

TIME WARNER INC
Form 4
May 23, 2005

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
BARKSDALE JAMES L

(Last) (First) (Middle)

ONE TIME WARNER CENTER

(Street)

NEW YORK, NY 10019

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
TIME WARNER INC [TWX]

3. Date of Earliest Transaction
(Month/Day/Year)
05/20/2005

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

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				(A) or (D)	Code V Amount (D) Price		

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

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)
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Derivative Security			(A) or Disposed of (D) (Instr. 3, 4, and 5)		Code	V	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
			(A)	(D)						
Directors Stock Option (Right to Buy)	\$ 17.66	05/21/2005			A		(1)	05/20/2015	Common Stock, par value \$.01	8,000
Restricted Stock Units	(2)	05/20/2005			A		(3)	(3)	Common Stock, par value \$.01	4,369

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BARKSDALE JAMES L ONE TIME WARNER CENTER NEW YORK, NY 10019	X			

Signatures

Brenda C. Karickhoff for James L. Barksdale
Date: 05/23/2005

**Signature of Reporting Person

Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) This option vests in increments of 25% on the first of four anniversaries of the date of grant, May 21, 2005.
- (2) Each restricted stock unit represents the contingent right to receive one share of Common Stock.
- (3) This award of restricted stock units vests in annual increments of 25% on May 1, 2006 through 2009. The vested shares of Common Stock will be issued to the Reporting Person upon vesting.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. 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 number. bgcolor="#CCEEFF" style="background:#CCEEFF;padding:0in 0in 0in 0in;width:2.0%;">

12,793

753

26,191

25,708

483

Agency expenses

(658

)

(517

)

(141

)

(1,226

)

(964

)

(262

)

Total policy acquisition and other underwriting expenses

less agency expenses

\$	12,888
\$	12,276
\$	612
\$	24,965
\$	24,744
\$	221

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Net insurance premiums earned

\$ 38,590

\$ 36,195

\$ 2,395

\$ 76,063

\$ 71,350

\$ 4,713

Expense ratio

33.4

% 33.9

% -0.5

%

Explanation of Responses:

	32.8
%	
	34.7
%	
	-1.9
%	

Financial Advisory Segment

Income before income taxes for each of the three and six months ended June 30, 2013 was \$1.8 million.

The majority of noninterest income for the three and six months ended June 30, 2013 of \$28.9 million and \$51.6 million, respectively, was generated from fees and commissions earned from investment advisory and securities brokerage activities of \$26.0 million and \$48.0 million, respectively. Additionally, changes in the fair values of derivatives during the three and six months ended June 30, 2013 produced net gains of \$3.8 million and \$5.6 million, respectively, slightly offset by net losses incurred in the trading portfolio of \$0.9 million and \$1.9 million during the three and six months ended June 30, 2013, respectively.

Noninterest expenses were \$30.6 million and \$56.6 million for the three and six months ended June 30, 2013, respectively. Employees compensation and benefits and occupancy and equipment accounted for the majority of the costs incurred.

Table of Contents**Financial Condition**

The following discussion contains a more detailed analysis of our financial condition at June 30, 2013 as compared to December 31, 2012.

Securities Portfolio

At June 30, 2013, investment securities consisted of securities of the U.S. Treasury, U.S. government and its agencies, obligations of municipalities and other political subdivisions, primarily in the State of Texas, mortgage-backed, corporate debt, and equity securities, a note receivable and a warrant. We have the ability to categorize investments as trading, available for sale, and held to maturity.

The securities portfolio consists of two major components: trading securities and securities available for sale. Trading securities are bought and held principally for the purpose of selling them in the near term and are carried at fair value, marked to market through operations and held at the Bank and First Southwest. Securities that may be sold in response to changes in market interest rates, changes in securities prepayment risk, increases in loan demand, general liquidity needs and other similar factors are classified as available for sale and are carried at estimated fair value, with unrealized gains and losses recorded in accumulated other comprehensive income.

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

	June 30, 2013	December 31, 2012
Trading securities, at fair value	\$ 32,857	\$ 90,113
Securities available for sale, at fair value		
U.S. Treasury securities	8,814	7,185
U.S. government agencies:		
Bonds	595,763	526,237
Residential mortgage-backed securities	16,087	18,893
Collateralized mortgage obligations	144,880	97,924
Corporate debt securities	75,959	87,177
States and political subdivisions	154,768	175,759
Commercial mortgage-backed securities	943	1,073
Equity securities	20,798	20,428
Note receivable	43,411	44,160
Warrant	12,099	12,117
Total securities portfolio	\$ 1,106,379	\$ 1,081,066

We had net unrealized losses of \$29.8 million and net unrealized gains of \$12.5 million related to the available for sale investment portfolio at June 30, 2013 and December 31, 2012, respectively. The significant increase in the net unrealized loss position of our available for sale investment portfolio during 2013 was due to effects of an increase in market interest rates during May and June that resulted in a decrease in the fair value of our debt securities.

Holding Company

Available for sale securities at June 30, 2013 include the holding company's note receivable and warrant with SWS Group, Inc. of \$55.5 million and equity securities of \$8.0 million representing those shares of SWS common stock held by the holding company.

