HILLTOP HOLDINGS (NYSE: HTH)

Acquisition of PlainsCapital Corporation

Good Things Happen For Those Who Wait

On May 9th Hilltop Holdings (HTH) announced that it will acquire PlainsCapital Corp. in a roughly $538 million cash and stock deal. Here is the official press release.

RECOMMENDATION

We are upgrading our recommendation on Hilltop/PlainsCapital to a Strong Buy (HTH) common stock from Accumulate and increasing our Fair Value share price estimate of the combined company to $16.01, approximately 10% above current levels.

Acquisition Details	
Target	PlainsCapital Corp (PCB)
Industry	Commer Banks-Central US
Country	U.S.
Acquirer	Hilltop Holdings Inc (HTH)
Industry	Property/Casualty Insurance
Country	U.S.
Deal Type	Company Takover
Announced Date	$41,038.00
Expected Completion Date	12/31/2012 Pending
Percent Sought	$1.00
Nature of Bid	Friendly
Announced Value	537.31 M
Current Value	586.13 M
Payment Type	Cash and Stock
Cash Terms	318.00 M
Stock Terms	27.5 M

Source:Bloomberg LP

We have been longtime holders of HTH and have been buying shares when it was trading below cash. We have been holding patiently for them to announce a deal and were excited to see its announcement to acquire PlainsCapital. PlainsCapital is a high quality financial company and has about $6 Billion in assets. We like its strong loan book and its ability to originate and sell mortgage loans. PlainsCapital receives 27.5 million shares of Hilltop common stock and $318 million of cash. Each share of PlainsCapital Corporation common stock will be converted into the right to receive $9.00 in cash and 0.776 shares of Hilltop common stock. Based on Hilltop's closing market price of $7.96 as of May 8, 2012, this reflects a combined value of $15.18 per share for PlainsCapital Corporation common stock. That equates to about $220 million in stock and $318 million in cash for a total of $538 million. After the deal HTH will have $260M in cash to put to work; enough dry powder to do another strong acquisition.

THINGS WE WOULD LIKE TO SEE

We paraphrase our thesis on HTH from our December 31st, 2011 Annual Report: *HTH made one investment in 2011. It invested $50 million in SWS Group via non-convertible debt and warrants. We are betting that Gerald Ford will spend some money in the next 2-3 years to snatch up beaten down bank assets. Mr. Ford has stepped down and while his son remains* *unproven, Ford still has significant influence and involvement in the business. We are using HTH essentially as a hedge on a double dip recession and deteriorating asset prices in the banking sector. With many banks still not writing down toxic assets we believe there is substantial upside and limited downside in the event these assets take another hit in the future.*

We feel that although HTH did not opt for distressed banking assets, it still increased the overall value of HTH in a number of ways.

First, it allowed it to put the excess cash of $578M to work. Although we believe in patience in deploying capital, in the current ZIRP environment it is even more important to put the cash to work. For the past four years, the money has been practically sitting idle as SG&A continued to eat into the cash pool. Secondly, we feel it paid a fair price for high quality diverse assets. In the current market we put a premium on such assets. We also felt it was a good time for acquisitions since we also see deal activity on the rise for the same reasons mentioned above. Thirdly, we feel that the two companies are a good fit. Not only because of the proximity of the central offices both based in Texas, but both share similar philosophies and values.

We would like HTH to update its website. We are big believers in properly branding a company. We were previously inclined to let it slide because HTH was just a holding company. However, because of the newly announced acquisition HTH is now in the consumer business. We feel now is a good time to properly brand the company to make the parent company congruent with the subsidiary's image, values and qualities.

We would like for HTH to sell off its insurance assets at a fair price, put the rest of the cash to work, and focus mainly on organic asset growth.

HILLTOP HOLDINGS OVERVIEW

Hilltop Holdings (HTH) is a financial services holding company that is targeting mergers and acquisition opportunities in the financial services sector. The company acquired NLASCO, Inc., in 2007. NLASCO is a property and casualty insurance company specializing in fire and homeowners insurance to low value dwellings and manufactured homes primarily in Texas and other areas of the south, southeastern and southwestern United States. NLASCO operates through its wholly-owned subsidiaries, National Lloyds Insurance Company (NLIC), and American Summit Insurance Company, (ASIC).

On July, 29, 2011, HTH extended SWS Group, Inc. (SWS) a $50 million term loan, which bears interest at 8% per annum, is pre-payable by SWS subject to certain conditions after three years, and has a maturity of five years. SWS issued HTH a warrant to purchase 8,695,652 shares of SWS common stock, $0.10 par value per share, exercisable at a price of $5.75 per share subject to anti-dilution adjustments. If the warrant was fully exercised, HTH would own 17.4% of SWS. HTH also purchased 1,475,387 shares of SWS common stock on the open market.

