

SP Bancorp, Inc.
Form 10-Q
November 13, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2012

OR

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission File No. 001-34933

SP Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Edgar Filing: SP Bancorp, Inc. - Form 10-Q

Maryland
(State or other jurisdiction of
incorporation or organization)

27-3347359
(I.R.S. Employer
Identification Number)

5224 W. Plano Parkway,
Plano, Texas
(Address of Principal Executive Offices)

75093
Zip Code

(972) 931-5311
(Registrant's telephone number)

N/A
(Former name or former address, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

Shares of the Registrant's common stock, par value \$0.01 per share, issued and outstanding as of November 5, 2012 were 1,656,850.

Table of Contents

SP Bancorp, Inc.

FORM 10-Q

Index

	Page
<u>Part I. Financial Information</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011 (Unaudited)</u>	2
<u>Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	3
<u>Consolidated Statements of Comprehensive Income for the Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	4
<u>Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	6
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	44
Item 4. <u>Controls and Procedures</u>	44
<u>Part II. Other Information</u>	
Item 1. <u>Legal Proceedings</u>	44
Item 1A. <u>Risk Factors</u>	44
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
Item 3. <u>Defaults upon Senior Securities</u>	45
Item 4. <u>Mine Safety Disclosures</u>	45
Item 5. <u>Other Information</u>	45
Item 6. <u>Exhibits</u>	45
<u>Signatures</u>	46

Table of Contents**SP Bancorp, Inc.****Consolidated Balance Sheets (Unaudited)**

(Dollars in thousands, except per share amounts)

	September 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	\$ 23,265	\$ 2,978
Federal funds sold	3,805	6,950
Total cash and cash equivalents	27,070	9,928
Securities available for sale (amortized cost of \$19,583 at September 30, 2012 and \$24,774 at December 31, 2011)	19,743	25,097
Fixed annuity investment	1,211	1,176
Loans held for sale	8,572	4,884
Loans, net of allowance for losses of \$2,290 at September 30, 2012 and \$1,754 at December 31, 2011	221,954	212,688
Accrued interest receivable	742	961
Other real estate owned (OREO)	1,477	1,824
Premises and equipment, net	4,274	4,346
Federal Home Loan Bank (FHLB) stock and other restricted stock, at cost	1,539	2,020
Bank-owned life insurance (BOLI)	7,373	6,193
Deferred tax assets	816	509
Other assets	1,864	3,333
Total assets	\$ 296,635	\$ 272,959
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Noninterest-bearing	\$ 25,148	\$ 8,898
Interest-bearing	211,680	203,036
Total deposits	236,828	211,934
Borrowings	24,290	25,978
Accrued interest payable	40	29
Other liabilities	2,552	1,891
Total liabilities	263,710	239,832
Commitments and contingencies		
Stockholders equity :		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized; none issued or outstanding		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 1,658,850 and 1,725,000 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	17	17
Additional paid-in capital	14,629	15,278
Unallocated Employee Stock Ownership Plan (ESOP) shares	(1,333)	(1,018)
Retained earnings - substantially restricted	19,507	18,636
Accumulated other comprehensive income	105	214
Total stockholders equity	32,925	33,127
Total liabilities and stockholders equity	\$ 296,635	\$ 272,959

Edgar Filing: SP Bancorp, Inc. - Form 10-Q

See Notes to Consolidated Financial Statements.

Table of Contents**SP Bancorp, Inc.****Consolidated Statements of Income (Unaudited)**

(Dollars in thousands, except per share amounts)

	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
Interest income:				
Interest and fees on loans	\$ 2,832	\$ 2,667	\$ 8,421	\$ 7,856
Securities - taxable	52	80	135	279
Securities - nontaxable	16	61	92	131
Other interest - earning assets	37	23	104	77
Total interest income	2,937	2,831	8,752	8,343
Interest expense:				
Deposit accounts	280	344	854	1,048
Borrowings	73	112	243	337
Total interest expense	353	456	1,097	1,385
Net interest income	2,584	2,375	7,655	6,958
Provision for loan losses	155	309	857	720
Net interest income after provision for loan losses	2,429	2,066	6,798	6,238
Noninterest income:				
Service charges	290	317	858	951
Gain on sale of securities available for sale	128	120	628	322
Gain on sale of mortgage loans	630	354	1,509	883
Increase in cash surrender value of BOLI	67	59	180	135
Other	106	73	272	210
Total noninterest income	1,221	923	3,447	2,501
Noninterest expense:				
Compensation and benefits	1,650	1,446	4,610	4,049
Occupancy costs	262	278	758	804
Equipment expense	32	63	156	194
Data processing expense	146	118	416	356
ATM expense	83	98	239	286
Professional and outside services	336	216	1,014	739
Stationery and supplies	19	16	70	82
Marketing	49	36	159	124
FDIC insurance assessments	63	30	162	200
Provision for losses on OREO	11	11	255	11
Operations from OREO	21	47	87	178
Other	183	218	861	721
Total noninterest expense	2,855	2,577	8,787	7,744
Income before income tax expense	795	412	1,458	995

Edgar Filing: SP Bancorp, Inc. - Form 10-Q

Income tax expense	253	80	402	228
Net income	\$ 542	\$ 332	\$ 1,056	\$ 767
Basic and diluted earnings per share	\$ 0.35	\$ 0.20	\$ 0.67	\$ 0.47

See Notes to Consolidated Financial Statements.

Table of Contents**SP Bancorp, Inc.****Consolidated Statements of Comprehensive Income (Unaudited)****(Dollars in thousands, except per share amounts)**

	Nine Months Ended September 30,	
	2012	2011
	<i>(Unaudited)</i>	
Other comprehensive income, before tax:		
Net change in unrealized gains on available for sale securities	\$ 465	\$ 653
Reclassification adjustment for gain on sale of securities available for sale	(628)	(322)
Other comprehensive income (loss) before tax	(163)	331
Income tax (expense) benefit	54	(126)
Other comprehensive income, net of tax	(109)	205
Net income	1,056	767
Comprehensive income	\$ 947	\$ 972

See Notes to Consolidated Financial Statements.

Table of Contents**SP Bancorp, Inc.****Consolidated Statements of Stockholders Equity (Unaudited)**

(Dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-In Capital	Unallocated ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2010	\$ 17	\$ 15,290	\$ (817)	\$ 17,701	\$ (87)	\$ 32,104
Additional stock issuance costs		(15)				(15)
ESOP shares purchased in open market			(216)			(216)
ESOP shares allocated		17	32			49
Net income				767		767
Unrealized gain on securities available for sale, net of tax of \$248					405	405
Reclassification adjustment for gain on securities available for sale included in net income, net of tax of (\$122)					(200)	(200)
Balance, September 30, 2011	\$ 17	\$ 15,292	\$ (1,001)	\$ 18,468	\$ 118	\$ 32,894
Balance, December 31, 2011	\$ 17	\$ 15,278	\$ (1,018)	\$ 18,636	\$ 214	\$ 33,127
ESOP shares purchased in the open market			(373)			(373)
ESOP shares allocated		11	58			69
Net income				1,056		1,056
Unrealized gain on securities available for sale, net of tax of \$185					280	280
Reclassification adjustment for gain on securities available for sale included in net income, net of tax of (\$239)					(389)	(389)
Repurchase of common stock		(660)		(185)		(845)
Balance, September 30, 2012	\$ 17	\$ 14,629	\$ (1,333)	\$ 19,507	\$ 105	\$ 32,925

See Notes to Consolidated Financial Statements.

Table of Contents**SP Bancorp, Inc.****Consolidated Statements of Cash Flows (Unaudited)****(Dollars in thousands, except per share amounts)**

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 1,056	\$ 767
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	215	266
Amortization of premiums on securities	344	402
ESOP expense	69	49
Provision for loan losses	857	720
Provision for losses on OREO	255	11
Gain on sale of securities available for sale	(628)	(322)
Gain on sale of mortgage loans	(1,509)	(883)
Proceeds from sale of mortgage loans	56,930	35,239
Loans originated for sale	(59,109)	(34,992)
Increase in cash surrender value of BOLI	(180)	(135)
Decrease (increase) in accrued interest receivable	219	(15)
Decrease (increase) in other assets and deferred tax assets	1,216	(976)
Increase in fixed annuity investment	(35)	(34)
Increase (decrease) in accrued interest pay able and other liabilities	672	(84)
Net cash provided by operating activities	372	13
Cash flows from investing activities:		
Purchase of securities available for sale	(12,580)	(31,637)
Maturities, calls and principal pay downs on securities available for sale	1,571	4,370
Proceeds from sale of securities available for sale	16,484	21,789
Redemptions (purchases) of FHLB stock	481	(3)
Originations, net of loan repayments	(10,123)	(13,001)
Proceeds from sale of other real estate owned, net	92	272
Purchases of premises and equipment	(143)	(59)
Purchase of BOLI	(1,000)	(6,000)
Net cash used in investing activities	(5,218)	(24,269)
Cash flows from financing activities:		
Net increase in deposit accounts	24,894	21,295
Repayment of FHLB advances, net	(1,688)	(2,006)
ESOP shares purchased	(373)	(216)
Conversion costs		(15)
Repurchase of common stock	(845)	
Net cash provided by financing activities	21,988	19,058
Net increase (decrease) in cash and cash equivalents	17,142	(5,198)
Cash and cash equivalents at beginning of period	9,928	11,814
Cash and cash equivalents at end of period	\$ 27,070	\$ 6,616

Edgar Filing: SP Bancorp, Inc. - Form 10-Q

Supplemental cash flow information:

Cash transactions:

Income taxes paid	\$	213	\$	650
-------------------	----	-----	----	-----

Interest expense paid	\$	1,086	\$	1,379
-----------------------	----	-------	----	-------

Noncash transactions:

Transfers of loans to other real estate owned	\$		\$	2,465
---	----	--	----	-------

Transfers of loans held for portfolio to loans held for sale	\$		\$	1,459
--	----	--	----	-------

See Notes to Consolidated Financial Statements.