Banking Segment

The banking segment's securities portfolio plays a role in the management of our interest rate sensitivity and generates additional interest income. In addition, the securities portfolio is used to meet collateral requirements for public and trust

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deposits, securities sold under agreements to repurchase and other purposes. The available for sale securities portfolio serves as a source of liquidity. Historically, the Bank's policy has been to invest primarily in securities of the U.S. government and its agencies, obligations of municipalities in the State of Texas and other high grade fixed income securities to minimize credit risk. At June 30, 2013, the banking segment's securities portfolio of \$908.9 million was comprised of trading securities of \$21.7 million and available for sale securities of \$887.2 million.

Insurance Segment

Our insurance segment's primary investment objective is to preserve capital and manage for a total rate of return. NLC's strategy is to purchase securities in sectors that represent the most attractive relative value. Our insurance segment invests the premiums it receives from policyholders until they are needed to pay policyholder claims or other expenses. At June 30, 2013, the insurance segment's securities portfolio was comprised of \$131.5 million in available for sale securities.

Financial Advisory Segment

Our financial advisory segment holds securities to support sales, underwriting and other customer activities. Because FSC is a broker-dealer, it is required to carry its securities at fair value and record changes in the fair value of the portfolio in operations. Accordingly, FSC classifies its securities portfolio of \$11.2 million as trading.

Loan Portfolio

Consolidated loans held for investment are detailed in the table below and classified by type (in thousands).

	Loans, excluding PCI Loans		PCI Loans		Total Loans
<u>June 30, 2013</u>					
Commercial and industrial	\$ 1,623,975	\$	56,738	\$	1,680,713
Real estate	1,179,711		54,314		1,234,025
Construction and land development	284,143		27,190		311,333
Consumer	26,864		66		26,930
Loans, gross	3,114,693		138,308		3,253,001
Allowance for loan losses	(25,578)		(659)		(26,237)
Loans, net of allowance	\$ 3,089,115	\$	137,649	\$	3,226,764

	Loans, excluding PCI Loans		PCI Loans		Total Loans
<u>December 31, 2012</u>					
Commercial and industrial	\$ 1,588,907	\$	71,386	\$	1,660,293
Real estate	1,122,667		62,247		1,184,914

Explanation of Responses:

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Construction and land development	247,413	33,070	280,483
Consumer	26,629	77	26,706
Loans, gross	2,985,616	166,780	3,152,396
Allowance for loan losses	(3,409)		(3,409)
Loans, net of allowance	\$ 2,982,207	\$ 166,780	\$ 3,148,987

Banking Segment

The loan portfolio constitutes the major earning asset of the banking segment and typically offers the best alternative for obtaining the maximum interest spread above the banking segment's cost of funds. The overall economic strength of the banking segment generally parallels the quality and yield of its loan portfolio. The banking segment's total loans, net of the allowance for loan losses, were \$4.3 billion and \$4.1 billion at June 30, 2013 and December 31, 2012, respectively. The banking segment's loan portfolio includes a \$1.6 billion warehouse line of credit extended to PrimeLending, of which \$1.3 billion was drawn at both June 30, 2013 and December 31, 2012, and is eliminated from net loans on our consolidated balance sheets.

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The banking segment does not generally participate in syndicated loan transactions and has no foreign loans in its portfolio. At June 30, 2013, the banking segment's only loan concentration (loans to borrowers engaged in similar activities) that exceeded 10% of its total loans was non-construction commercial real estate loans within our real estate portfolio. At June 30, 2013, non-construction commercial real estate loans were 22.31% of the banking segment's total loans. The banking segment's loan concentrations were within regulatory requirements at June 30, 2013.

Mortgage Origination Segment

The loan portfolio of the mortgage origination segment consists of loans held for sale, primarily single-family residential mortgages funded through PrimeLending, and pipeline loans, which are loans in various stages of the application process, but not yet closed and funded. Pipeline loans may not close if potential borrowers elect in their sole discretion not to proceed with the loan application. Total loans held for sale were \$1.4 billion at June 30, 2013 and December 31, 2012, respectively.

The components of the mortgage origination segment's loans held for sale and pipeline loans are as follows (in thousands).

	June 30, 2013	December 31, 2012
Loans held for sale:		
Unpaid principal balance	\$ 1,413,026	\$ 1,359,829
Fair value adjustment	(733)	40,908
	\$ 1,412,293	\$ 1,400,737
Pipeline loans:		
Unpaid principal balance	\$ 936,331	\$ 968,083
Fair value adjustment	6,790	15,150
	\$ 943,121	\$ 983,233

Financial Advisory Segment

The loan portfolio of the financial advisory segment consists primarily of margin loans to customers and correspondents. These loans are collateralized by the securities purchased or by other securities owned by the clients and, because of collateral coverage ratios, are believed to present minimal collectability exposure. Additionally, these loans are subject to a number of regulatory requirements as well as FSC's internal policies. The financial advisory segment's total loans, net of the allowance for loan losses, were \$290.6 million and \$277.0 million at June 30, 2013 and December 31, 2012, respectively. This increase was primarily attributable to increased borrowings in margin accounts held by FSC customers and correspondents.