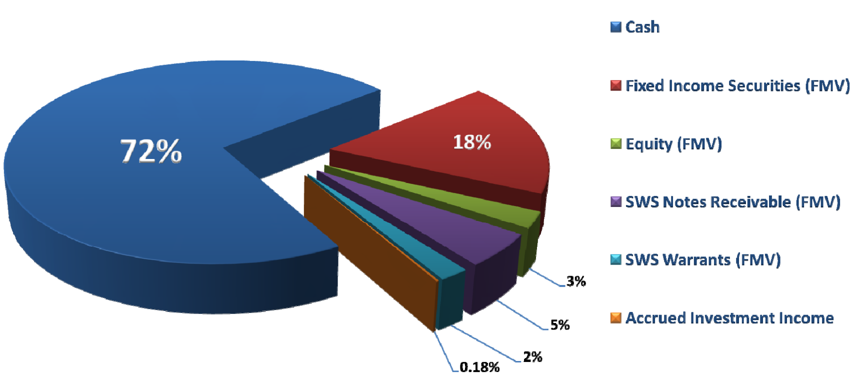
Management: Gerald J. Ford has been the Chairman of Hilltop's Board of Directors since 2007. Mr. Ford has been actively involved in numerous mergers and acquisitions of private and public sector financial institutions, primarily in the Southwestern United States, over the past 35 years. In that capacity, he acquired and consolidated 30 commercial banks from 1975 to 1993. Ford's most notable deal was the sale of Golden State Bancorp and its subsidiary California Federal Bank, FSB to Citigroup (C). His son Jeremy B. Ford has been President and Chief Executive Officer of HTH since March 2010. We liked that the Ford family owns a significant portion of HTH's stock, though we were getting concerned that the only strategic investment executed by the Ford Family since 2007 was the $50M convertible loan to SWS Group.

Ownership: 27% of the outstanding stock is owned by the Diamond A. Financial LP limited partnership. Gerald Ford is the sole general partner and has sole voting and dispositive power over the shares. Jeremy Ford and his sister (who is married to HTH's General Counsel Corey G. Prestidge) are each 49% beneficiaries in a trust that owns a 49% limited partnership interest in Diamond A Financial, LP. We like the fact that insiders own a big chunk of the outstanding which show its conviction in the company as well as having skin in the game.

SUMMARY OF OBSERVATIONS

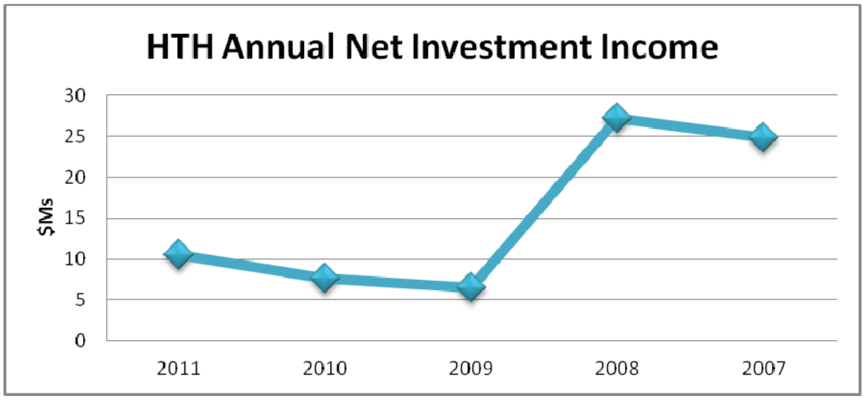
We're glad to see Hilltop not only announce another strategic investment, but also that it is finally putting its cash to work. What disappointed us wasn't that Hilltop had such a large excess liquidity position, but that 72.4% of the gross investment assets were invested in cash and cash equivalents.

SWS Gross Investment Asset Breakdown



Source: Hilltop Q1 Balance Sheet

We wish that if the company was not going to have engaged in any long-term strategic ownership interests of other banks and financial institutions, that the company would have at least found more productive use of its liquid investment assets than merely keeping a "cash stash" of about $650M on average during the last five years. Due to the extended Zero Interest Rate Policy by the Federal Reserve for the Federal Funds Rate, which resulted in low interest rates on long-term investments, the company saw a drastic decline in its net investment income from 2008 to 2011 from $27.1M to $7.66M in 2010, before rebounding to $10.54M in 2011 on the strength of the strategic investment in SWS Group.



Source: Hilltop 2011 Annual Report

If the company had merely matched the bond market's return by investing its assets in a strategy that proxies the Barclays Capital U.S. Aggregate Bond Market Index, as represented by the iShares Barclays U.S. Aggregate Bond ETF (AGG), instead of leaving most of it in cash and cash equivalents, this would have increased pro forma net investment income on its investable assets by $25.37M in 2009, $50.94M in 2010 and $61.4M in 2011.

	2011	2010	2009
HTH Actual Net Investment Income	$10.54	$7.66	$6.46
Investable Assets	$798.41	$800.87	$768.84
Lehman Aggregate Price Return %	8%	6%	3%
HTH Net Investment Income if invested in Barclays US Aggregate	$61.40	$50.94	$25.37
Marginal Income from Investing In Barclays US Aggregate instead of mainly investing in cash	$50.86	$43.27	$18.91

Source: Morningstar Direct

HTH had a steady cumulative increase in its net premium earned from 2007 to 2011. In 2007, it earned $96.8M which rose to $134.05M in 2011. However, the company saw a rapid growth in casualty loss and policy acquisition expenses during this time period. Casualty loss and loss adjustment expenses increased from $52.07M in 2007 to $96.7M in 2011 and policy acquisition costs increased from $42.4M in 2007 to $58.01M in 2011.

VALUATIONS AND PROJECTIONS

Our $11.87 value for legacy Hilltop (excluding the impact of the acquisition) was based on its cash and investment securities holdings. Although HTH's forward PE, P/B and Price to Tangible Book ratios are higher than the average insurance institution and its competition, we believe it is based on its highly liquid financial position as well as hope that the Ford Family would enter into a strategic transaction.