Table of Contents

SP Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands, except per share amounts)

Note 1. Summary of Significant Accounting Policies

General

SharePlus Federal Bank (the Bank), is a federal stock savings bank located in Plano, Texas. On October 29, 2010, the Bank completed its conversion from a federal mutual savings bank to a federal capital stock savings bank. A new holding company, SP Bancorp, Inc (the Company), was established as part of the conversion. The public offering was consummated through the sale and issuance by SP Bancorp, Inc. of 1,725,000 shares of common stock at \$10 per share. Net proceeds of \$14,480 were raised in the stock offering, after deduction of conversion costs of \$1,942 and excluding \$828 which was loaned by the Company to a trust for the Employee Stock Ownership Plan (the ESOP).

The Bank operates as a full-service bank, including the acceptance of checking and savings deposits, and the origination of single-family mortgage and home equity loans, commercial real estate and business loans, automobile loans, and other personal loans. In addition to the Bank's home office, the Bank has five branches, one of which is located near downtown Dallas, Texas; one is located near the Bank's headquarters in Plano, Texas; two branches are located in Louisville, Kentucky; and the other branch is located in Irvine, California. The Bank is regulated by the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC). The Company, a registered savings and loan holding company, is subject to examination and supervision of the Board of Governors of the Federal Reserve System.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, SharePlus Federal Bank. The Company's principal business is the ownership of the Bank. All significant intercompany accounts and transactions have been eliminated.

Interim Financial Statements

The financial statements of the Company at September 30, 2012 and for the three and nine months ended September 30, 2012 and 2011 have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and predominant practices followed by the financial services industry; and are unaudited. However, in management's opinion, the interim data at September 30, 2012 and for the three and nine months ended September 30, 2012 and 2011 include all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of the results of the interim periods. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term include the determination of the allowance for loan losses and valuations pertaining to OREO.

Subsequent Events

Companies are required to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued. They must recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial preparation process. Entities shall not recognize the impact of events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. The Company has evaluated subsequent events through the time of filing these financial statements with the SEC and noted no subsequent events requiring financial statement recognition or disclosure.

Table of Contents**SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except per share amounts)****Basic and Diluted Earnings Per Share**

Earnings per share are based upon the weighted-average shares outstanding. ESOP shares, which have been committed to be released, are considered outstanding.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 542	\$ 332	\$ 1,056	\$ 767
Weighted-average shares outstanding (in 000s)	1,544	1,631	1,581	1,638
Basic and diluted earnings per share	\$ 0.35	\$ 0.20	\$ 0.67	\$ 0.47

Recent Authoritative Accounting Guidance

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments improve consistency for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. generally accepted accounting principles and International Financial Reporting Standards. The ASU was adopted for the three and nine months ended September 30, 2012. The adoption of this guidance did not materially impact the Company.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220). The amendments require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. On October 21, 2011, the FASB deferred the effective date of presentation requirements for classification adjustments. The adoption of this ASU resulted in adding separate Consolidated Statements of Comprehensive Income.

Note 2. Stock Conversion

On October 29, 2010, SharePlus Federal Bank completed its conversion from a federal mutual savings bank to a capital stock savings bank. A new holding company, SP Bancorp, Inc., was established as part of the conversion. The public offering was consummated through the sale and issuance by SP Bancorp, Inc. of 1,725,000 shares of common stock at \$10 per share. Net proceeds of \$14,480 were raised in the stock offering, after deduction of conversion costs of \$1,942 and excluding \$828 which was loaned by the Company to a trust for the ESOP. The ESOP purchased 67,750 shares in the offering and 70,250 shares in the open market. Shares of the Company's common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each such participant's compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. As the unearned shares are released from suspense, the Bank recognizes compensation expense equal to the fair value of the ESOP shares committed to be released during the year. To the extent that the fair value of the ESOP shares differs from the cost of such shares, the difference is charged or credited to equity as additional paid-in capital.

SP Bancorp, Inc.'s common stock is traded on the NASDAQ Capital Market under the symbol SPBC. Voting rights are held and exercised exclusively by the stockholders of SP Bancorp, Inc. Deposit account holders of the Bank continue to be insured by the FDIC. A liquidation account was established in the amount of \$17,007, which represented the Bank's total equity capital as of March 31, 2010, the latest balance sheet date in the final prospectus used in the conversion. The liquidation account is maintained for the benefit of eligible holders who continue to maintain their accounts at the Bank. The liquidation account is reduced annually to the extent that eligible account holders have reduced their

qualifying deposits. Subsequent increases will not restore an eligible account

Table of Contents

SP Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands, except per share amounts)

holder's interest in the liquidation account. In the event of a complete liquidation of the Bank, and only in such event, each eligible account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the adjusted qualifying account balances then held.

The Bank may not declare, pay a dividend on, or repurchase any of its capital stock, if the effect thereof would cause equity capital to be reduced below the liquidation account amount or regulatory capital requirements. Any purchase of the new holding company's common stock will be conducted in accordance with applicable laws and regulations.

On February 27, 2012, SP Bancorp, Inc. announced that its Board of Directors has authorized a stock repurchase program pursuant to which SP Bancorp, Inc. intends to repurchase up to 5% of its issued and outstanding shares, or up to approximately 86,250 shares.

Open market purchases will be conducted in accordance with the limitations set forth in Rule 10b-18 of the Securities and Exchange Commission and other applicable legal requirements. The repurchase program may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. These factors may also affect the timing and amount of share repurchases. The repurchase program does not obligate SP Bancorp, Inc. to purchase any particular number of shares, and there is no guarantee as to the exact number of shares to be repurchased by SP Bancorp, Inc.

SP Bancorp, Inc. had repurchased 66,150 shares under the stock repurchase program through September 30, 2012.

Table of Contents**SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

(Dollars in thousands, except per share amounts)

Note 3. Securities

Securities have been classified in the consolidated balance sheets according to management's intent. At September 30, 2012 and December 31, 2011, all of the Company's securities were classified as available for sale. The amortized cost of securities and their approximate fair values at September 30, 2012 and December 31, 2011 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
September 30, 2012:				
Municipal securities	\$ 1,011	\$ 58	\$	\$ 1,069
Collateralized mortgage obligations guaranteed by FNMA and FHLMC	8,473	22	(22)	8,473
Asset-backed securities substantially guaranteed by the U.S. Government	3,037		(30)	3,007
Mortgage-backed securities guaranteed by SBA, FNMA, GNMA and FHLMC	7,062	132		7,194
	\$ 19,583	\$ 212	\$ (52)	\$ 19,743
December 31, 2011:				
Municipal securities	\$ 8,737	\$ 385	\$	\$ 9,122
Collateralized mortgage obligations guaranteed by FNMA and FHLMC	12,809	26	(90)	12,745
Mortgage-backed securities guaranteed by SBA, FNMA, GNMA and FHLMC	3,228	5	(3)	3,230
	\$ 24,774	\$ 416	\$ (93)	\$ 25,097

Mortgage-backed securities and collateralized mortgage obligations are backed by single-family mortgage loans. The Company does not hold any securities backed by commercial real estate loans. Asset-backed securities are secured by student loans and substantially guaranteed by the U.S. Government.

For the three and nine months ended September 30, 2012 and 2011, proceeds from sale of securities available for sale, gross gains and gross losses were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Proceeds from sale	\$ 1,218	\$ 5,762	\$ 16,484	\$ 21,789
Gross gains	\$ 128	\$ 120	\$ 709	\$ 322

Edgar Filing: SP Bancorp, Inc. - Form 10-Q

Gross losses	\$	\$	\$	81	\$
--------------	----	----	----	----	----

Table of Contents**SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except per share amounts)**

Gross unrealized losses and fair values by investment category and length of time in a continuous unrealized loss position at September 30, 2012 and December 31, 2011 were as follows:

	Number of Security Positions with Unrealized losses	Continuous Unrealized Losses Existing for Less than 12 Months Market Value	Unrealized Losses	Continuous Unrealized Losses Existing for 12 Months or Longer Market Value	Unrealized Losses	Market Value	Total Unrealized Losses
September 30, 2012:							
Collateralized mortgage obligations	3	\$ 4,340	\$ (22)	\$	\$	\$ 4,340	\$ (22)
Asset-backed securities	1	3,007	(30)			3,007	(30)
	4	\$ 7,347	\$ (52)	\$	\$	\$ 7,347	\$ (52)
December 31, 2011:							
Collateralized mortgage obligations	7	\$ 10,019	\$ (90)	\$	\$	\$ 10,019	\$ (90)
Mortgage-backed securities	1	970	(3)			970	(3)
	8	\$ 10,989	\$ (93)	\$	\$	\$ 10,989	\$ (93)

For all of the above securities available for sale, the gross unrealized losses are generally due to changes in interest rates. The Company does not intend to sell these securities and it is more-likely-than-not that the Company will not be required to sell prior to anticipated recovery. Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent of the Company to sell or whether it would be more-likely-than-not required to sell its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The scheduled maturities of securities at September 30, 2012 and December 31, 2011 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2012 Available for Sale		December 31, 2011 Available for Sale	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due after 10 years	\$ 1,011	\$ 1,069	\$ 8,737	\$ 9,122
Mortgage-backed securities,				
collateralized mortgage obligations				
and asset-backed securities	18,572	18,674	16,037	15,975

\$ 19,583	\$ 19,743	\$ 24,774	\$ 25,097
-----------	-----------	-----------	-----------

Table of Contents**SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

(Dollars in thousands, except per share amounts)

Note 4. Loans and Allowance for Loan Losses**Loans at September 30, 2012 and December 31, 2011 consisted of the following:**

	September 30, 2012	December 31, 2011
Commercial business	\$ 8,327	\$ 6,986
Commercial real estate	41,852	38,348
One-to-four family	158,560	150,613
Home equity	8,730	9,612
Consumer	6,145	8,318
	223,614	213,877
Premiums, net	69	71
Deferred loan costs, net	561	494
Allowance for loan losses	(2,290)	(1,754)
	\$ 221,954	\$ 212,688

The Bank originates loans to individuals and businesses, geographically concentrated primarily near the Bank's offices in Dallas and Plano, Texas. Loan balances, interest rates, loan terms and collateral requirements vary according to the type of loan offered and overall credit-worthiness of the potential borrower.