Allowance for Loan Losses

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The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses inherent in the existing portfolio of loans held for investment. Our management has responsibility for determining the level of the allowance for loan losses, subject to review by the Audit Committee of our Board of Directors and the Loan Review Committee of the Bank's Board of Directors.

It is our management's responsibility at the end of each quarter, or more frequently as deemed necessary, to analyze the level of the allowance for loan losses to ensure that it is appropriate for the estimated credit losses in the portfolio consistent with the Interagency Policy Statement on the Allowance for Loan and Lease Losses and the Receivables and Contingencies Topics of the ASC. Estimated credit losses are the probable current amount of loans that we will be unable to collect given facts and circumstances as of the evaluation date. When management determines that a loan, or portion thereof, is uncollectible, the loan, or portion thereof, is charged off against the allowance for loan losses. Any subsequent recovery of charged-off loans is added back to the allowance for loan losses.

We have developed a methodology that seeks to determine an allowance within the scope of the Receivables and Contingencies Topics of the ASC. Each of the loans that has been determined to be impaired is within the scope of the Receivables Topic and is individually evaluated for impairment using one of three impairment measurement methods as of

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the evaluation date: (1) the present value of expected future discounted cash flows on the loan, (2) the loan's observable market price, or (3) the fair value of the collateral if the loan is collateral dependent. Specific reserves are provided in our estimate of the allowance based on the measurement of impairment under these three methods, except for collateral dependent loans, which require the fair value method. All non-impaired loans are within the scope of the Contingencies Topic. Estimates of loss for the Contingencies Topic are calculated based on historical loss experience by loan portfolio segment adjusted for changes in trends, conditions, and other relevant factors that affect repayment of loans as of the evaluation date. While historical loss experience provides a reasonable starting point for the analysis, historical losses, or recent trends in losses, are not the sole basis upon which to determine the appropriate level for the allowance for loan losses. Management considers recent qualitative or environmental factors that are likely to cause estimated credit losses associated with the existing portfolio to differ from historical loss experience, including but not limited to: changes in lending policies and procedures; changes in underwriting standards; changes in economic and business conditions and developments that affect the collectability of the portfolio; the condition of various market segments; changes in the nature and volume of the portfolio and in the terms of loans; changes in lending management and staff; changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans; changes in the loan review system; changes in the value of underlying collateral for collateral-dependent loans; and any concentrations of credit and changes in the level of such concentrations.

We design our loan review program to identify and monitor problem loans by maintaining a credit grading process, requiring that timely and appropriate changes are made to reviewed loans and coordinating the delivery of the information necessary to assess the appropriateness of the allowance for loan losses. Loans are evaluated for impairment when: (i) payments on the loan are delayed, typically by 90 days or more (unless the loan is both well secured and in the process of collection), (ii) the loan becomes classified, (iii) the loan is being reviewed in the normal course of the loan review scope, or (iv) the loan is identified by the servicing officer as a problem. We review on an individual basis all loan relationships over \$0.5 million that exhibit probable or observed credit weaknesses, the top 25 loan relationships by dollar amount in each market we serve, and additional relationships necessary to achieve adequate coverage of our various lending markets.

Homogeneous loans, such as consumer installment loans, residential mortgage loans and home equity loans, are not individually reviewed and are generally risk graded at the same levels. The risk grade and reserves are established for each homogeneous pool of loans based on the expected net charge-offs from current trends in delinquencies, losses or historical experience and general economic conditions. At June 30, 2013, we had no material delinquencies in these types of loans.

The allowance is subject to regulatory examination and determination as to adequacy, which may take into account such factors as the methodology used to calculate the allowance and the size of the allowance. While we believe we have an appropriate allowance for our existing portfolio at June 30, 2013, additional provisions for losses on existing loans may be necessary in the future. We recorded net charge-offs in the amount of \$1.7 million and \$1.5 million for the three and six months ended June 30, 2013, respectively. Our allowance for loan losses totaled \$26.2 million and \$3.4 million at June 30, 2013 and December 31, 2012, respectively. The ratio of the allowance for loan losses to total loans held for investment at June 30, 2013 and December 31, 2012 was 0.81% and 0.11%, respectively.

In connection with the Merger, Hilltop acquired loans both with and without evidence of credit quality deterioration since origination. The acquired loans were initially recorded at fair value with no carryover of any allowance for loan losses.

Provisions for loan losses are charged to operations to record the total allowance for loan losses at a level deemed appropriate by the banking segment's management based on such factors as the volume and type of lending it conducted, the amount of non-performing loans and related collateral security, the present level of the allowance for loan losses, the results of recent regulatory examinations, generally accepted accounting principles, general economic conditions and other factors related to the ability to collect loans in its portfolio. The provision for loan losses, primarily in the banking segment, was \$11.3 million and \$24.3 million for the three and six months ended June 30, 2013, respectively.