We believe that the acquisition of PlainsCapital will finally put a portion of Hilltop's excess liquidity to work. In the acquisition press release, we were able to determine that Hilltop would be using $318M of its $669M in excess liquidity to work (47.5%). Though we would have preferred an all cash transaction due to the fact that HTH would not be issuing 27.5M new shares (which represents 48.67% of outstanding shares) and would have used an additional $219M of its $669M in excess liquidity (32.7%). We believe that maybe the Fords are keeping the excess liquidity in order to potentially use for other acquisitions or strategic investments.

Legacy Hilltop Valuation Analysis 5/13/2012

HTH Net Cash & Investments	Most Recent Filing
Cash	$579.64
Fixed Income Securities (FMV)	$142.85
Equity (FMV)	2011%
SWS Notes Receivable (FMV)	$41.03
SWS Warrants (FMV)	$15.53
Accrued Investment Income	$1.43
Total Liquid Assets	$800.59
Less Notes Payable	$131.45
Net Cash and Investments	$669.14
Shares Outstanding	$56.36
Estimated Fair Intrinsic Value	**$11.87**

Source: Hilltop Recent Earnings Release

KEYS TO INVESTMENT THESIS

Gerald Ford and Family Owns 27% of the stock. The Ford Family has over $160M invested in the company and it represents 9% of his total net worth. Burgundy Asset Management, a $9B Canadian asset manager, also owns 7.3% of the stock and Royce & Associates owns 1.2% for its mutual funds.

Ford's mergers and acquisitions record in the banking industry. Gerald Ford has acquired and consolidated 30 commercial banks from 1975 to 1993, forming First United Bank Group, Inc., a multi-bank holding company for which he functioned as Chairman of the Board and Chief Executive Officer until its sale in 1994. During this period he also led investment consortiums that acquired numerous financial institutions. He formed First Gibraltar Bank, FSB, First Madison Bank, FSB and First Nationwide Bank in succession. Mr. Ford also served as Chairman of the Board of Directors and CEO of Golden State Bancorp Inc. and its subsidiary, California Federal Bank, FSB, from 1998 to 2002 and sold it to Citigroup (C) for $6B. The Ford Financial Fund, L.P. is a private equity fund that is the majority stockholder of Pacific Capital Bancorp.

Before the acquisition of PlainsCapital was announced, the stock was trading at $7.96 per share, which represented a 33% discount to the net cash and securities the company had on its balance sheet. The company sold off Affordable Residential Communities, Inc., which engaged in various aspects of the manufactured homes business, in July 2007. It kept NLASCO, which underwrote and sold fire and homeowners insurance to low value dwellings and manufactured homes primarily in the Southern United States, which was acquired in January 2007.

HTH's $50M Aid to SWS Group. On March 21, 2011, HTH entered into a funding agreement with SWS Group, Inc., Oak Hill Capital Partners III, L.P. and Oak Hill Capital Management Partners III, L.P (Oak Hill). The agreement stipulated that Hilltop and Oak Hill would collectively provide a $100M five-year unsecured term loan to SWS Group, Inc. The loan carries an 8% interest and SWS is permitted to prepay all or a portion of the loans under certain circumstances after three years.

SWS issued a warrant to Hilltop and Oak Hill. This enabled each firm to purchase up to 8,695,652 shares of common stock of SWS at $5.75 per share. The warrant issued to each company represents approximately a 17% equity interest in SWS (assuming each Investor exercises the respective warrants in full). The warrant is exercisable for five years but will expire to the extent that SWS makes prepayments on the loan and does not promptly exercise a corresponding portion of the warrant. To the extent that the exercise of a warrant by a holder would cause the holder to be deemed to control SWS under applicable regulations, SWS will issue the holder newly issued non-voting Series A Preferred Stock (the "SWS Series A Preferred Stock"). Subject to applicable regulations, in limited circumstances, shares of SWS Series A Preferred Stock will be convertible into shares of common stock of SWS.

On July 29, 2011, SWS also entered into an agreement to provide the Investors with certain rights with respect to SWS common stock that may be issued upon the exercise of the warrants or upon the conversion of the SWS Series A Preferred Stock if a holder exercises its Warrants for shares of SWS Series A Preferred Stock instead of SWS common stock, including certain preemptive rights and registration rights. Pursuant to the agreement, each Investor can designate one representative to SWS's Board of Directors as long as that Investor owns 9.9% of SWS's outstanding common stock. Hilltop designated Mr. Gerald J Ford to be its board representative, and SWS's board elected him as a director of SWS on July 29, 2011.

As of March 31st, Hilltop has already generated a total return of 18.5% in the 8 months it has held its investment in SWS Securities.

HTH Investment Rollforward: SWS	$M
Original Investment: July 29th, 2011	$50.00
Increase in Amortized Cost (Loan)	$1.15
Net Gains/Losses	541%
Interest Received	$2.70
Ending Value: March 31, 2012	$59.26
Total Return	19%

Source: Hilltop Q1 Earnings Release Notes to Financial Statements

RISKS TO ACHIEVING FAIR VALUE PRICE TARGET

- Failure of the investment community to recognize the competitive advantages of PlainsCapital Corporation, which Hilltop is acquiring, resulting in a stagnant or declining price/earnings ratio.

- Declines in mortgage origination volume from PCC's mortgage origination subsidiary (PrimeLending, A PlainsCapital Company).
- Failure to generate increased Net Interest Margin from its interest earning asset mix.
- Headwinds to Net Interest Margin from Fed's Extended Low Interest Policy.
- Economic headwinds (European debt crisis) affecting asset flows and market valuations of its client assets under management in its asset and wealth management businesses. 26% of PCC's revenue (adjusted to excluding mortgage origination gains on loan sales) is directly sensitive to market returns.
- Revision of Dodd-Frank and its amendments to increase regulations on financial firms.
- Declines in the price of oil (Texas Oil Boom going bust).
- Loss of key personnel.