Commercial business. Commercial business loans are made to customers for the purpose of acquiring equipment and other general business purposes. Commercial business loans are made based primarily on the historical and projected cash flow of the borrower and, to a lesser extent, the underlying collateral. Commercial business loans generally carry higher risk of default since their repayment generally depends on the successful operation of the business and the sufficiency of collateral.

Commercial real estate. Commercial real estate loans are secured primarily by office buildings, retail centers, owner-occupied offices, condominiums, developed lots and land. Commercial real estate loans are underwritten based on the economic viability of the property and creditworthiness of the borrower, with emphasis given to projected cash flow as a percentage of debt service requirements. These loans carry significant credit risks as they involve larger balances concentrated with single borrowers or groups of related borrowers. Repayment of loans secured by income-producing properties generally depends on the successful operation of the real estate project and may be subject to a greater extent to adverse market conditions and the general economy.

One-to-four family. One-to-four family loans are underwritten based on the applicant's employment and credit history and the appraised value of the property.

Home equity. Home equity loans are underwritten similar to one-to-four family loans. Collateral value could be negatively impacted by declining real estate values.

Consumer. Consumer loans include automobile, signature and other consumer loans. Potential credit risks include rapidly depreciable assets, such as automobiles, which could adversely affect the value of the collateral.

Table of Contents**SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except per share amounts)**

Following is an age analysis of past due loans by loan class as of September 30, 2012 and December 31, 2011:

	Commercial Business	Commercial Real Estate	One-to-Four Family	Home Equity	Consumer	Total
At September 30, 2012:						
Past Due:						
30-59 days	\$	\$	\$ 1,529	\$	\$ 3	\$ 1,532
60-89 days			758			758
90 days or more						
Total past due			2,287		3	2,290
Current	8,327	41,852	156,273	8,730	6,142	221,324
Total loans	\$ 8,327	\$ 41,852	\$ 158,560	\$ 8,730	\$ 6,145	\$ 223,614
At December 31, 2011						
Past Due:						
30-59 days	\$	\$	\$ 2,457	\$ 27	\$ 16	\$ 2,500
60-89 days			161		1	162
90 days or more			207			207
Total past due			2,825	27	17	2,869
Current	6,986	38,348	147,788	9,585	8,301	211,008
Total loans	\$ 6,986	\$ 38,348	\$ 150,613	\$ 9,612	\$ 8,318	\$ 213,877

Effective July 1, 2012, the Bank utilizes a ten-point internal risk rating system for commercial real estate and commercial business loans, which provides a comprehensive analysis of the credit risk inherent in each loan. Prior to that date, the Bank utilized a similar nine-point system. The rating system provides for five pass ratings. Rating grades six through ten comprise the adversely rated credits.

The Bank classifies problem and potential problem loans for all loan types using the classifications of special mention, substandard, substandard nonaccrual, doubtful and loss, which for commercial real estate and commercial business loans correspond to the risk ratings of six, seven, eight, nine and ten, respectively. The classifications are updated, when warranted.

A loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard and substandard nonaccrual loans include those characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans or portions of loans classified as loss, are those considered uncollectible and of such little value that their continuance is not warranted. Loans that do not expose the Bank to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve management's close attention, are required to be designated as special mention.

Table of Contents**SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except per share amounts)**

Following is a summary of loans by grade or classification as of September 30, 2012 and December 31, 2011:

	Commercial Business	Commercial Real Estate	One-to-Four Family	Home Equity	Consumer	Total
At September 30, 2012:						
Credit Quality Indicator:						
Credit Risk Profile by Grade or Classification:						
Pass	\$ 8,327	\$ 34,605	\$ 154,141	\$ 8,730	\$ 6,088	\$ 211,891
Special Mention			1,036		45	1,081
Substandard		575	1,692			2,267
Substandard Nonaccrual		6,672	1,691		12	8,375
Doubtful						
Loss						
Total	\$ 8,327	\$ 41,852	\$ 158,560	\$ 8,730	\$ 6,145	\$ 223,614
At December 31, 2011						
Credit Quality Indicator:						
Credit Risk Profile by Grade or Classification:						
Pass	\$ 6,986	\$ 31,170	\$ 148,433	\$ 9,600	\$ 8,281	\$ 204,470
Special Mention			687	12	37	736
Substandard		7,178	1,493			8,671
Doubtful						
Loss						
Total	\$ 6,986	\$ 38,348	\$ 150,613	\$ 9,612	\$ 8,318	\$ 213,877

Table of Contents**SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

(Dollars in thousands, except per share amounts)

Impaired loans by loan class at September 30, 2012 and December 31, 2011 were summarized as follows:

	Commercial Business	Commercial Real Estate	One-to-Four Family	Home Equity	Consumer	Total
At September 30, 2012:						
Impaired loans:						
Impaired loans with an allowance for loan losses	\$	\$ 2,999	\$ 388	\$	\$ 12	\$ 3,399
Impaired loans with no allowance for loan losses		3,673	1,496		8	5,177
Total impaired loans	\$	\$ 6,672	\$ 1,884	\$	\$ 20	\$ 8,576
Unpaid principal balance of impaired loans	\$	\$ 6,672	\$ 1,884	\$	\$ 20	\$ 8,576
Allowance for loan losses on impaired loans	\$	\$ 425	\$ 94	\$	\$ 3	\$ 522
For the three months ended September 30, 2012:						
Average recorded investment in impaired loans	\$	\$ 5,935	\$ 1,908	\$	\$ 22	\$ 7,865
Interest income recognized on impaired loans	\$	\$ 81	\$ 19	\$	\$	\$ 100
For the three months ended September 30, 2011:						
Average recorded investment in impaired loans	\$ 319	\$ 5,523	\$ 2,516	\$ 132	\$ 21	\$ 8,511
Interest income recognized on impaired loans	\$	\$ 77	\$ 28	\$ 1	\$	\$ 106
For the nine months ended September 30, 2012:						
Average recorded investment in impaired loans	\$	\$ 5,596	\$ 1,906	\$ 6	\$ 25	\$ 7,533
Interest income recognized on impaired loans	\$	\$ 282	\$ 57	\$	\$ 1	\$ 340
For the nine months ended September 30, 2011:						
Average recorded investment in impaired loans	\$ 222	\$ 5,335	\$ 2,314	\$ 123	\$ 35	\$ 8,029
Interest income recognized on impaired loans	\$ 3	\$ 275	\$ 74	\$ 5	\$ 2	\$ 359
At December 31, 2011						
Impaired loans:						
Impaired loans with an allowance for loan losses	\$	\$	\$ 16	\$	\$ 15	\$ 31
Impaired loans with no allowance for loan losses		5,258	1,741	12	15	7,026
Total impaired loans	\$	\$ 5,258	\$ 1,757	\$ 12	\$ 30	\$ 7,057
Unpaid principal balance of impaired loans	\$	\$ 5,258	\$ 1,757	\$ 12	\$ 30	\$ 7,057
Allowance for loan losses on impaired loans	\$	\$	\$ 14	\$	\$ 5	\$ 19

Nonperforming loans by loan class at September 30, 2012 and December 31, 2011 were summarized as follows:

	Commercial Business	Commercial Real Estate	One-to-Four Family	Home Equity	Consumer	Total
At September 30, 2012:						
Nonperforming loans:						
Nonaccrual loans	\$	\$ 6,672	\$ 1,691	\$	\$ 12	\$ 8,375
Loans past due 90 days and still accruing			183		14	197

Edgar Filing: SP Bancorp, Inc. - Form 10-Q

Troubled debt restructurings (not included
in nonaccrual loans)

\$	\$ 6,672	\$ 1,874	\$	\$ 26	\$ 8,572
----	----------	----------	----	-------	----------

At December 31, 2011

Nonperforming loans:

Nonaccrual loans	\$	\$	\$ 207	\$	\$	\$ 207
------------------	----	----	--------	----	----	--------

Loans past due 90 days and still accruing

Troubled debt restructurings (not included in nonaccrual loans)		5,258	1,497		64	6,819
--	--	-------	-------	--	----	-------

\$	\$ 5,258	\$ 1,704	\$	\$ 64	\$ 7,026
----	----------	----------	----	-------	----------

For the nine months ended September 30, 2012 and 2011, gross interest income that would have been recorded had our nonaccruing loans been current in accordance with their original terms was \$492 and \$33, respectively. Interest income recognized on such loans for the nine months ended September 30, 2012 and 2011 was \$418 and \$18, respectively.