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The following table presents the activity in our allowance for loan losses for the three and six months ended June 30, 2013 (in thousands). Substantially all of the activity shown below occurred within the banking segment, which was acquired as a part of the Merger.

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
Balance, beginning of period	\$	16,637	\$	3,409
Provisions charged to operating expenses		11,289		24,294
Recoveries of loans previously charged off:				
Commercial and industrial		1,921		2,415
Real estate		62		201
Construction and land development		44		151
Consumer		20		28
Total recoveries		2,047		2,795
Loans charged off:				
Commercial and industrial		3,656		4,094
Real estate		65		96
Construction and land development				
Consumer		15		71
Total charge-offs		3,736		4,261
Net charge-offs		(1,689)		(1,466)
Balance, end of period	\$	26,237	\$	26,237

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

	June 30, 2013		December 31, 2012	
	Reserve	% of Gross Loans	Reserve	% of Gross Loans
Commercial and industrial	\$ 13,806	51.66%	\$ 1,845	52.67%
Real estate (including construction and land development)	12,389	47.51%	1,559	46.48%
Consumer	42	0.83%	5	0.85%
Total	\$ 26,237	100.00%	\$ 3,409	100.00%

Potential Problem Loans

Potential problem loans consist of loans that are performing in accordance with contractual terms but for which management has concerns about the ability of an obligor to continue to comply with repayment terms because of the obligor's potential operating or financial difficulties. Management monitors these loans and reviews their performance on a regular basis. Potential problem loans contain potential weaknesses that could improve, persist or further deteriorate. If such potential weaknesses persist without improving, the loan is subject to downgrade, typically to substandard, in three to six months. At June 30, 2013, we had two credit relationships totaling \$0.5 million of potential problem loans, which are assigned a grade of special mention within our risk grading matrix. At December 31, 2012, we had four credit relationships totaling \$2.7 million of potential problem loans.

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

	June 30, 2013		December 31, 2012
Loans accounted for on a non-accrual basis:			
Commercial and industrial	\$ 16,743	\$	
Real estate	5,179		1,756
Construction and land development	1,612		
Consumer			
	\$ 23,534	\$	1,756
Non-performing loans as a percentage of total loans	0.50%		0.04%
Other real estate owned	\$ 8,073	\$	11,098
Other repossessed assets	\$ 332	\$	557
Non-performing assets	\$ 31,939	\$	13,411
Non-performing assets as a percentage of total assets	0.43%		0.18%
Loans past due 90 days or more and still accruing	\$ 27	\$	2,000
Troubled debt restructurings included in accruing loans	\$ 1,928	\$	

At June 30, 2013, total non-performing assets increased \$18.5 million to \$31.9 million, compared with \$13.4 million at December 31, 2012, primarily due to an increase in non-accrual PCI loans of \$20.3 million. Non-performing loans totaled \$23.5 million at June 30, 2013 and \$1.8 million at December 31, 2012. At June 30, 2013, non-accrual loans included seven commercial and industrial relationships with loans totaling \$15.6 million secured by accounts receivable and inventory and a total of \$1.1 million in lease financing receivables. Non-accrual loans at June 30, 2013 also included \$5.2 million characterized as real estate loans, including two commercial real estate loan relationships totaling \$3.3 million and loans secured by residential real estate totaling \$1.9 million, as well as construction and land development loans of \$1.6 million, substantially all of which were classified as loans held for sale. At December 31, 2012, non-accrual loans of \$1.8 million included real estate loans secured by residential real estate and classified as loans held for sale. Other real estate owned decreased \$3.0 million to \$8.1 million at June 30, 2013, compared with \$11.1 million at December 31, 2012. The decrease was primarily due to the disposal of two properties totaling \$2.5 million. At June 30, 2013, other real estate owned included commercial properties of \$7.5 million, commercial real estate property consisting of parcels of unimproved land of \$0.5 million and residential lots under development of \$0.1 million.

At June 30, 2013, troubled debt restructurings (TDRs) totaled \$11.8 million, all of which relate to modifications of PCI loans. These TDRs were comprised of \$1.9 million of PCI loans that are considered to be performing due to the application of the accretion method and non-performing PCI loans of \$9.9 million for which discount accretion has been suspended because the extent and timing of cash flows from these PCI loans can no longer be reasonably estimated.

Reserve for Unpaid Losses and Loss Adjustment Expenses

Explanation of Responses:

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At June 30, 2013 and December 31, 2012, our reserves for unpaid losses and LAE were \$42.5 million and \$34.0 million, respectively. The liability for insurance losses and LAE represents estimates of the ultimate unpaid cost of all losses incurred, including losses for claims that have not yet been reported. Separately for each of NLIC and ASIC and each line of business, our actuaries estimate the liability for unpaid losses and LAE by first estimating ultimate losses and LAE amounts for each year, prior to recognizing the impact of reinsurance.

Insured losses for a given accident year change in value over time as additional information on claims is received, as claim conditions change and as new claims are reported. This process is commonly referred to as loss development. To project ultimate losses and LAE, our actuaries examine the paid and reported losses and LAE for each accident year and multiply these values by a loss development factor. The selected loss development factors are based upon a review of the loss development patterns indicated in the companies' historical loss triangles and applicable insurance industry loss development factors.