FINANCIAL HEALTH

Hilltop Holdings has a strong balance sheet. As of last quarter, cash and investment securities net of bonded debt were $669.14M, representing nearly 103% of HTH's net total stockholders' equity. The only criticism we have with Hilltop's balance sheet is that it is too liquid and conservative, which explained the significant discount to cash and book value the company's shares faced before it announced the PlainsCapital Acquisition. The company had seen poor financial performance, having lost money for nine out of the past ten years. Losses have moderated since 2007, when HTH sold off ARC and purchased NLASCO. We have been disappointed that with the exception of paying off $119M in preferred stock in 2010 and the $50M investment in SWS Group, Hilltop had seemed content to let the money sit in cash. This allowed the cash balance to slowly erode as it supported its small, money losing specialty insurance company.

INSURANCE INDUSTRY OUTLOOK

The insurance industry is highly competitive and highly regulated. We believe that there needs to be consolidation in the industry in order to allow firms to maintain or expand profit margins. Insurance companies are facing headwinds due to the extended low interest rate policies maintained by the Federal Reserve. We believe that the record level of catastrophic losses incurred last year will allow for an increase in underwriting rates, as operating profitability in most segments of the property-casualty industry is influenced by the level of catastrophic losses. We also believe that economic strength or weakness can influence demand for certain commercial insurance products. We feel that Hilltop could consider monetizing the value of its insurance company holding NLASCO by pursuing a sale of the company and using the proceeds to expand in the banking business. Although the company pursues an interesting and specialized insurance niche, NLASCO has significantly smaller scale relative to other insurance companies and could be an attractive bolt-on acquisition that could provide increased scale for other insurance companies, especially small and mid-market insurers.

PLAINSCAPITAL COMPANY OVERVIEW

PlainsCapital Corporation is the holding company for PlainsCapital Bank and subsidiaries. The bank was founded in 1987 and provides traditional banking and lending products throughout central, northern and western Texas. The company also provides investment banking and brokerage services, mortgage origination and investment advisory solutions.

Management: Alan B. White founded the company in 1987 and serves as the company's Chairman and CEO. Because of the management team's significant stockholdings in the company, we've found the management team to be very prudent managers and able to survive and strengthen their position during periods of economic and financial weakness.

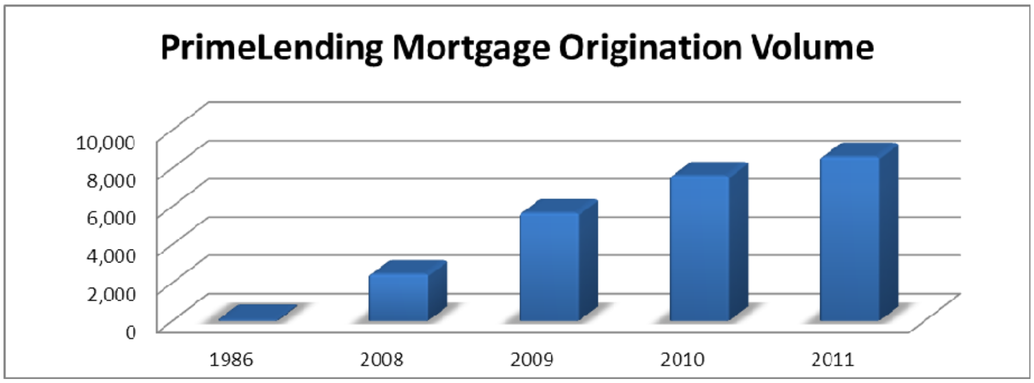
Ownership: 18.5% of the outstanding stock is owned by the Officers and Directors of PlainsCapital, including 8.2% by the Founder and CEO Alan B. White and 6.3% by Hill A. Feinberg, who was First Southwest's CEO before its 2008 acquisition by PlainsCapital. Over 85% of Mr. White's shares are held by Maedgen & White, Ltd. Mr. White is the sole general partner of Maedgen & White, Ltd. The Charles Eric Maedgen Exempt Estate Trust and Mr. White's ex-wife Elizabeth M. White own 40% limited partnership and 24% limited partnership ownership interest in Maedgen & White. We are pleased to see the strong ownership commitment by the company leadership though we would prefer that all directors were elected annually rather than in three staggered classes.

SUMMARY OF OBSERVATIONS

PlainsCapital operates in three segments: 1) Banking 2) Mortgage Origination and 3) Financial Advisory.

PlainsCapital conducts banking operations through its PlainsCapital Bank subsidiary. PlainsCapital Bank serves consumers and commercial clients. The Bank offers a wide variety of loans and deposit accounts, as well as check cards, Internet Banking, ATMs and business treasury management solutions. The Bank also offers wealth management and personal trust services. About 90% of PlainsCapital Corporation's assets and nearly all of its deposits are attributed to the core banking segment. About 20% of the banking segment's net loans are to the PrimeLending mortgage origination subsidiary.