Table of Contents**SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

(Dollars in thousands, except per share amounts)

Following is a summary of the activity in the allowance for loan losses by loan class for the three and nine months ended September 30, 2012 and 2011 and total investment in loans at September 30, 2012, December 31, 2011 and September 30, 2011:

	Commercial Business	Commercial Real Estate	One-to-Four Family	Home Equity	Consumer	Total
Three Months Ended September 30, 2012						
Allowance for Loan Losses:						
Balance, beginning of period	\$ 193	\$ 974	\$ 868	\$ 91	\$ 60	\$ 2,186
Provision for loan losses	33	156	(56)		22	155
Loans charged to the allowance			(23)		(33)	(56)
Recoveries of loans previously charged off			1	1	3	5
Balance, end of period	\$ 226	\$ 1,130	\$ 790	\$ 92	\$ 52	\$ 2,290
Nine Months Ended September 30, 2012						
Allowance for Loan Losses:						
Balance, beginning of period	\$ 130	\$ 624	\$ 778	\$ 133	\$ 89	\$ 1,754
Provision for loan losses	96	506	273	(15)	(3)	857
Loans charged to the allowance			(263)	(28)	(44)	(335)
Recoveries of loans previously charged off			2	2	10	14
Balance, end of period	\$ 226	\$ 1,130	\$ 790	\$ 92	\$ 52	\$ 2,290
At September 30, 2012						
Allowance for Loan Losses:						
Ending balance: individually evaluated for impairment	\$	\$ 425	\$ 94	\$	\$ 3	\$ 522
Ending balance: collectively evaluated for impairment	\$ 226	\$ 705	\$ 696	\$ 92	\$ 49	\$ 1,768
Loans:						
Ending balance	\$ 8,327	\$ 41,852	\$ 158,560	\$ 8,730	\$ 6,145	\$ 223,614
Ending balance individually evaluated for impairment	\$	\$ 6,672	\$ 1,884	\$	\$ 20	\$ 8,576
Ending balance collectively evaluated for impairment	\$ 8,327	\$ 35,180	\$ 156,676	\$ 8,730	\$ 6,125	\$ 215,038
At December 31, 2011:						
Allowance for Loan Losses:						
Ending balance: individually evaluated for impairment	\$	\$	\$ 14	\$	\$ 5	\$ 19
Ending balance: collectively evaluated for impairment	\$ 130	\$ 624	\$ 764	\$ 133	\$ 84	\$ 1,735

Edgar Filing: SP Bancorp, Inc. - Form 10-Q

Loans:												
Ending balance	\$	6,986	\$	38,348	\$	150,613	\$	9,612	\$	8,318	\$	213,877
Ending balance individually evaluated for impairment	\$		\$	5,258	\$	1,757	\$	12	\$	30	\$	7,057
Ending balance collectively evaluated for impairment	\$	6,986	\$	33,090	\$	148,856	\$	9,600	\$	8,288	\$	206,820

Table of Contents**SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

(Dollars in thousands, except per share amounts)

	Commercial Business	Commercial Real Estate	One-to-Four Family	Home Equity	Consumer	Total
Three Months Ended September 30, 2011:						
Allowance for Loan Losses:						
Balance, beginning of period	\$ 57	\$ 726	\$ 917	\$ 70	\$ 89	\$ 1,859
Provision for loan losses	136	74	79	20		309
Loans charged to the allowance		(230)	(202)		(9)	(441)
Recoveries of loans previously charged off					5	5
Balance, end of period	\$ 193	\$ 570	\$ 794	\$ 90	\$ 85	\$ 1,732

Nine Months Ended September 30, 2011:

Allowance for Loan Losses:						
Balance, beginning of period	\$ 131	\$ 1,081	\$ 736	\$ 60	\$ 128	\$ 2,136
Provision for loan losses	187	186	333	30	(16)	720
Loans charged to the allowance	(125)	(697)	(275)		(40)	(1,137)
Recoveries of loans previously charged off					13	13
Balance, end of period	\$ 193	\$ 570	\$ 794	\$ 90	\$ 85	\$ 1,732

At September 30, 2011

Allowance for Loan Losses:						
Ending balance: individually evaluated for impairment	\$ 119	\$	\$ 117	\$ 37	\$	\$ 273
Ending balance: collectively evaluated for impairment	\$ 74	\$ 570	\$ 677	\$ 53	\$ 85	\$ 1,459

At September 30, 2011:

Loans:						
Ending balance	\$ 4,719	\$ 34,388	\$ 143,080	\$ 9,586	\$ 8,786	\$ 200,559
Ending balance individually evaluated for impairment	\$ 319	\$ 5,258	\$ 2,021	\$ 151	\$ 19	\$ 7,768
Ending balance collectively evaluated for impairment	\$ 4,400	\$ 29,130	\$ 141,059	\$ 9,435	\$ 8,767	\$ 192,791

The \$137 increase in the provision for loan losses for the nine months ended September 30, 2012 versus September 30, 2011 was primarily attributable to an increase in the loss experience factors used to determine the general allowance for loan losses.

The Company establishes an allocated allowance when loans are determined to be impaired, including troubled debt restructurings. The allowance is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The Company has allocated allowance for loan losses of \$297 and \$5 to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2012 and December 31, 2011. The Company has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings at September 30, 2012 and December 31, 2011.

During the periods ended September 30, 2012 and 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an

Edgar Filing: SP Bancorp, Inc. - Form 10-Q

extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from nine months to five years. Modifications involving an extension of the maturity date were for periods ranging from three months to five years.

Table of Contents**SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except per share amounts)**

Following is a summary of troubled debt restructurings during the three and nine months ended September 30, 2012 and 2011 and loans that have been restructured during the previous twelve months that subsequently defaulted during the three and nine months ended September 30, 2012 and 2011:

	Commercial Business	Commercial Real Estate	One-to-Four Family	Home Equity	Consumer	Total
Troubled debt restructurings during the three months ended September 30, 2012:						
Number of contracts						
Pre-restructuring outstanding recorded investment	\$	\$	\$	\$	\$	\$
Post-restructuring outstanding recorded investment	\$	\$	\$	\$	\$	\$
Troubled debt restructurings during the previous twelve months that subsequently defaulted during the three months ended September 30, 2012						
Number of contracts						
Recorded investment	\$	\$	\$	\$	\$	\$
Troubled debt restructurings during the nine months ended September 30, 2012:						
Number of contracts						
Pre-restructuring outstanding recorded investment	\$	\$	\$ 392	\$	\$	\$ 392
Post-restructuring outstanding recorded investment	\$	\$	\$ 392	\$	\$	\$ 392
Troubled debt restructurings during the previous twelve months that subsequently defaulted during the nine months ended September 30, 2012						
Number of contracts						
Recorded investment	\$	\$	\$ 1,267	\$	\$	\$ 1,267
Troubled debt restructurings during the three months ended September 30, 2011:						
Number of contracts						
Pre-restructuring outstanding recorded investment	\$	\$	\$ 483	\$	\$ 3	\$ 486
Post-restructuring outstanding recorded investment	\$	\$	\$ 499	\$	\$ 3	\$ 502

Edgar Filing: SP Bancorp, Inc. - Form 10-Q

Troubled debt restructurings during the previous twelve months that subsequently defaulted during the three months ended September 30, 2011

Number of contracts

Recorded investment	\$	\$	\$	\$	\$	\$
---------------------	----	----	----	----	----	----

Troubled debt restructurings during the nine months ended September 30, 2011:

Number of contracts		3	2	2	7
---------------------	--	---	---	---	---

Pre-restructuring outstanding recorded investment	\$	\$ 5,581	\$ 483	\$	\$ 12	\$ 6,076
---	----	----------	--------	----	-------	----------

Post-restructuring outstanding recorded investment	\$	\$ 5,251	\$ 499	\$	\$ 12	\$ 5,762
--	----	----------	--------	----	-------	----------

Troubled debt restructurings during the previous twelve months that subsequently defaulted during the nine months ended September 30, 2011

Number of contracts			1		1
---------------------	--	--	---	--	---

Recorded investment	\$	\$	\$ 71	\$	\$	\$ 71
---------------------	----	----	-------	----	----	-------

The Bank originated \$59,109 and \$34,992 in loans during the nine months ended September 30, 2012 and 2011, respectively, which were placed with various correspondent lending institutions. Proceeds on sales of these loans were \$56,930 and \$35,239 for the nine months ended September 30, 2012 and 2011, respectively. Gains on sales of these loans were \$1,509 and \$883 for the nine months ended September 30, 2012 and 2011, respectively. These loans were sold with servicing rights released.

Loans serviced for the benefit of others amounted to \$3,216, \$3,257 and \$2,570 at September 30, 2012, December 31, 2011 and September 30, 2011, respectively.

Table of Contents

SP Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands, except per share amounts)

Note 5. Borrowings

The Bank periodically borrows from the FHLB of Dallas. At September 30, 2012, the Bank had a total of eleven such advances which totaled \$24,290. These advances have various maturities ranging from October 12, 2012 through September 6, 2018 at interest rates from 0.17% to 1.96%. At December 31, 2011, the Bank had a total of eleven such advances which totaled \$25,978. These advances have various maturities ranging from January 27, 2012 through November 17, 2014 at interest rates from 0.14% to 3.09%.

These advances are secured by FHLB of Dallas stock, real estate loans and securities of \$127,319 and \$121,640, at September 30, 2012 and December 31, 2011, respectively. The Bank had remaining credit available under the FHLB advance program of \$102,696 and \$95,529 at September 30, 2012 and December 31, 2011, respectively.

During the third quarter of 2012, the Bank prepaid \$6,123 of advances from the FHLB maturing in years 2013 through 2014, with a weighted-average rate of 3.46% and an average remaining term of 1.29 years. These borrowings were replaced with \$6,123 of new advances from the FHLB maturing in years 2015 through 2018, with a weighted-average rate of 2.40% and an average remaining term of 4.02 years.

