D order

for Bank

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Hilltop's offer at announcement

Transaction Rationale

Provides Immediate and Long-Term Value

1
Unaffected stock price is equal to \$6.06 per share, the price preceding Hilltop's initial proposal.

2
Research
coverage
on
Hilltop

is
published
by
KBW,
Raymond
James,
Stephens
and
Sterne
Agee.

Provided a 30% premium to SWS's unaffected stock price¹

Exceeded SWS likely value as a standalone entity

Provided a 12.5% premium to Hilltop's original offer

Discount to tangible book value merited due to SWS historical losses and low prospective earnings

SWS stockholders will own approximately 10% of Hilltop

Hilltop median analyst price target of \$26.25 implies \$8.49 SWS deal value²

Larger,
diversified
organization
will
benefit
from
synergies
and
more
efficient
platform

Complementary businesses create leading Texas-based broker / dealer with bolstered market share and scale

Combined bank enhanced by significant source of additional low-cost, core deposits

Following merger, Hilltop will be well capitalized with excess capital to deploy on future transactions

25% cash / 75% stock mix offers SWS stockholders immediate cash value and significant upside potential

Transaction
alleviated

SWS
from
repayment
risk

of
\$100

million
of

loans

and
lenders

blocking
rights

to
a

merger
Hilltop

transaction
has
low
execution
risk

no
financing
contingencies

and
high
likelihood
of

regulatory
approvals

With Dallas-based broker/dealer and bank, Hilltop is best suited to extract benefits in excess of the risk and costs of integration

Numerous

potential
acquirers

were

solicited

following

public

announcement

of

Hilltop's

initial

proposal,

none

of

whom

made

a

binding

proposal.

In

the

absence

of

other

binding

proposals,

there

was

a

significant

risk

to

SWS

of

Hilltop
withdrawing
its
offer

Hilltop is best buyer for SWS and transaction uniquely benefits SWS stockholders

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Hilltop

Overview

Hilltop is a diversified financial holding company based in Dallas
Led by Chairman Gerald J. Ford, who has acquired, managed and
sold banking businesses and other financial services companies for
over 35 years

Hilltop provides banking, mortgage origination, financial advisory
and insurance through its wholly owned subsidiaries, PlainsCapital
Corporation and National Lloyds Corporation

PlainsCapital

Bank

(PCB)

is

the

5th

largest

Texas-based

bank with 78 branches located in all major Texas markets

PrimeLending is the 4th largest mortgage originator in the U.S.

by purchase units (2013) with 300 locations in 42 states

First Southwest (FSW), primarily a public finance advisor,

ranked #1 nationally and in Texas for number of issues

completed over past five years

National Lloyds provides fire and homeowners insurance for

low value dwellings in Texas and other southern states with a

distribution network of over 6,500 independent agents

With \$9.4 billion in assets and \$158 million in freely usable cash,

Hilltop seeks to build a premier Texas-based bank and diversified

financial services holding company through acquisitions and organic

growth

Q2 2014 LTM Pre-Tax Income by Segment (\$000)

Organizational Structure

Source: SWS/Hilltop Proxy Statement/Prospectus, SNL Financial (deposit market share),

Ipreo MuniAnalytics (public finance rankings), Marketrac (origination ranking),

Hilltop website (number of National Lloyds independent agents)

1.

As of Oct. 6, 2014, Hilltop owned 21% of the outstanding common stock of SWS.

2.

Deposit

data

as

of

June

30,

2014

and

pro

forma

for

acquisitions.

Includes

banks

and

thrifts

headquartered

in

Texas.