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

Borrowings

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

	June 30, 2013		December 31, 2012	
	Balance	Average Rate Paid	Balance	Average Rate Paid
Short-term borrowings	\$ 1,003,804	0.37%	\$ 728,250	0.33%
Notes payable	139,938	6.62%	141,539	5.89%
Junior subordinated debentures	67,012	3.67%	67,012	3.53%
	\$ 1,210,754	1.75%	\$ 936,801	1.40%

Short-term borrowings consist of federal funds purchased, securities sold under agreements to repurchase, borrowings at the Federal Home Loan Bank (FHLB) and short-term bank loans. The \$275.6 million increase in short-term borrowings at June 30, 2013 compared with December 31, 2012 was due to the \$425.0 million increase in borrowings at the FHLB, which was the result of higher funding requirements due to a decrease in deposits and an increase in loans. This increase was partially offset by decreases in each of the other short-term borrowing components totaling \$149.4 million. Notes payable is comprised of 7.50% Senior Exchangeable Notes at the holding company, insurance segment term notes and nonrecourse notes owed by First Southwest.

Liquidity and Capital Resources

Hilltop is a holding company whose assets primarily consist of the stock of its subsidiaries and invested assets with a combined value of \$7.4 billion at June 30, 2013. Hilltop's primary investment objectives, as a holding company, are to preserve capital and have available cash resources to utilize in making acquisitions. At June 30, 2013, the holding company had approximately \$205 million in freely available cash and cash equivalents. If necessary or appropriate, we may also finance acquisitions with the proceeds from equity or debt issuances. The current short-term liquidity needs of the holding company include operating expenses, debt service and dividends on preferred stock.

Within our banking segment, liquidity refers to the measure of our ability to meet our customers' short-term and long-term deposit withdrawals and anticipated and unanticipated increases in loan demand without penalizing earnings. Interest rate sensitivity involves the relationships between rate-sensitive assets and liabilities and is an indication of the probable effects of interest rate fluctuations on our net interest income.

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Our asset and liability group is responsible for continuously monitoring our liquidity position to ensure that assets and liabilities are managed in a manner that will meet our short-term and long-term cash requirements. Funds invested in short-term marketable instruments, the continuous maturing of other interest-earning assets, cash flows from self-liquidating investments such as mortgage-backed securities and collateralized mortgage obligations, the possible sale of available for sale securities, and the ability to securitize certain types of loans provide sources of liquidity from an asset perspective. The liability base provides sources of liquidity through deposits and the maturity structure of short-term borrowed funds. For short-term liquidity needs, we utilize federal fund lines of credit with correspondent banks, securities sold under agreements to repurchase, borrowings from the Federal Reserve and borrowings under lines of credit with other financial institutions. For intermediate liquidity needs, we utilize advances from the FHLB. To supply liquidity over the longer term, we have access to brokered certificates of deposit, term loans at the FHLB and borrowings under lines of credit with other financial institutions.

As a result of the Merger, the outstanding shares of PlainsCapital Corporation's Non-Cumulative Perpetual Preferred Stock, Series C, all of which were held by the U.S. Department of the Treasury, were converted on a one-for-one basis

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into shares of Hilltop Series B Preferred Stock. Holders of the Hilltop Series B Preferred Stock are entitled to noncumulative cash dividends at a fluctuating dividend rate based on the Bank's level of qualified small business lending (QSBL). The terms of our Series B Preferred Stock provide for the payment of non-cumulative dividends on a quarterly basis. The dividend rate, as a percentage of the liquidation amount, fluctuates while the Hilltop Series B Preferred Stock is outstanding based upon changes in the level of QSBL by the Bank from its historical average level of QSBL at the end of each of the four quarters leading up to June 30, 2010 (the Baseline). Until March 2016, the dividend rate will generally decrease if we increase our level of QSBL from the Baseline and increase if we decrease our level of QSBL from the Baseline, subject to certain limitations described in the Articles Supplementary governing Hilltop's Series B Preferred Stock. The shares of Hilltop Series B Preferred Stock are senior to shares of our common stock with respect to dividends and liquidation preference, and qualifies as Tier 1 Capital for regulatory purposes. At June 30, 2013 and December 31, 2012, \$114.1 million of our Series B Preferred Stock was outstanding. During the three months ended June 30, 2013, we accrued dividends of \$1.1 million on the Hilltop Series B Preferred Stock.

The dividend rate on the Hilltop Series B Preferred Stock was 4.025% for the three months ended June 30, 2013. The dividend rate for the period from July 1, 2013 to September 30, 2013 decreased to 3.974% due to a slight increase in the level of QSBL at June 30, 2013, relative to the Baseline. Subject to the approval of Treasury, we expect the dividend rate for the period from October 1, 2013 to December 31, 2013 to be 4.706%.

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

At June 30, 2013, Hilltop exceeded all regulatory capital requirements with a total capital to risk weighted assets ratio of 18.90%, Tier 1 capital to risk weighted assets ratio of 18.35% and a Tier 1 capital to average assets, or leverage, ratio of 13.66%. At June 30, 2013, the Bank was also considered to be well-capitalized under regulatory requirements.