The Bank paid \$325 of prepayment fees to the FHLB in order to increase the duration and reduce interest costs of these advances. Such fees were deferred and are being recognized in interest expense using the interest method as an adjustment to the cost of the new advances over their remaining term.

Note 6. Income Taxes

The difference between the statutory rate of 34% and the effective tax rates of 27.6% and 22.9% for the nine months ended September 30, 2012 and 2011, respectively, was primarily attributable to permanent differences related to tax exempt income consisting of interest on municipal obligations and BOLI income.

There were no significant changes in deferred tax items during the nine months ended September 30, 2012.

Note 7. Financial Instruments With Off-Balance Sheet Risk

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

Table of Contents**SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except per share amounts)**

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At September 30, 2012 and December 31, 2011, the approximate amounts of these financial instruments were as follows:

	September 30, 2012	December 31, 2011
Commitments to extend credit	\$ 24,290	\$ 21,568

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include cattle, accounts receivable, inventory, property, single and multi-family residences, plant and equipment and income-producing commercial properties. At September 30, 2012 and December 31, 2011, commitments to fund fixed rate loans of \$8,491 and \$9,239, respectively, were included in the commitments to extend credit. Interest rates on these commitments to fund fixed rate loans, including unsecured loans, ranged from 2.75% to 12.90% at September 30, 2012 and from 3.49% to 17.90% at December 31, 2011.

The Bank has not incurred any significant losses on its commitments in the nine months ended September 30, 2012 or 2011. Although the maximum exposure to loss is the amount of such commitments, management anticipates no material losses from such activities.

Note 8. Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy requires the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), of core capital (as defined) to adjusted tangible assets (as defined) and of tangible capital (as defined) to tangible assets. Management believes, as of September 30, 2012 and December 31, 2011, that the Bank meets all capital adequacy requirements to which it is subject.

At September 30, 2012 and December 31, 2011, the most recent regulatory notification categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Table of Contents**SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

(Dollars in thousands, except per share amounts)

The following table sets forth the Bank's capital ratios as of September 30, 2012 and December 31, 2011:

	Actual		Minimum for Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2012:						
Total capital to risk weighted assets	\$ 32,247	15.45%	\$ 16,693	8.00%	\$ 20,866	10.00%
Tier 1 capital to risk weighted assets	29,957	14.36%	\$ 8,346	4.00%	\$ 12,520	6.00%
Tier 1 capital to assets	29,957	10.12%	\$ 11,843	4.00%	\$ 14,804	5.00%
As of December 31, 2011:						
Tangible capital to tangible assets	\$ 29,319	10.75%	\$ 4,090	1.50%	N/A	N/A
Total capital to risk weighted assets	31,073	16.48%	15,081	8.00%	\$ 18,852	10.00%
Tier 1 capital to risk weighted assets	29,319	15.55%	7,541	4.00%	11,311	6.00%
Tier 1 capital to assets	29,319	10.75%	10,905	4.00%	13,632	5.00%

The following is a reconciliation of the Bank's equity capital under U.S. generally accepted accounting principles to Tangible and Tier 1 capital and Total capital (as defined by the OCC) at September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
Equity capital	\$ 30,393	\$ 29,533
Disallowed deferred tax asset	(331)	
Unrealized gains on securities, net	(105)	(214)
Tangible and Tier 1 capital	29,957	29,319
Allowance for loan losses	2,290	1,754
Total capital	\$ 32,247	\$ 31,073

Note 9. Fair Value Measurements

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (1) independent, (2) knowledgeable, (3) able to transact and (4) willing to transact.

The guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or

Table of Contents

SP Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands, except per share amounts)

earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1 Inputs Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Table of Contents**SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except per share amounts)**

The following table represents assets and liabilities reported on the consolidated balance sheet at their fair value as of September 30, 2012 and December 31, 2011 by level within the ASC 820 fair value measurement hierarchy:

	Fair Value Measurements at Reporting Date Using			
	Assets/ Liabilities Measured At Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2012:				
Measured on a recurring basis:				
Assets:				
Securities available for sale:				
Municipal securities	\$ 1,069	\$	\$ 1,069	\$
Collateralized mortgage obligations	8,473		8,473	
Asset-backed securities	3,007		3,007	
Mortgage-backed securities	7,194		7,194	
Measured on a nonrecurring basis:				
Assets:				
Impaired loans	2,877			2,877
December 31, 2011:				
Measured on a recurring basis:				
Assets:				
Securities available for sale:				
Municipal securities	\$ 9,122	\$	\$ 9,122	\$
Collateralized mortgage obligations	12,745		12,745	
Mortgage-backed securities	3,230		3,230	
Measured on a nonrecurring basis:				
Assets:				
Impaired loans	12			12
Other real estate owned	1,300			1,300

There were no transfers between Level 1 and Level 2 categorizations for the periods presented.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities available for sale are classified within Level 2 of the valuation hierarchy. The Company obtains fair value measurements for securities from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S Treasury yield curve, live trading levels, trade execution data, market consensus prepayment spreads, credit information and the bond s terms and conditions, among other things.

Edgar Filing: SP Bancorp, Inc. - Form 10-Q

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis. The instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Certain impaired loans are reported at the fair value of underlying collateral if repayment is expected solely from the collateral. Other real estate owned is initially recorded at fair value less estimated costs of disposal, which establishes a new

Table of Contents**SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except per share amounts)**

cost basis. For the nine months ended September 30, 2012 and for the year ended December 31, 2011, adjustments of \$244 and \$200, respectively, were recorded to write-down commercial properties included in other real estate owned to its fair value less estimated selling costs. Collateral values are estimated using Level 2 inputs based on observable market data such as independent appraisals or Level 3 inputs based on customized discounting.

For the nine months ended September 30, 2012 and for the year ended December 31, 2011, impaired loans (with allocated allowance for losses) with principal balances of \$3,399 and \$31, respectively, had additional provisions for losses of \$522 and \$19, respectively.

There were no transfers into or out of Level 3 categorization for the periods presented.

For Level 3 financial and nonfinancial assets measured at fair value on a non-recurring basis at September 30, 2012, the significant unobservable inputs used in the fair value measurements are follows:

	Assets	Fair Value	Valuation Technique	Unobservable Input(s)	Range (Weighted Average)
Impaired loans		\$ 2,877	Collateral method	Adjustments for selling costs	N/A

Table of Contents**SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

(Dollars in thousands, except per share amounts)

Note 10. Disclosure About the Fair Value of Financial Instruments

The carrying amount, estimated fair value and the financial hierarchy of the Company's financial instruments at September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012		Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Carrying Amount	Estimated Fair Value			
Financial assets:					
Cash and cash equivalents	\$ 27,070	\$ 27,070	27,070		
Securities available for sale	19,743	19,743		19,743	
Fixed annuity investment	1,211	1,211		1,211	
Restricted stock	1,539	1,539		1,539	
Loans and loans held for sale	230,526	230,255		227,378	2,877
Accrued interest receivable	742	742		742	
Financial liabilities:					
Deposit accounts	236,828	234,109		234,109	
Accrued interest payable	40	40		40	
Borrowings	24,290	24,307		24,307	
Off-balance sheet assets (liabilities):					
Commitments to extend credit					

	December 31, 2011		Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Carrying Amount	Estimated Fair Value			
Financial assets:					
Cash and cash equivalents	\$ 9,928	\$ 9,928	9,928		
Securities available for sale	25,097	25,097		25,097	
Fixed annuity investment	1,176	1,176		1,176	
Restricted stock	2,020	2,020		2,020	
Loans and loans held for sale	217,572	217,829		217,817	12
Accrued interest receivable	961	961		961	
Financial liabilities:					

Edgar Filing: SP Bancorp, Inc. - Form 10-Q

Deposit accounts	211,934	208,744	208,744
Accrued interest payable	29	29	29
Borrowings	25,978	26,299	26,299
Off-balance sheet assets (liabilities):			
Commitments to extend credit			
Fair Values of Financial Instruments			

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used,

Table of Contents

SP Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands, except per share amounts)

including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. ASC 820 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

Cash and short-term instruments

The carrying amounts of cash and short-term instruments approximate their fair value.

Securities

See Note 9 to Consolidated Financial Statements for methods and assumptions used to estimate fair values for securities.

The carrying value of Federal Home Loan Bank stock and other restricted equities approximate fair value based on the redemption provisions of such assets.

Fixed annuity investment

The carrying amount approximates fair value.

Loans and loans held for sale

For variable-rate loans that reprice frequently and have no significant changes in credit risk, fair values are based on carrying values. Fair values for real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable. Fair value of loans held for sale is based on commitments on hand from investors or prevailing market rates.

Deposits

The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is their carrying amounts). The carrying amounts of variable-rate, fixed term money market accounts and variable-rate certificates of deposit (CDs) approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Advances from Federal Home Loan Bank

The fair value of advances from the Federal Home Loan Bank maturing within 90 days approximates carrying value. Fair value of other advances is based on the discounted value of contractual cash flows based on the Bank's current incremental borrowing rate for similar borrowing arrangements.

Accrued interest

The carrying amounts of accrued interest approximate their fair values.

Off-balance sheet instruments

Edgar Filing: SP Bancorp, Inc. - Form 10-Q

Commitments to extend credit and standby letters of credit have short maturities and therefore have no significant fair value.