Mortgage origination is conducted through its subsidiary PrimeLending. Prime Lending was founded in 1986 and acquired by PlainsCapital in 1999. It is licensed to do business in all 50 states and operates from 270 branch locations in 37 different states. It originates 26% of its mortgages in Texas and another 16% in California. Since its inception, PrimeLending has grown from originating approximately $80 million in mortgage loans annually with a staff of 20 individuals to originating approximately $8.6 billion in loans in 2011 with approximately 2,200 employees. PrimeLending offers a full suite of mortgage products for borrowers. PrimeLending does not originate subprime loans or loans that do not comply with applicable agency or investor-specific underwriting guidelines. PrimeLending sells nearly its entire originated mortgages to secondary market investors, using the proceeds to pay down its warehouse credit line with PlainsCapital Bank.



Source: PlainsCapital Annual Reports 2009-11

The financial advisory segment is comprised of First Southwest Holdings and Hester Capital Management, LLC. First Southwest is a leading regional investment bank and registered broker-dealer. First Southwest focuses on serving public finance clients. First Southwest's business units are as follows:

Public Finance: The Public Finance group is First Southwest's largest business unit and it provides specialized investment banking and financial advisory solutions to state and local government clients.

Capital Markets: First Southwest trades and underwrites equity and debt securities and provides AL&M advisory solutions to community banks.

Correspondent Clearing Services: First Southwest provides trade executing, clearing and back office services to about 70 external correspondent broker firms.

Asset Management: First Southwest Asset Management advises municipal governments on investing and administering investment proceeds raised from municipal bond offerings in order to comply with arbitrage rebate rules and regulations. FSAM administers $7.6B in local government investment pools, manages $6.5B in short-term municipal government investment portfolios and advises $5.8B in municipal government portfolios.

Corporate Finance: Provides capital raising, advisory services and corporate restructuring services to institutions and corporations.

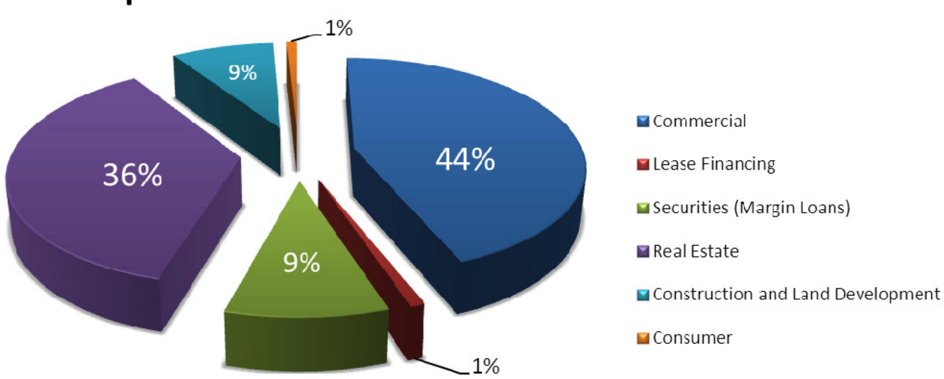
PlainsCapital acquired a 60% majority interest in Hester Capital Management in 2003. Hester

Capital is an RIA operating in Austin, Dallas and Fort Worth. It offers investment portfolio management services for individuals and institutions. Hester Capital offers equity, fixed income and balanced portfolios and targets clients with $1M in liquid assets. Hester Capital manages $1B as of the end of 2011.

We believe that improvement in the firm's net interest margin is achievable. The company's net interest margin of 3.61% for the Q1 2012 period was above the industry average of 3.35%. We are displeased that it declined by 26bp from 2009 while its peer group has seen an increase of 33bp during this time period, according to the FDIC. However, this can be explained partly by the extended low interest rate policies implemented by the Federal Reserve. Another factor is while the company saw a strong 19.4% cumulative growth in total loans net of loan loss reserves, growth in net loans held on the balance sheet only grew by 8.26%. PlainsCapital also saw a rapid 59% growth in total liquid, marketable assets (cash, Federal Funds sold and securities) held during this period, which offered lower average yields than its loan portfolio.

During the quarter PCC's largest source of interest-earning assets was its loan book, which held $3.269 billion in loans excluding loans available for sale. The two largest external loan types are Commercial loans ($1.46B) and Real Estate ($1.21B) and these loans account for nearly 82% of its loan book at the end of the quarter. We were pleased to see that even during the depths of the crisis, the company was profitable and has been able to reduce Q1 loan loss provisions to near pre-crisis levels.

PlainsCapital Loan Book Before Loan Loss Reserves



Source: PlainsCapital Corporation Q1 10-Q Report. Refers to loans held by bank

We were also impressed with the year-over-year growth all three of the business lines generated in Q1 2012. Each of the business lines generated revenue growth in excess of 20% versus Q1 2011 levels. The Banking segment generated 21% revenue growth, the mortgage origination segment generated 94% revenue growth and financial advisory generated 32% revenue growth. While we don't expect to see this high level of revenue growth in 2013-2015, we estimated 7-10% revenue growth in our model for each of the business unit revenue drivers for 2013-2015. Because the company was able to further reduce provisions for credit losses, it resulted in a 60% increase in banking segment income, as well as restore profitability to the mortgage origination and financial advisory segments.

VALUATIONS AND PROJECTIONS

Our $16.01 valuation is based on applying a 15 times price to earnings multiple to estimated 2015 earnings per share of $1.46 for the combined company and discounting the terminal value back to 2012 at a cost of capital of 11%. Although PCC's implied forward PE, P/B and Price to Tangible Book ratios are higher than the average banking institution, we believe it is justified. This is due to its superior franchise and presence in fee-based businesses that offer strong potential growth, particularly public finance investment banking and investment management. Also we believe that the multiple used is justified considering that the firm has grown faster than its industry and survived the financial crisis better than its peers.