Cash and cash equivalents (consisting of cash and due from banks and federal funds sold), totaled \$626.1 million at June 30, 2013, a decrease of \$100.4 million from \$726.5 million at December 31, 2012. Deposit flows, calls of investment securities and borrowed funds, and prepayments of loans and mortgage-backed securities are strongly influenced by interest rates, general and local economic conditions and competition in the marketplace. These factors reduce the predictability of the timing of these sources of funds.

Cash provided by operations during the six months ended June 30, 2013 was \$14.6 million, an increase in cash flow of \$16.2 million compared with the same period in 2012. Cash provided by operations increased primarily due to the Merger on November 30, 2012 and inclusion of operating activities of the banking, mortgage origination and financial advisory segments during the six months ended June 30, 2013.

Cash used in our investment activities during the six months ended June 30, 2013 was \$206.3 million, including \$51.0 million for the origination of loans held for investment and net purchases of securities for our investment portfolio of \$127.5 million. Proceeds from investment portfolio activity provided \$0.7 million during the six months ended June 30, 2012.

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Cash provided by financing activities during the six months ended June 30, 2013 was \$91.3 million, an increase in cash provided of \$92.4 million compared with the same period in 2012. This increase in cash provided was due primarily to the Merger on November 30, 2012 and the inclusion of financing activities of the banking segment for the six months ended June 30, 2013.

We had deposits of \$4.5 billion at June 30, 2013, a decrease of \$204.0 million compared with December 31, 2012. Deposit flows are affected by the level of market interest rates, the interest rates and products offered by competitors, the volatility of equity markets and other factors. In particular, our deposits at June 30, 2013, decreased compared to our deposits at December 31, 2012, due to seasonal factors related to our customers' requirements to satisfy year-end tax obligations. At June 30, 2013, money market deposits, including brokered deposits, were \$2.6 billion, time deposits, including brokered deposits, were \$1.4 billion, and noninterest bearing demand deposits were \$208.7 million.

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Our 15 largest depositors, excluding the holding company and our indirect wholly owned subsidiary, First Southwest, accounted for 21.00% of our total deposits, and our five largest depositors, excluding First Southwest, accounted for 11.12% of our total deposits at June 30, 2013. The loss of one or more of our largest customers, or a significant decline in the deposit balances due to ordinary course fluctuations related to these customers' businesses, could adversely affect our liquidity and might require us to raise deposit rates to attract new deposits, purchase federal funds or borrow funds on a short-term basis to replace such deposits. We have not experienced any liquidity issues to date with respect to brokered deposits or our other large balance deposits, and we believe alternative sources of funding are available to more than compensate for the loss of one or more of these customers.

PrimeLending funds the mortgage loans it originates through a warehouse line of credit of up to \$1.6 billion maintained with the Bank. At June 30, 2013, PrimeLending had outstanding borrowings of \$1.3 billion against the warehouse line of credit. PrimeLending sells substantially all mortgage loans it originates to various investors in the secondary market with servicing released, although it may retain servicing in limited circumstances. As these mortgage loans are sold in the secondary market, PrimeLending pays down its warehouse line of credit with the Bank. In addition, PrimeLending has an available line of credit with JPMorgan Chase Bank, NA (JPMorgan Chase) of up to \$1.0 million. At June 30, 2013, PrimeLending had no borrowings under the JPMorgan Chase line of credit.

FSC relies on its equity capital, short-term bank borrowings, interest-bearing and non-interest-bearing client credit balances, correspondent deposits, securities lending arrangements, repurchase agreement financings and other payables to finance its assets and operations. FSC has credit arrangements with three unaffiliated banks of up to \$255.0 million, which are used to finance securities owned, securities held for correspondent accounts and receivables in customer margin accounts. These credit arrangements are provided on an as offered basis and are not committed lines of credit. At June 30, 2013, FSC had borrowed \$101.9 million under these credit arrangements.

Our insurance operating subsidiary's primary investment objectives is to preserve capital and manage for a total rate of return. NLC's strategy is to purchase securities in sectors that represent the most attractive relative value. Bonds, cash, and short-term investments of \$197.7 million, or 93.9%, and equity investments of \$12.8 million comprised NLC's \$210.5 million in total investments at June 30, 2013. NLC does not currently have any significant concentration in both direct and indirect guarantor exposure or any investments in subprime mortgages. NLC has custodial agreements with Wells Fargo and an investment management agreement with DTF Holdings, LLC.

Impact of Inflation and Changing Prices

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

Off-Balance Sheet Arrangements; Commitments; Guarantees

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

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

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

In the normal course of business, FSC executes, settles and finances various securities transactions that may expose FSC 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 FSC, clearing agreements between FSC and various clearinghouses and broker-dealers, secured financing arrangements that involve pledged securities, and when-issued underwriting and purchase commitments.