Table of Contents

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations at September 30, 2012 and for the three and nine months ended September 30, 2012 and 2011 is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the Unaudited Consolidated Financial Statements and the notes thereto, appearing in Part 1, Item 1 of this report.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements, which can be identified by the use of words such as estimate, project, believe, intend, anticipate, plan, seek, expect, will, may and words of similar meaning. These forward-looking statements include, but are not limited to:

statements of our goals, intentions and expectations;

statements regarding our business plans, prospects, growth and operating strategies;

statements regarding the asset quality of our loan and investment portfolios; and

estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this Form 10-Q.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

general economic conditions, either nationally or in our market areas, that are worse than expected;

competition among depository and other financial institutions;

changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;

adverse changes in the securities markets;

changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;

our ability to enter new markets successfully and capitalize on growth opportunities;

our ability to successfully integrate acquired entities, if any;

Table of Contents

changes in consumer spending, borrowing and savings habits;

changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;

changes in our organization, compensation and benefit plans;

changes in our financial condition or results of operations that reduce capital; and

changes in the financial condition or future prospects of issuers of securities that we own.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Overview

On October 29, 2010, SharePlus Federal Bank completed its conversion from a federal mutual savings bank to a capital stock savings bank. A new holding company, SP Bancorp, Inc., was established as part of the conversion. The public offering was consummated through the sale and issuance by SP Bancorp, Inc. of 1,725,000 shares of common stock at \$10 per share. Net proceeds of \$14.5 million were raised in the stock offering, after deduction of conversion costs of \$2.0 million and excluding \$0.8 million which was loaned by the Company to a trust for the Employee Stock Ownership Plan (the ESOP). The ESOP purchased 67,750 shares in the offering and 70,250 in the open market.

At September 30, 2012, we had total assets of \$296.6 million, compared to \$273.0 million at December 31, 2011. Customer deposits and proceeds from sale of securities were temporarily reinvested in cash and cash equivalents, and loans, including loans held for sale.

During the three months ended September 30, 2012, we had net income of \$542,000, compared to a net income of \$332,000 for the three months ended September 30, 2011. Higher net income resulted from higher net interest income and noninterest income and a lower provision for loan losses, partially offset by higher noninterest expense and income tax expense.

During the nine months ended September 30, 2012, we had net income of \$1.1 million, compared to net income of \$767,000 for the nine months ended September 30, 2011. Higher net income resulted from higher net interest income and noninterest income, partially offset by higher noninterest expense, provision for loan losses and income tax expense.

Our results of operations depend mainly on our net interest income, which is the difference between the interest income we earn on our loan and investment portfolios and the interest expense we incur on our deposits and, to a lesser extent, our borrowings. Results of operations are also affected by service charges and other fees, provision for loan losses, commissions, gain on sales of securities and loans and other income. Our noninterest expense consists primarily of compensation and benefits, occupancy costs, equipment expense, data processing, ATM expense, professional and outside services, FDIC insurance assessments, marketing and income tax expense.

Our results of operations are also significantly affected by general economic and competitive conditions (such as changes in energy prices which have an impact on our Texas market area), as well as changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable laws, regulations or government policies may materially affect our financial condition and results of operations.

Critical Accounting Policies. There are no material changes to the critical accounting policies disclosed in SP Bancorp, Inc.'s Form 10-K dated December 31, 2011, as filed on March 30, 2012 with the Securities and Exchange Commission.

Table of Contents**Comparison of Financial Condition at September 30, 2012 and December 31, 2011***Summary of Selected Balance Sheet Data.*

(Dollars in thousands)	September 30, 2012	December 31, 2011	Increase (Decrease)	% Change
Total assets	\$ 296,635	\$ 272,959	\$ 23,676	8.67%
Total cash and cash equivalents	27,070	9,928	17,142	172.66
Securities available for sale, at fair value	19,743	25,097	(5,354)	(21.33)
Loans held for sale	8,572	4,884	3,688	75.51
Loans, net	221,954	212,688	9,266	4.36
Other real estate owned	1,477	1,824	(347)	(19.02)
Premises and equipment, net	4,274	4,346	(72)	(1.66)
Federal Home Loan Bank of Dallas stock and other restricted stock, at cost	1,539	2,020	(481)	(23.81)
Bank-owned life insurance	7,373	6,193	1,180	19.05
Other assets (1)	4,633	5,979	(1,346)	(22.51)
Deposits	236,828	211,934	24,894	11.75
Borrowings	24,290	25,978	(1,688)	(6.50)
Stockholders equity	32,925	33,127	(202)	(0.61)

1) Includes fixed annuity investment, accrued interest receivable, deferred tax assets and other assets.

Total assets increased by \$23.7 million to \$296.6 million at September 30, 2012. Customer deposits and proceeds from sale of securities were temporarily reinvested in cash and cash equivalents, and loans, including loans held for sale.

Net loans increased to \$222.0 million at September 30, 2012, as loan originations were higher than loan collections. Loans held for sale increased as a result of higher loan production due to the low interest rate environment.

Deposits increased by \$24.9 million, or 11.8%, to \$236.8 million at September 30, 2012 from \$211.9 million at December 31, 2011. Deposits, in particular noninterest-bearing deposits, certificates of deposit and savings deposits, increased primarily from deposit inflows from existing customers. Certificates of deposit increased due to management extending the term of its liabilities during the low interest rate environment.

Federal Home Loan Bank advances decreased \$1.7 million to \$24.3 million at September 30, 2012.

Stockholders equity remained virtually unchanged primarily as a result of repurchases of common stock of \$845,000 and ESOP shares purchased in the open market of \$373,000, substantially offset by net income of \$1.1 million for the nine months ended September 30, 2012.

Table of Contents**Comparison of Operating Results for the Three Months Ended September 30, 2012 and 2011**

General. We recorded net income of \$542,000 for the three months ended September 30, 2012, compared to net income of \$332,000 for the same period last year. Net interest income increased by \$209,000 to \$2.6 million for the three months ended September 30, 2012 from \$2.4 million for the three months ended September 30, 2011, the provision for loan losses decreased by \$154,000 and noninterest income increased by \$298,000, which was substantially offset by an increase in noninterest expense of \$278,000.

Summary of Net Interest Income.

(Dollars in thousands)	Three Months Ended September 30,		Increase	% Change
	2012	2011	(Decrease)	
Interest income:				
Interest and fees on loans	\$ 2,832	\$ 2,667	\$ 165	6.19%
Securities - taxable	52	80	(28)	(35.00)
Securities - nontaxable	16	61	(45)	(73.77)
Other interest - earning assets	37	23	14	60.87
Total interest income	2,937	2,831	106	3.74
Interest expense:				
Savings deposits	9	18	(9)	(50.00)
Money market	19	32	(13)	(40.63)
Demand deposit account	17	22	(5)	(22.73)
Certificates of deposit	235	272	(37)	(13.60)
Total deposits	280	344	(64)	(18.60)
Borrowings	73	112	(39)	(34.82)
Total interest expense	353	456	(103)	(22.59)
Net interest income	\$ 2,584	\$ 2,375	\$ 209	8.80%

Table of Contents*Summary of Average Yields, Average Rates and Average Balances.***Average Yields and Rates**

	Three Months Ended September 30,		Increase
	2012	2011	(decrease)
Loans	4.93%	5.35%	(0.42)%
Securities - taxable	1.41%	1.53%	(0.12)
Securities - nontaxable	3.53%	3.58%	(0.05)
Other interest - earning assets	0.52%	0.52%	0.00
Total interest-earning assets	4.26%	4.62%	(0.36)
Savings deposits	0.09%	0.21%	(0.12)
Money market	0.19%	0.30%	(0.11)
Demand deposit account	0.13%	0.16%	(0.03)
Certificates of deposit	1.20%	1.52%	(0.32)
Total deposits	0.53%	0.67%	(0.14)
Borrowings	1.22%	3.03%	(1.81)
Total interest-bearing liabilities	0.60%	0.83%	(0.23)
Net interest rate spread	3.66%	3.79%	(0.13)
Net interest margin	3.75%	3.88%	(0.13)%

Average Balances

(Dollars in thousands)	Three Months Ended September 30,		Increase	% Change
	2012	2011	(Decrease)	
Loans	\$ 229,991	\$ 199,556	\$ 30,435	15.25%
Securities - taxable	14,768	20,973	(6,205)	(29.59)
Securities - nontaxable	1,812	6,807	(4,995)	(73.38)
Other interest - earning assets	29,080	17,524	11,556	65.94
Total interest-earning assets	275,651	244,860	30,791	12.57
Savings deposits	38,358	34,338	4,020	11.71
Money market	40,045	42,792	(2,747)	(6.42)
Demand deposit account	53,284	55,695	(2,411)	(4.33)
Certificates of deposit	78,256	71,421	6,835	9.57
Total deposits	209,943	204,246	5,697	2.79
Borrowings	23,996	14,802	9,194	62.11
Total interest-bearing liabilities	233,939	219,048	14,891	6.80
Net interest-earning assets	\$ 41,712	\$ 25,812	\$ 15,900	61.60%

Table of Contents

Interest Income. Interest income increased primarily due to our growth in loans, our highest earning asset.

Interest income and fees on loans increased as the increase in the average balance of loans more than offset a decrease in the average yield on our loans. The average yield on our loan portfolio decreased, reflecting an increase in nonaccrual loans and a lower market interest rate environment.

Interest income on taxable securities decreased from a decline in the average balance and average yield of our taxable securities. The decline in the average yield on our taxable securities portfolio resulted from lower market interest rates.

Interest Expense. Interest expense decreased as the decrease in the average cost of deposits more than offset the increase in the average balance of deposits. The average rate we paid on deposits decreased as we were able to reprice our deposits downward in the declining market interest rate environment. The increase in the average balance of our deposits resulted primarily from increases in the average balance of certificates of deposit, reflecting our successful efforts to lengthen our liabilities.

During the September 2012 quarter, we utilized deposits and overnight and short-term advances to fund loans.