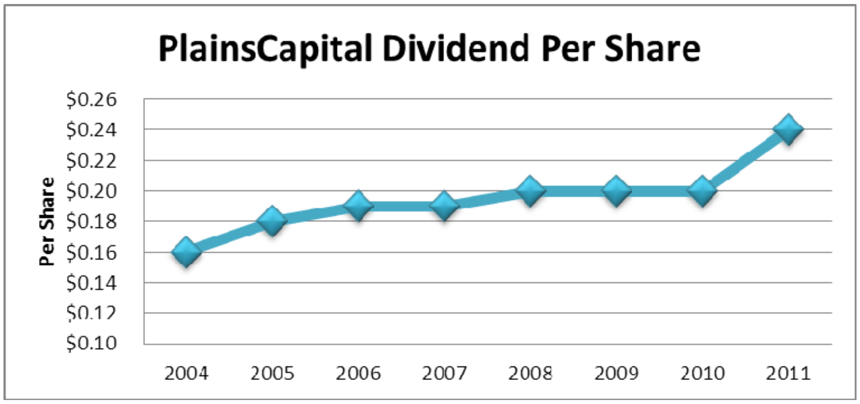
We believe that the combined company could potential exceed our expectations. In our model, we expect that company can improve operating margins at its financial advisory segment from the 4.85% operating margin achieved in Q1 2012 to 16.8% in 2015. We based this projection on improvements in the capital markets which would benefit First Southwest and Hester Capital. We also based on our projection that noninterest costs for the division (particularly salaries) would grow at a slower projected growth rate than fee based revenues. One thing we would like to see from Hilltop/PCC management when the combined company reports earnings is a more robust reporting of financial advisory segment operating metrics, in order to enable investors to determine how the division is performing.

We also projected a very conservative estimate for the PrimeLending mortgage segment. In our model, we projected that growth in the mortgage market would come to a halt in 2012 and that mortgage origination volume and revenue growth would decline in 2013. We are very impressed with the exception growth that PrimeLending has enjoyed since its inception, particularly since 2008 and as such we believe that mortgage origination volumes will potentially regress to the mean in 2013-2015, especially if the Federal Reserve ends its Zero-Interest-Rate-Policy program. One thing we would like to see from Hilltop/PCC management when the combined company reports earnings is the impact of mortgage originations on the bottom line (for example a median contribution margin from mortgage originations).

KEYS TO INVESTMENT THESIS

We like that the firm has a low cost of funding. As of Q1 2012, PCC had an average total cost of funding of .44% according to the FDIC, compared to .52% for its peers.

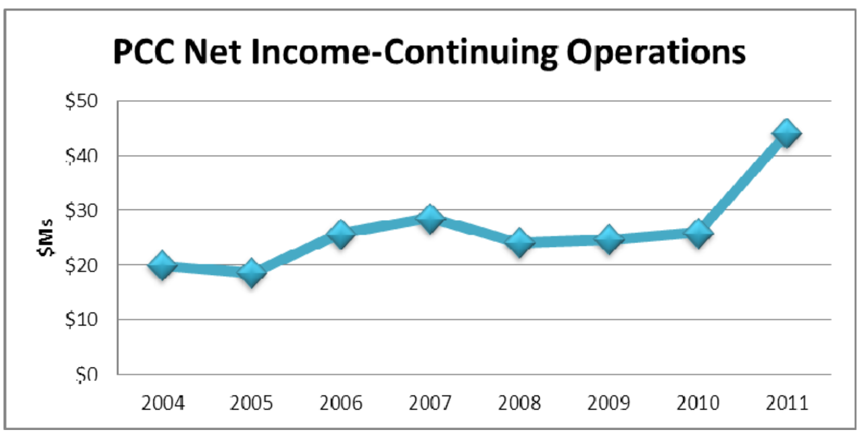
The firm has been able to maintain or grow its dividend every year since 2004, while many of its larger competitors were forced to cut dividends.



Source: PlainsCapital SEC Registration and 2009-11 Annual Reports

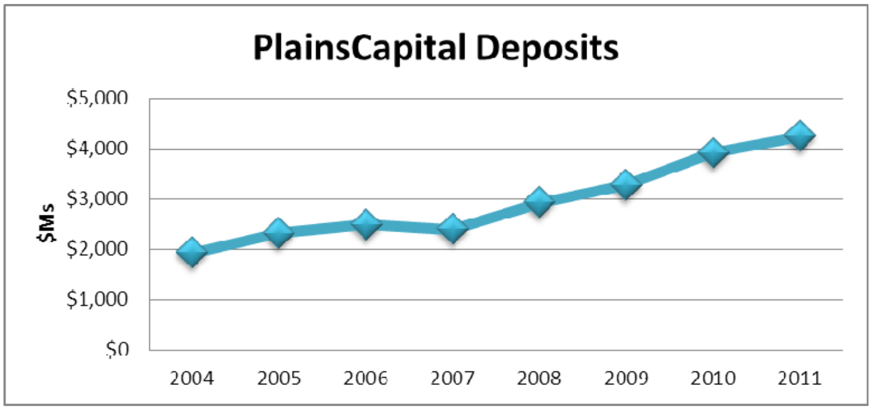
Hilltop's acquisition of PlainsCapital. PlainsCapital Corporation announced on May 9th that Hilltop Holdings will be acquiring the company in exchange for 27.5M shares of Hilltop Holdings stock and $318M in cash. We are attracted to this deal because Hilltop is utilizing a portion of its excess cash holdings to finance the deal and we are impressed with his track record in the banking industry, most notably his $6B sale of Golden State Bancorp to Citigroup (C).