2

17
Hilltop
Financial Highlights
2013 Q2
2013 Q3
2013 Q4
2014 Q1
2014 Q2
Income to Common (\$000)
\$20,943
\$38,174
\$29,528

\$23,760

\$27,085

EPS -

Diluted

\$0.24

\$0.43

\$0.34

\$0.26

\$0.30

ROAE

7.29%

13.02%

10.97%

7.65%

7.99%

Book Value Per Share

\$12.59

\$13.00

\$13.27

\$13.76

\$14.22

Tier 1 Leverage Ratio

13.66%

13.96%

12.81%

13.12%

13.51%

Source: Hilltop 10-Qs and 10-K

Note: Hilltop also includes a corporate segment, which is excluded in bar chart for illustrative purposes

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Hilltop and SWS

Five Year Stock Price Relative Performance

Note: Includes the total return of the HTH stock price, the SWS stock price, and the S&P 500 Financials Index from October 2

Source: SNL Financial

82.5%

(46.8%)

63.8%

(100.0%)

(50.0%)

0.0%

50.0%

100.0%

150.0%

10/28/09

10/28/10

10/28/11

10/28/12

10/28/13

10/28/14

HTH Stock Price

SWS Stock Price

S&P 500 Financials

19

Hilltop and SWS

Stock Price Relative Performance & Short Interest

Current deal value is

\$7.35; down from \$7.88 at

announcement

Bank market is down

2.5% in that time

Elevated short interest is

impeding Hilltop and SWS

stock prices

Although Lone Star Value has built a 8.15% long position in SWS, they have a 6.28% short position, leaving them an economic interest of only 1.88%

Research analysts of Hilltop have median price target of \$26.25, a premium of 21.1% over the current market price

Note: Based on closing prices as of October 28, 2014

Short Interest

(8.9%)

(2.9%)

(2.5%)

(20.0%)

(15.0%)

(10.0%)

(5.0%)

0.0%

5.0%

10.0%

4/3/14

5/3/14

6/3/14

7/3/14

8/3/14

9/3/14

10/3/14

Relative Stock Price Performance

HTH Stock Price

SWS Stock Price

KBW Bank Index

0

500

1,000

1,500

2,000

2,500

3,000

3,500

3/31/14

4/30/14

5/31/14

6/30/14

7/31/14

8/31/14

9/30/14

HTH Short Interest
SWS Short Interest

20
Hilltop
SWS Combination
Pro Forma Balance Sheet Highlights (6/30/14)
\$bn
HTH
SWS
Pro Forma
Loans HFI
\$4.5
\$0.9
\$5.4

Assets

\$9.4

\$4.1

\$13.3

Deposits

\$6.2

\$1.4

\$7.5

Equity

\$1.4

\$0.3

\$1.6

Combination Opportunity

Transaction creates the largest full service brokerage firm headquartered in the Southwestern US based on number of financial advisors

Fortifies strong presence in Texas, while adding complementary offices throughout the United States

Significant opportunity to bolster market share and scale of complementary broker / dealer businesses

Larger, diversified organization will benefit from synergies and more efficient operating platform

Combined bank will have a larger, more scalable deposit base given ability to source additional deposits from broker / dealer customers through the sweep program

Following the acquisition, Hilltop will be well capitalized with excess cash to deploy on future transactions

Continues to build on Hilltop's goal of building the premier Texas financial holding company franchise with a dominant Texas broker / dealer

Complementary Businesses

SWS

FSW

Taxable

Fixed

Income,

Retail

Public Finance,

Capital Markets,

Clearing,

Stock Loan,

Bank

Housing,

Asset

Management

Source: SWS/Hilltop Proxy Statement/Prospectus

21

Hilltop

SWS / FSW Business Opportunity

FSW was formed in Dallas in 1946 and is a diversified investment banking firm and a registered broker-dealer

25 locations nationwide (9 in Texas) and employs approximately 400 people

Four primary lines of business: (1) public finance, (2) capital markets, (3) correspondent clearing services and (4) asset management

Combining SWS with FSW's franchise will improve overlapping business lines, while providing expansion into new areas

Public
Finance

-
will
have
the
premier
Southwestern
franchise with the ability to build both the municipal advisory
and
underwriting
practices

combined
company
will
be
the
number one ranked financial advisor in the nation by tax-
exempt issues
Capital Markets