Critical Accounting Policies and Estimates

Our accounting policies are fundamental to understanding our management's discussion and analysis of our results of operations and financial condition. We have identified certain policies as being significant because they involve a higher degree of judgment and complexity in making certain estimates and assumptions that affect amounts reported in our consolidated financial statements. These policies relate to Allowance for Loan Losses, Reserve for Losses and Loss Adjustment Expenses, Goodwill and Identifiable Intangible Assets, Loan Indemnification Liability and Acquisition Accounting. Since December 31, 2012, there have been no changes in critical accounting policies as further described under Critical Accounting Policies and Estimates and Note 1 to the Consolidated Financial Statements in the Company's 2012 Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risks. The disclosure is not meant to be a precise indicator of expected future losses, but rather an indicator of reasonably possible losses, and therefore our actual results may differ from any of the following projections. This forward-looking information provides an indicator of how we view and manage our ongoing market risk exposures.

The banking segment is engaged primarily in the business of investing funds obtained from deposits and borrowings in interest-earning loans and investments, and our primary component of market risk is interest rate volatility. Consequently, our earnings depend to a significant extent on our net interest income, which is the difference between interest income on loans and investments and our interest expense on deposits and borrowings. To the extent that our interest-bearing liabilities do not reprice or mature at the same time as our interest-bearing assets, we are subject to interest rate risk and corresponding fluctuations in net interest income.

Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The magnitude of the change in earnings and market value of equity resulting from interest rate changes is impacted by the time remaining to maturity on fixed-rate obligations, the contractual ability to adjust rates prior to maturity, competition, the general level of interest rates and customer actions. Our objective is to measure the effect of interest rate changes on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

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

We have employed asset/liability management policies that attempt to manage our interest-earning assets and interest-bearing liabilities, thereby attempting to control the volatility of net interest income, without having to incur unacceptable levels of credit or investment risk. We employ procedures which include interest rate shock analysis, maturity gap

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analysis and balance sheet decomposition techniques help mitigate interest rate risk in the ordinary course of business. In addition, the asset/liability management policies permit the use of various derivative instruments to manage interest rate risk or hedge specified assets and liabilities.

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

Interest rate sensitivity analysis presents the amount of assets and liabilities that are estimated to reprice through specified periods. The interest rate sensitivity analysis in the table below reflects changes in banking segment earnings and costs resulting from changes in assets and liabilities on June 30, 2013 that will either be repriced in accordance with market rates, mature or are estimated to mature early within the periods indicated. This is a one-day position that is continually changing and is not necessarily indicative of our position at any other time.

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

	June 30, 2013					
	3 Months or Less	> 3 Months to 1 Year	> 1 Year to 3 Years	> 3 Years to 5 Years	> 5 Years	Total
<u>Interest sensitive assets:</u>						
Loans	\$ 3,010,344	\$ 406,341	\$ 425,199	\$ 162,666	\$ 332,260	\$ 4,336,810
Securities	7,917	34,071	49,810	17,538	777,884	887,220
Federal funds sold and securities purchased under agreements to resell	29,702					29,702
Other interest sensitive assets	293,446					293,446
Total interest sensitive assets	3,341,409	440,412	475,009	180,204	1,110,144	5,547,178
<u>Interest sensitive liabilities:</u>						
Interest bearing checking	\$ 1,801,184	\$	\$	\$	\$	\$ 1,801,184
Savings	174,120					174,120
Time deposits	529,946	578,600	180,896	25,390	40,699	1,355,531

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Notes payable & other borrowings	894,269	510	1,452	779	5,532	902,542
Total interest sensitive liabilities	3,399,519	579,110	182,348	26,169	46,231	4,233,377
Interest sensitivity gap	\$ (58,110)	\$ (138,698)	\$ 292,661	\$ 154,035	\$ 1,063,913	\$ 1,313,801
Cumulative interest sensitivity gap	\$ (58,110)	\$ (196,808)	\$ 95,853	\$ 249,888	\$ 1,313,801	
Percentage of cumulative gap to total interest sensitive assets	-1.05%	-3.55%	1.73%	4.50%	23.68%	

The positive GAP in the interest rate sensitivity analysis indicates that banking segment net interest income would generally rise if rates increase. Because of inherent limitations in interest rate sensitivity analysis, the banking segment uses multiple interest rate risk measurement techniques. Simulation analysis is used to subject the current repricing

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

The table below shows the estimated impact of increases of 1%, 2% and 3% and a decrease of 0.5% in interest rates on net interest income and on market value of portfolio equity for the banking segment at June 30, 2013 (dollars in thousands).

Change in Interest Rates (basis points)	Changes in Net Interest Income		Changes in Market Value of Equity	
	Amount	Percent	Amount	Percent
+300	\$ (20,142)	-8.93%	\$ (26,879)	-2.63%
+200	\$ (20,326)	-9.01%	\$ (17,651)	-1.72%
+100	\$ (8,285)	-3.67%	\$ (6,931)	-0.68%
-50	\$ (703)	-0.31%	\$ (21,004)	-2.05%

The projected changes in net interest income and market value of equity to changes in interest rates at June 30, 2013 were in compliance with established internal policy guidelines. These projected changes are based on numerous assumptions of growth and changes in the mix of assets or liabilities.