PlainsCapital's profitability did not decline as much during the crisis relative to peers. In 2007, Plains Capital earned $28.6M in Net Income. It declined to $24.1M in 2008 then resumed upward growth in 2009 and beyond ($24.7M in 2009, $25.9M in 2010 and $44M in 2011.



Source: PlainsCapital SEC Registration and 2009-11 Annual Reports

PlainsCapital has enjoyed strong deposit growth. PlainsCapital has enjoyed steady deposit growth since 2004, with the exception of a 4% decline in 2007. Total deposits have increased from $1.93B in 2004 to $4.246B in 2011, a compounded annual growth rate of 11.92%. We believe that PlainsCapital will continue to achieve solid deposit growth in the future as we believe that it will continue to focus on generating new client deposits. We would like to see the company increase its percentage of non-interest bearing checking account deposits. We believe that checking account relationships provide stickier client relationships. Using members of our families as an example; they have their checking and other banks accounts at the same bank for over 40 years, even after it has been acquired by four other banking institutions.



Source: PlainsCapital SEC Registration and 2009-11 Annual Reports

RISKS TO ACHIEVING FAIR VALUE PRICE TARGET

- Failure to generate merger synergies from the HTH/PCC merger.
- Declines in mortgage origination volume from PCC's mortgage origination subsidiary.
- Failure to generate increased Net Interest Margin from its interest earning asset mix.
- Headwinds to Net Interest Margin from Fed's Extended Low Interest Policy.
- Economic headwinds (European debt crisis) affecting asset flows and market valuations of client AUMs in its asset and wealth management businesses. 26% of PCC's revenue (excluding gains on mortgage origination loan sales) is sensitive to market returns.
- Revision of Dodd-Frank and its amendments to increase regulations on financial firms.
- Declines in the price of oil (Texas Oil Boom going bust).
- California Public Finance troubles serving as a headwind to growth in its mortgage business. California accounts for 16% of mortgage originations.
- Loss of key personnel.

FINANCIAL HEALTH

We can see why Hilltop Holdings is acquiring the company. The FDIC rates the bank as a well-capitalized bank because its Leverage, Tier 1 and Total-Risk-Based Capital Ratios all exceed the FDIC requirements to be a well-capitalized banking institution. Because of its strong financial condition and profitability it was able to maintain and expand its dividend during the financial crisis. The Banking segment is primarily funded by deposits and shareholders' equity and only 6.63% of its funding comes from capital markets sources. We like that PCC generates over 15% of its revenues from investment advisory, trust and securities brokerage services.

While it is lower than the 28% in market-sensitive investment management and services revenue generated by UMB Financial (UMBF), it is still a healthy proportion of revenues relative to other banking institutions, including its closest banking peers.

We also liked the fact that PCC had redirected most of its asset growth from loans held on the balance sheet to loans for sale and marketable investment securities during the financial crisis. We like banks who know when to sacrifice the return on assets in order to preserve a return of the assets. That is one of the things we like about PCC as well as UMBF.

BANKING INDUSTRY OUTLOOK

We expect the banking and diversified financial services industries to continue to consolidate, as weaker banks and non-bank institutions either get seized by the government or sell out to stronger banks. Overall credit losses are expected to have reached its zenith in Q2 2010 and to decline for the rest of the year and in 2011, which will strongly lift bank earnings. However, we are concerned that the European debt crisis will serve as an economic headwind as well as potentially impact balance sheets of banks and other financial institutions. We are concerned that this may provide a slight negative headwind to growth and profitability for high-quality regional banks like PlainsCapital, even though it operates exclusively in the US.

The banking industry has been facing declines in loans and total assets as banks attempted to mitigate the damage from the recession and credit crunch by letting their loan and security portfolios go into runoff while reducing the amount of new credit they extended in order to improve capital ratios as well as build loan loss reserves. We expect loan and total asset balances for the industry to remain either stagnant or declining in 2011 and into future years until there is more certainty with regards to an economic pickup and also greater regulatory clarity. We feel that banks that derive a large portion of revenues from fee-based businesses other than those impacted by Dodd-Frank will outperform peers in the industry.

Overall, we feel the industry is fairly valued, however we would use declines in the market to add to positions in high quality regional banks like Hilltop/PlainsCapital and gains in the market to sell weaker banks.