-
able to add key traders and sales reps and
bolster its distribution for the municipal business, particularly
on west coast
Stock Loan

-
will benefit from addition of hard-to-borrow
balances and significant stock borrow/loan conduit business
Clearing

-
meaningfully increases scale with significant
addition of correspondents and balances but with minimal
overlap
Back Office

-
substantial opportunity to improve overhead
efficiency and streamline operations
New Businesses

-
addition of Taxable Fixed Income and
Retail will improve diversification and top line growth while
expanding product breadth and distribution capabilities
Financial
Advisor
Number
of
Tax-Exempt
Issues:
2009

2013

Source:

SWS/Hilltop

Proxy

Statement/Prospectus

and

Ipreo

MuniAnalytics

Opportunity Summary

2011 Credit Agreement

Two \$50 million unsecured loans with 8.00% coupon

Equal commitments from Hilltop and Oak Hill; each offered 1 seat

on the

board

Each lender was issued warrants to purchase up to 8.7 million shares of

SWS common stock at fixed exercise price of \$5.75 per share

Loan pre-payable with Make-Whole Premium¹

if SWS closing price

exceeds \$8.625 for 20 of 30 consecutive trading days

Credit agreement includes Merger Covenant

prohibits SWS from
undergoing a Fundamental Change,
which includes any merger or
substantial asset sale, without the approval of each lender
Any exercise of warrants results in pro-rata elimination of loan
Closed on July 29, 2011 after SWS stockholder and regulatory approval

22

1

Make-Whole

Premium

(defined

as

Applicable

Premium

in

Credit

Agreement)

is

equal

to

the

present

value

of

all

required

interest

payments

from

prepayment

date

through

maturity

date.

2011 Credit Agreement

Credit Agreement Rationale

Southwest Securities, FSB (Bank) suffered from significant credit losses

and was operating under a Cease & Desist Order with heightened capital

requirements

Bank had a \$68 million pre-tax loss over 12 months preceding

Credit Agreement

Bank issues were negatively impacting core brokerage businesses and

jeopardizing SWS viability

Efforts to raise capital in public and private markets were unsuccessful

2014 Consent and Warrant Exercises

Hilltop has exercised **100%** of its warrant for 8.7 million SWS shares eliminating its rights under Credit Agreement

At the time the merger was announced, Oak Hill agreed to consent to the merger with Hilltop and exchange any outstanding warrants for same merger consideration as SWS common holders plus Make-Whole Premium it is entitled to for its outstanding

Oak Hill has subsequently exercised **75%** of its warrant for 6.5 million shares preserving its rights under Credit Agreement

eliminating 75% of its Make-Whole Premium

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Shareholder Approval

The Board of Directors of SWS

Group

1

unanimously

recommends

that SWS stockholders vote FOR

the transaction with Hilltop

1

Other than Mr. Ford and Mr. Crandall who recused themselves from voting

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APPENDIX

*
*
*
*
*
*
*
*

25
Fully Diluted Tangible Book Value (Non-GAAP)
See
discussion
of
Non-GAAP
reconciliation
on
next
slide.
(\$ in Thousands, Except per Share Data)
6/26/09

6/25/10

6/24/11

6/29/12

6/30/13

6/30/14

Book Value

340,357

383,394

357,469

355,702

315,286

309,872

Less: Goodwill

(7,552)

(7,552)

(7,552)

(7,552)

(7,552)

(7,552)

Less: Intangible (Ameritrade)

(1,734)

(791)

(6)

Tangible Book Value

331,071

375,051

349,911

348,150

307,734

302,320

Pro-Forma Adjustments:

New Equity from exercise (Common & APIC)

NA

NA

NA

92,696

94,783

126,609

Loss on debt extinguishment

NA

NA

NA

(20,924)

(16,898)

(12,231)