The historically low level of interest rates, combined with the existence of rate floors that are in effect for a significant portion of the loan portfolio, are projected to cause yields on our earning assets to rise more slowly than increases in market interest rates. As a result, in a rising interest rate environment, our interest rate margins are projected to compress until the rise in market interest rates is sufficient to allow our loan portfolio to reprice above applicable rate floors.

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

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

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The goal of our interest rate risk management strategy within our mortgage origination segment is not to eliminate interest rate risk, but to manage it within appropriate limits. To mitigate the risk of loss, we have established policies and procedures, which include guidelines on the amount of exposure to interest rate changes we are willing to accept. An integral component of our interest rate risk management strategy is our execution of forward commitments to sell mortgage-backed securities to minimize significant fluctuations in earnings caused by changes in interest rates.

At June 30, 2013, total notes payable outstanding on our consolidated balance sheet was \$139.9 million, and was comprised of \$83.9 million of indebtedness subject to fixed interest rates and \$56.0 million subject to variable interest rates. If LIBOR and the prime rate were to increase by one eighth of one percent (0.125%), the increase in interest expense on the variable rate debt would not have a significant impact on our future consolidated earnings or cash flows.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are a party to various legal actions resulting from our operating activities. These actions consist of litigation and administrative proceedings arising in the ordinary course of business, some of which are covered by liability insurance, and none of which is expected to have a material adverse effect on our consolidated financial condition, results of operations or cash flows taken as a whole.

Like other financial institutions, we are subject to various federal, state and local laws and regulations relating to environmental matters. Under these laws and regulations, we could be held liable for costs relating to environmental contamination at or from properties that secure our loan portfolio. With respect to our borrower's properties, the potential liabilities may far exceed the original amount of the loan made by us and secured by the property. Currently, we are not a defendant in any environmental legal proceeding.

For additional information concerning our legal proceedings, please see the discussion under the caption "Legal Proceedings" set forth in Part I, Item 3 of our Annual Report on Form 10-K.

Item 1A. Risk Factors.

The following risk factors constitute a material amendment to the risk factors disclosed under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012.

The Consumer Financial Protection Bureau recently issued ability-to-repay and qualified mortgage rules that may have a negative impact on our loan origination process and foreclosure proceedings, which could adversely affect our business, operating results, and financial condition.

On January 10, 2013, the Consumer Financial Protection Bureau (the "CFPB") issued a final rule to implement the "qualified mortgage" provisions of the Dodd-Frank Act requiring mortgage lenders to consider consumers' ability to repay home loans before extending them credit. The CFPB's "qualified mortgage" rule will take effect on January 10, 2014. The final rule describes certain minimum requirements for lenders making ability-to-repay determinations, but does not dictate that they follow particular underwriting models. Lenders will be presumed to have complied with the ability-to-repay rule if they issue "qualified mortgages," which are generally defined as mortgage loans prohibiting or limiting certain risky features. Loans that do not meet the ability-to-repay standard can be challenged in court by borrowers who default and the absence of ability-to-repay status can be used against a lender in foreclosure proceedings. Any loans that we make outside of the "qualified mortgage" criteria could expose us to an increased risk of liability and reduce or delay our ability to foreclose on the underlying property. It is difficult to predict how the CFPB's "qualified mortgage" rule will impact us when it takes effect, but any decreases in loan origination volume or increases in compliance and foreclosure costs caused by the rule could negatively affect our business, operating results and financial condition.

The impact of the changing regulatory capital requirements and new capital rules are uncertain.

In July 2013, the Federal Reserve Board approved a final rule that will substantially amend the risk-based capital rules applicable to Hilltop and the Bank. The final rule implements the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The final rule includes new minimum risk-based capital and leverage ratios, which will be effective for Hilltop and the Bank on January 1, 2015, and refines the definition of what constitutes capital for purposes of calculating these ratios. The new minimum capital requirements will be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also establishes a capital conservation buffer of 2.5% above the new regulatory minimum capital ratios and will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions. The application of more stringent capital requirements for

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Hilltop and the Bank could, among other things, adversely affect our results of operations and growth, require the raising of additional capital, restrict our ability to pay dividends or repurchase shares and result in regulatory actions if we were to be unable to comply with such requirements.

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

On May 1, 2013, we issued an aggregate of 3,530 shares of common stock under the Hilltop Holdings 2012 Equity Incentive Plan to certain non-employee directors as compensation for their service on our board of directors during the first three months of 2013. The shares were issued pursuant to the exemption from registration under Section 4(2) of the Securities Act.

Item 6. Exhibits

A list of exhibits filed herewith is contained in the Exhibit Index that immediately precedes such exhibits and is incorporated by reference herein.

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SIGNATURES

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

HILLTOP HOLDINGS INC.

Date: August 5, 2013

By:

/s/ Darren Parmenter
Darren Parmenter
Senior Vice President Finance
(Principal Financial and Accounting Officer and duly
authorized officer)

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

** In accordance with Rule 406T of Regulation S-T, the information in this exhibit is furnished and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.