Valuation Analysis 5/14/2012

DCF/NPV Model Summary

Fiscal Year	2009A	2010A	2011A	2012E	2013E	2014E	2015E	
Insurance Operations Legacy Hilltop								
Insurance Premiums Earned	$115.2	$117.2	$134.0	$150.1	$157.6	$165.5	$173.8	5% Growth
Net Investment Income	$6.5	$7.7	$10.5	$13.0	$13.7	$14.3	$15.0	5% Growth
Other Income	$6.9	$6.7	$6.8	$7.1	$7.5	$7.9	$8.2	4% Growth
Gains & Losses on Investments	$0.3	$0.1	$0.8	$0.2	$0.2	$0.2	$0.2	NM
Total Revenue	$128.8	$131.7	$152.2	$170.5	$179.0	$187.9	$197.3	
Loss and loss adjustment expenses	$70.3	$70.9	$96.7	$96.7	$101.6	$106.6	$112.0	5% Growth
Policy Acquisition and underwriting Exp	$43.2	$44.2	$47.4	$53.1	$55.8	$58.6	$61.5	5% Growth
General and administrative expenses	$7.2	$7.4	$8.9	$9.0	$9.0	$9.1	$9.2	1% Growth
Depreciation and amortization	$2.0	$1.8	$1.7	$1.5	$1.4	$1.3	$1.2	NM
Interest Expense	$9.7	$9.0	$9.0	$8.8	$8.6	$8.5	$8.3	NM
Insurance Operating Income	-$3.5	-$1.6	-$11.5	$1.4	$2.6	$3.8	$5.1	
Income Tax Expense (Benefit)	-$1.3	-$1.0	-$5.0	$0.5	$0.9	$1.3	$1.8	35% Tax Rate
Preferred Stock Dividend & Redemption	$10.3	$12.9	$0.0	$0.0	$0.0	$0.0	$0.0	Redeemed 2010
Hilltop Net Income Available to Common Shareholders	-$12.4	-$13.5	-$6.5	$0.9	$1.7	$2.5	$3.3	
Banking & Financial Services Legacy PlainsCapital								
Banking Segment								
Net Interest Income	$157.2	$175.5	$174.8	$209.7	$230.7	$253.8	$279.1	10% Growth
Provision for loan losses	$66.7	$82.6	$22.0	$10.0	$9.0	$8.1	$7.3	10% Decline
Noninterest income	$22.7	$37.5	$28.4	$34.1	$36.2	$38.4	$40.7	6% Growth
Noninterest expense	$101.9	$114.6	$127.6	$153.1	$162.3	$172.0	$182.4	6% Growth
Banking Segment Operating Income	$11.2	$15.8	$53.6	$80.8	$95.6	$112.0	$130.2	
Banking Segment Income Tax	$3.6	$5.0	$19.1	$28.8	$34.1	$39.9	$46.4	35% Tax Rate
Banking Segment Net Income	$7.6	$10.8	$34.5	$52.0	$61.5	$72.1	$83.8	
Mortgage Origination Segment								
Noninterest income	$219.1	$309.3	$365.4	$475.1	$427.5	$384.8	$346.3	10% Decline
Noninterest expense	$184.6	$262.8	$325.5	$406.9	$366.2	$329.5	$296.6	10% Decline
Provision for loan losses	$0.0	$0.6	$0.0	$0.0	$0.0	$0.0	$0.0	NM
Net Interest Expense	$7.0	$21.8	$16.3	$21.1	$19.0	$17.1	$15.4	10% Decline
Mortgage Segment Operating Income	$27.5	$24.1	$23.7	$47.1	$42.4	$38.1	$34.3	
Mortgage Segment Income Tax	$8.8	$7.6	$8.4	$16.8	$15.1	$13.6	$12.2	35% Tax Rate
Mortgage Segment Net Income	$18.7	$16.4	$15.3	$30.3	$27.3	$24.5	$22.1	
Financial Advisory Segment								
Noninterest income	$98.9	$103.1	$96.3	$125.20	$137.7	$151.5	$166.6	10% Growth
Noninterest expense	$96.3	$103.3	$102.0	$127.5	$135.1	$143.3	$151.8	6% Growth
Provision for loan losses	$0.0	$0.0	-$0.2	$0.5	$0.5	$0.5	$0.5	NM
Net interest Income	$5.0	$8.9	$12.5	$13.77	$14.6	$15.5	$16.4	6% Growth
Advisory Segment Operating Income	$7.6	$8.7	$7.0	$11.0	$16.7	$23.2	$30.7	
Advisory Segment Income Tax	$2.4	$2.8	$2.5	$3.9	$5.9	$8.3	$10.9	35% Tax Rate
Advisory Segment Net Income	$5.2	$5.9	$4.5	$7.1	$10.7	$14.9	$19.8	
Corporate & Other: Net	$0.1	$0.1	$0.5	$0.6	$0.6	$0.6	$0.6	
Total Net Income Before Minority Interest and Preferred Stock Dividends	$31.5	$33.2	$54.8	$89.9	$100.1	$112.2	$126.3	
Minority Interest	$0.2	$0.8	$1.7	$2.0	$2.1	$2.3	$2.5	
Preferred Dividends	$5.7	$5.6	$7.5	$5.0	$5.0	$5.0	$5.0	
Plains Capital Net Income Available to Common Shareholders	$25.6	$26.8	$45.7	$82.9	$93.0	$104.9	$118.8	
Pro Forma Net Income HTH & PCC	$13.2	$13.4	$39.2	$83.8	$94.6	$107.4	$122.1	
Pro Forma Shares Outstanding	84.0	84.0	84.0	83.9	83.9	83.9	83.9	
Diluted EPS	$0.16	$0.16	$0.47	$1.00	$1.13	$1.28	$1.46	
DVD/Share	$0.20	$0.20	$0.24	$0.24	$0.26	$0.27	$0.29	Assumes PCC DVD applied to all shares
PV of Dividend Stream	N/A	N/A	N/A	$0.23	$0.22	$0.21	$0.20	$0.86
				PE	2015 Stock Price			
Terminal Value of Stock				15	$21.83			$15.15
Cumulative PV of Stock & DVD								**$16.01**
Current Price								$14.37
Net Present Value								$1.65
Discount to Estimated Intrinsic Value								**10.29%**
Estimated Annual Total Return								14.24%
Discount Rate/Cost of Capital								11%

Source: Saibus Research forecasts

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The authors of this report have a long position in HTH.