Net Interest Income. Net interest income increased as our net interest-earning assets increased. In contrast, our net interest rate spread decreased to 3.66% from 3.79%, and we experienced a 13 basis point decrease in our net interest margin to 3.75% from 3.88%.

Provision for Loan Losses. We recorded a provision for loan losses of \$155,000 for the three months ended September 30, 2012, compared to \$309,000 for the same period in 2011. The decrease in the provision for loan losses was primarily attributable to a higher degree of loss exposures in the third quarter of 2011.

Summary of Noninterest Income.

(Dollars in thousands)	Three Months Ended September 30,		Increase	%
	2012	2011	(Decrease)	Change
Noninterest income:				
Service charges	\$ 290	\$ 317	\$ (27)	(8.52)%
Gain on sale of securities available for sale	128	120	8	6.67
Gain on sale of mortgage loans	630	354	276	77.97
Increase in cash surrender value of BOLI	67	59	8	13.56
Other	106	73	33	45.21
Total noninterest income	\$ 1,221	\$ 923	\$ 298	32.29%

Noninterest Income. Noninterest income increased primarily due to gains on sale of mortgage loans. Our origination, sale and resulting gains on one-to-four family residential loans in the secondary market is dependent upon relative customer demand, and can be affected by current and anticipated market interest rates.

Service charges decreased as a result of lower NSF charges and other deposit fees driven by new regulations related to overdraft protection programs. Other noninterest income increased due primarily to transaction-based fee income generated from the Bank's mortgage warehouse business.

Table of Contents**Summary of Noninterest Expense.**

(Dollars in thousands)	Three Months Ended September 30,		Increase (Decrease)	% Change
	2012	2011		
Noninterest expense:				
Compensation and benefits	\$ 1,650	\$ 1,446	\$ 204	14.11%
Occupancy costs	262	278	(16)	(5.76)
Equipment expense	32	63	(31)	(49.21)
Data processing expense	146	118	28	23.73
ATM expense	83	98	(15)	(15.31)
Professional and outside services	336	216	120	55.56
Stationery and supplies	19	16	3	18.75
Marketing	49	36	13	36.11
FDIC insurance assessments	63	30	33	110.00
Operations from OREO	21	47	(26)	(55.32)
Provision for losses on OREO	11	11		0.00
Other	183	218	(35)	(16.06)
Total noninterest expense	\$ 2,855	\$ 2,577	\$ 278	10.79%

Noninterest Expense. Noninterest expense increased due primarily to an increase in compensation and benefits, professional and outside services and FDIC insurance assessments, partially offset by a decrease in equipment expense, operations from OREO and other noninterest expense.

Compensation and benefits increased due to higher salary levels and mortgage commission expense, and additional personnel associated with the mortgage warehouse business. Professional and outside services reflects higher outside information technology (IT) costs and expenses associated with the Company's public filing requirements with the SEC, partially offset by lower outside consultant fees incurred for general corporate purposes. FDIC insurance assessments increased due to a higher asset base and assessment rate. Equipment expense decreased as a result of cost cutting efforts by management to lower equipment maintenance costs. Operations from OREO decreased due to a higher degree of various holding costs related to other real estate owned in the 2011 period. Other noninterest expense decreased as a result of lower legal expenses related to loan matters and mortgage servicing costs.

Income Tax Expense. We recorded income tax expense of \$253,000 for the three months ended September 30, 2012, compared to income tax expense of \$80,000 for the same period in 2011. Our effective tax rate was 31.8% for the three months ended September 30, 2012, compared to 19.4% for the three months ended September 30, 2011. The increase in the effective tax rate is due to a decrease in certain factors, including permanent differences related to tax exempt income.

Comparison of Operating Results for the Nine Months Ended September 30, 2012 and 2011

General. We recorded net income of \$1.1 million for the nine months ended September 30, 2012, compared to net income of \$767,000 for the same period last year. Net interest income increased by \$697,000 to \$7.7 million for the nine months ended September 30, 2012 from \$7.0 million for the nine months ended September 30, 2011 and noninterest income increased by \$946,000, which was partially offset by a higher provision for loan losses of \$137,000 and noninterest expense of \$1.0 million.

Table of Contents*Summary of Net Interest Income.*

(Dollars in thousands)	Nine Months Ended September 30,		Increase (Decrease)	% Change
	2012	2011		
Interest income:				
Interest and fees on loans	\$ 8,421	\$ 7,856	\$ 565	7.19%
Securities - taxable	135	279	(144)	(51.61)
Securities - nontaxable	92	131	(39)	(29.77)
Other interest - earning assets	104	77	27	35.06
Total interest income	8,752	8,343	409	4.90
Interest expense:				
Savings deposits	36	60	(24)	(40.00)
Money market	61	117	(56)	(47.86)
Demand deposit account	53	79	(26)	(32.91)
Certificates of deposit	704	792	(88)	(11.11)
Total deposits	854	1,048	(194)	(18.51)
Borrowings	243	337	(94)	(27.89)
Total interest expense	1,097	1,385	(288)	(20.79)
Net interest income	\$ 7,655	\$ 6,958	\$ 697	10.02%

Table of Contents**Summary of Average Yields, Average Rates and Average Balances.****Average Yields and Rates**

	Nine Months Ended September 30,		Increase
	2012	2011	(decrease)
Loans	5.03%	5.33%	(0.30)%
Securities - taxable	1.26%	1.88%	(0.62)
Securities - nontaxable	3.40%	3.59%	(0.19)
Other interest - earning assets	0.54%	0.50%	0.04
Total interest-earning assets	4.37%	4.60%	(0.23)
Savings deposits	0.13%	0.24%	(0.11)
Money market	0.21%	0.37%	(0.16)
Demand deposit account	0.13%	0.18%	(0.05)
Certificates of deposit	1.25%	1.58%	(0.33)
Total deposits	0.56%	0.70%	(0.14)
Borrowings	1.30%	2.88%	(1.58)
Total interest-bearing liabilities	0.64%	0.86%	(0.22)
Net interest rate spread	3.73%	3.74%	(0.01)
Net interest margin	3.82%	3.84%	(0.02)%

Average Balances

(Dollars in thousands)	Nine Months Ended September 30,		Increase	% Change
	2012	2011	(Decrease)	
Loans	\$ 223,217	\$ 196,585	\$ 26,632	13.55%
Securities - taxable	14,287	19,810	(5,523)	(27.88)
Securities - nontaxable	3,604	4,865	(1,261)	(25.92)
Other interest - earning assets	26,211	20,539	5,672	27.62
Total interest-earning assets	267,319	241,799	25,520	10.55
Savings deposits	36,639	33,591	3,048	9.07
Money market	38,943	41,744	(2,801)	(6.71)
Demand deposit account	53,975	57,174	(3,199)	(5.60)
Certificates of deposit	74,958	66,911	8,047	12.03
Total deposits	204,515	199,420	5,095	2.55
Borrowings	25,008	15,583	9,425	60.48
Total interest-bearing liabilities	229,523	215,003	14,520	6.75
Net interest-earning assets	\$ 37,796	\$ 26,796	\$ 11,000	41.05%

Table of Contents

Interest Income. Interest income increased primarily due to our growth in loans, our highest earning asset.

Interest income and fees on loans increased as the increase in the average balance of loans more than offset a decrease in the average yield on our loans. The average yield on our loan portfolio decreased, reflecting an increase in nonaccrual loans and a lower market interest rate environment.

Interest income on taxable securities decreased from a decline in the average balance and average yield of our taxable securities. The decline in the average yield on our taxable securities portfolio resulted from lower market interest rates.

Interest Expense. Interest expense decreased as the decrease in the average cost of deposits more than offset the increase in the average balance of deposits. The average rate we paid on deposits decreased as we were able to reprice our deposits downward in the declining market interest rate environment. The increase in the average balance of our deposits resulted primarily from increases in the average balance of certificates of deposit, reflecting our successful efforts to lengthen our liabilities.

During the nine months ended September 30, 2012, we utilized deposits and overnight and short-term advances to fund loans.

Net Interest Income. Net interest income increased as our net interest-earning assets increased. In contrast, our net interest rate spread decreased to 3.73% from 3.74%, and we experienced a 2 basis point decrease in our net interest margin to 3.82% from 3.84%.

Provision for Loan Losses. We recorded a provision for loan losses of \$857,000 for the nine months ended September 30, 2012, compared to \$720,000 for the same period in 2011. The increase in the provision for loan losses was primarily attributable to an increase in the loss experience factors used to determine the general allowance for loan losses.

Summary of Noninterest Income.

(Dollars in thousands)	Nine Months Ended September 30,		Increase (Decrease)	% Change
	2012	2011		
Noninterest income:				
Service charges	\$ 858	\$ 951	\$ (93)	(9.78)%
Gain on sale of securities available for sale	628	322	306	95.03
Gain on sale of mortgage loans	1,509	883	626	70.89
Increase in cash surrender value of BOLI	180	135	45	33.33
Other	272	210	62	29.52
Total noninterest income	\$ 3,447	\$ 2,501	\$ 946	37.82%

Noninterest Income. Noninterest income increased primarily due to gains on sale of securities available for sale and mortgage loans. Gains on sale of securities are not stable sources of income and there is no assurance that the Company will generate such gains in the future. Our origination, sale and resulting gains on one-to-four family residential loans in the secondary market is dependent upon relative customer demand, and can be affected by current and anticipated market interest rates.

Service charges decreased as a result of lower NSF charges and other deposit fees driven by new regulations related to overdraft protection programs. Other noninterest income increased due primarily to transaction-based fee income generated from the Bank's mortgage warehouse business, partially offset by lower fees from sales of investment and insurance products.