Gain on warrant extinguishment

NA

NA
 NA
 35,114
 29,414
 1,187
 Less: Unamortized debt issuance costs
 NA
 NA
 NA
 (2,009)
 (1,517)
 (1,025)
 Embedded gain on exercise before tax
 NA
 NA
 NA
 12,181
 10,999
 (12,069)
 Less taxes (35%)
 NA
 NA
 NA
 (4,263)
 (3,850)
 4,224
 Embedded gain after tax
 7,918
 7,150
 (7,845)
 Pro-forma Tangible Book Value
 331,071
 375,051
 349,911
 448,764
 409,666
 421,084
 Shares Outstanding
 27,263
 32,342
 32,285
 32,576
 32,629
 32,757
 Deferred Compensation Shares
 187
 216
 262
 306
 302

311
Warrant Shares
NA
NA
NA
17,391
17,391
17,391
Pro-forma Shares Outstanding
27,450
32,558
32,547
50,273
50,322
50,459
Fully Diluted Tangible Book Value per Share
\$12.06
\$11.52
\$10.75
\$8.93
\$8.14
\$8.35
1
1

Use of Non-GAAP Measures

26

SWS

has

included

in

the

presentation

Fully

Diluted

Tangible

Book

Value
Per
Share.
Fully
Diluted
Tangible
Book
Value
Per
Share
reflects
book
value
per
share,
less
goodwill,
assuming
exercise
of
all
of
the
Company's
outstanding
warrants
and
resulting
repayment
of
the
\$100
million
loan
from
Hilltop
and
Oak
Hill.
Fully
Diluted
Tangible
Book
Value
Per
Share
is
a
non-GAAP
financial

measure
as
defined
in
Item
10(e)
of
Regulation
S-K.
SWS
believes
that
the
presentation
of
this
non-GAAP
financial
measure
provides
useful
information.
While
management
believes
this
non-GAAP
financial
measure
is
useful
in
evaluating
SWS,
this
information
should
be
considered
as
supplemental
in
nature
and
not
as
a
substitute
for,
or

superior
to,
the
related
financial
information
prepared
in
accordance
with
GAAP.

This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. Hilltop Holdings Inc. (Hilltop) has filed with the Securities and Exchange Commission (SEC) a registration statement on Form S-4 containing a definitive proxy statement of SWS Group, Inc. (SWS) that also constitutes a prospectus of Hilltop, and SWS and Hilltop have each filed and will each file other documents with respect to the proposed transaction and the definitive proxy statement/prospectus has been mailed to shareholders of SWS. Investors and security holders of SWS are urged to read the definitive proxy statement/prospectus and other documents filed or that will be filed with the SEC carefully and in their entirety because they contain important information. Investors and security holders of SWS are able to obtain free copies of the registration statement and the proxy statement/prospectus and other documents filed with the SEC by SWS or Hilltop through the website maintained by the SEC at www.sec.gov. Copies of the documents filed with the SEC by SWS are available free of

charge on SWS's internet website at www.swst.com or by contacting SWS's Investor Relations Department at (214) 859-1800. Copies of the documents filed with the SEC by Hilltop are available free of charge on Hilltop's internet website at www.hilltop-holdings.com or by contacting Hilltop's Investor Relations Department at (214) 252-4029.

SWS, Hilltop, their respective directors and certain of their executive officers and other members of management and employees may be considered participants in the solicitation of proxies in connection with the proposed

transaction. Information about the directors and executive officers of SWS is set forth in its Annual Report on Form 10-K/A (Amendment No. 1) for the year ended June 30, 2014, which was filed with the SEC on September 26, 2014. Information about the directors and executive officers of Hilltop is set forth in its most recent proxy statement, which was filed with the SEC on May 2, 2014. Other information regarding the participants in the proxy solicitations and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the definitive proxy statement/prospectus and other relevant materials to be filed with the SEC when they become available.

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Important Information for Investors & Shareholders