Table of Contents**Summary of Noninterest Expense.**

(Dollars in thousands)	Nine Months Ended September 30,			
	2012	2011	Increase (Decrease)	% Change
Noninterest expense:				
Compensation and benefits	\$ 4,610	\$ 4,049	\$ 561	13.86%
Occupancy costs	758	804	(46)	(5.72)
Equipment expense	156	194	(38)	(19.59)
Data processing expense	416	356	60	16.85
ATM expense	239	286	(47)	(16.43)
Professional and outside services	1,014	739	275	37.21
Stationery and supplies	70	82	(12)	(14.63)
Marketing	159	124	35	28.23
FDIC insurance assessments	162	200	(38)	(19.00)
Operations from OREO	87	178	(91)	(51.12)
Provision for losses on OREO	255	11	244	2,218.18
Other	861	721	140	19.42
Total noninterest expense	\$ 8,787	\$ 7,744	\$ 1,043	13.47%

Noninterest Expense. Noninterest expense increased due primarily to an increase in compensation and benefits, professional and outside services, provision for losses on OREO and other noninterest expense, partially offset by lower costs from operations from OREO and a decrease in occupancy costs and equipment expense.

Compensation and benefits increased due to higher salary levels and mortgage commission expense, and additional personnel associated with the mortgage warehouse business. Occupancy costs decreased due to lower depreciation expense as a result of items being fully depreciated in 2011. Equipment expense decreased as a result of cost cutting efforts by management to lower maintenance costs. Professional and outside services reflects higher outside information technology (IT) costs and expenses associated with the Company's public filing requirements with the SEC, partially offset by lower outside consultant fees incurred for general corporate purposes. The provision for losses on OREO increased due primarily to a write-down on a property secured by commercial real estate. Operations from OREO decreased due to a higher degree of various holding costs related to other real estate owned in 2011. Other noninterest expense increased due to a provision for loss on a fraudulent wire transfer transaction, partially offset by lower legal expenses related to loan matters and mortgage servicing costs.

During the three months ended March 31, 2012, the Bank experienced a fraudulent wire transfer from a customer's account. The Company accrued and expensed the \$50,000 deductible under its insurance policy during the same period. In August, 2012, the Company was notified by its insurance carrier that its claim for reimbursement of loss was denied. The Company provided for an additional loss of \$228,000 in connection with this incident during the three months ended June 30, 2012. Although the Company has provided for a total loss of \$278,000, the Company strongly disagrees with the position taken by its insurance carrier and is challenging this decision.

Income Tax Expense. We recorded income tax expense of \$402,000 for the nine months ended September 30, 2012, compared to income tax expense of \$228,000 for the same period in 2011. Our effective tax rate was 27.6% for the nine months ended September 30, 2012, compared to 22.9% for the nine months ended September 30, 2011. The increase in the effective tax rate is due to a decrease in certain factors, including permanent differences related to tax exempt income.

Table of Contents**Average Balances and Yields**

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. Tax-equivalent yield adjustments have not been made for tax-exempt securities. All average balances are daily average balances. Nonaccrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

	For the Three Months Ended September 30,					
	2012			2011		
	Average Outstanding Balance	Interest	Yield/Rate (1)	Average Outstanding Balance	Interest	Yield/Rate (1)
Interest-earning assets:						
Loans, net	229,991	2,832	4.93%	199,556	2,667	5.35%
Taxable investment securities	14,768	52	1.41%	20,973	80	1.53%
Nontaxable investment securities	1,812	16	3.53%	6,807	61	3.58%
Total other interest-earning assets	27,857	36	0.52%	16,569	22	0.53%
FHLB of Dallas stock	1,223	1	0.33%	955	1	0.42%
Total interest-earning assets	275,651	2,937	4.26%	244,860	2,831	4.62%
Non-interest-earning assets	17,530			17,162		
Total assets	293,181			262,022		
Interest-bearing liabilities:						
Savings deposits	38,358	9	0.09%	34,338	18	0.21%
Money market	40,045	19	0.19%	42,792	32	0.30%
Demand deposit accounts	53,284	17	0.13%	55,695	22	0.16%
Certificates of deposit	78,256	235	1.20%	71,421	272	1.52%
Total deposits	209,943	280	0.53%	204,246	344	0.67%
Borrowings	23,996	73	1.22%	14,802	112	3.03%
Other liabilities						
Total interest-bearing liabilities	233,939	353	0.60%	219,048	456	0.83%
Non-interest-bearing liabilities	26,406			10,332		
Total liabilities	260,345			229,380		
Equity	32,836			32,642		
Total liabilities and equity	293,181			262,022		
Net interest income		2,584			2,375	
Net interest rate spread ⁽²⁾			3.66%			3.79%
Net interest-earning assets ⁽³⁾	41,712			25,812		
Net interest margin ⁽⁴⁾			3.75%			3.88%
Average interest-earning assets to interest-bearing liabilities			117.83%			111.78%

Edgar Filing: SP Bancorp, Inc. - Form 10-Q

- (1) Yields and rates for the three months ended September 30, 2012 and 2011 are annualized.
- (2) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
- (3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
- (4) Net interest margin represents net interest income divided by average total interest-earning assets.

Table of Contents

	For the Nine Months Ended September 30,					
	2012			2011		
	Average Outstanding Balance	Interest	Yield/Rate (1)	Average Outstanding Balance	Interest	Yield/Rate (1)
Interest-earning assets:						
Loans, net	223,217	8,421	5.03%	196,585	7,856	5.33%
Taxable investment securities	14,287	135	1.26%	19,810	279	1.88%
Nontaxable investment securities	3,604	92	3.40%	4,865	131	3.59%
Total other interest-earning assets	24,794	100	0.54%	19,585	74	0.50%
FHLB of Dallas stock	1,417	4	0.38%	954	3	0.42%
Total interest-earning assets	267,319	8,752	4.37%	241,799	8,343	4.60%
Non-interest-earning assets	17,219			15,290		
Total assets	284,538			257,089		
Interest-bearing liabilities:						
Savings deposits	36,639	36	0.13%	33,591	60	0.24%
Money market	38,943	61	0.21%	41,744	117	0.37%
Demand deposit accounts	53,975	53	0.13%	57,174	79	0.18%
Certificates of deposit	74,958	704	1.25%	66,911	792	1.58%
Total deposits	204,515	854	0.56%	199,420	1,048	0.70%
Borrowings	25,008	243	1.30%	15,583	337	2.88%
Other liabilities						
Total interest-bearing liabilities	229,523	1,097	0.64%	215,003	1,385	0.86%
Non-interest-bearing liabilities	22,000			9,558		
Total liabilities	251,523			224,561		
Equity	33,015			32,528		
Total liabilities and equity	284,538			257,089		
Net interest income		7,655			6,958	
Net interest rate spread ⁽²⁾			3.73%			3.74%
Net interest-earning assets ⁽³⁾	37,796			26,796		
Net interest margin ⁽⁴⁾			3.82%			3.84%
Average interest-earning assets to interest-bearing liabilities			116.47%			112.46%

(1) Yields and rates for the nine months ended September 30, 2012 and 2011 are annualized.

(2) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average total interest-earning assets.

Table of Contents

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan sales and repayments, advances from the Federal Home Loan Bank of Dallas, and maturities and sales of securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. Our Asset/Liability Management Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. For the nine months ended September 30, 2012, our liquidity ratio averaged 12.85%. We believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of September 30, 2012.

We regularly monitor and adjust our investments in liquid assets based upon our assessment of: (i) expected loan demand; (ii) expected deposit flows; (iii) yields available on interest-earning deposits and securities; and (iv) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits and short- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are affected by our operating, financing, lending and investing activities during any given period. At September 30, 2012, cash and cash equivalents totaled \$27.1 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled \$19.7 million at September 30, 2012.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included in our consolidated financial statements.

At September 30, 2012, we had \$24.3 million in loan commitments outstanding, including \$16.8 million in unused lines of credit to borrowers. Certificates of deposit due within one year of September 30, 2012 totaled \$36.4 million, or 15.3% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including loan sales and Federal Home Loan Bank advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before September 30, 2013. We believe, however, that based on past experience, a significant portion of such deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activity is originating loans. During the nine months ended September 30, 2012 and 2011 we originated \$135.1 million and \$98.9 million of loans, including unfunded commitments, respectively. We purchased \$12.6 million and \$31.6 million of securities during the nine months ended September 30, 2012 and 2011, respectively.

Financing activities consist primarily of activity in deposit accounts and Federal Home Loan Bank advances. We had a net increase in total deposits of \$24.9 million and \$21.3 million for the nine months ended September 30, 2012 and 2011, respectively. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors. Borrowings decreased by \$1.7 million and \$2.0 million for the nine months ended September 30, 2012 and 2011, respectively.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Dallas, which provides an additional source of funds. Federal Home Loan Bank advances decreased \$1.7 million to \$24.3 million at September 30, 2012. At September 30, 2012, we had remaining credit available under the FHLB of Dallas program of \$102.7 million.

Table of Contents

SharePlus Federal Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 2012, SharePlus Federal Bank exceeded all regulatory capital requirements. SharePlus Federal Bank is considered well capitalized under regulatory guidelines. See Note 8 Regulatory Capital of the notes to the consolidated financial statements.

Nonperforming Assets

Nonperforming Loans. At September 30, 2012, our nonaccrual loans totaled \$8.4 million. The non-accrual loans consisted of five single-family residential loans totaling \$1.7 million with \$94,000 in allocated allowances, one consumer loan totaling \$12,000 with \$3,000 in allocated allowances, and four commercial real estate loans totaling \$6.7 million with \$425,000 in allocated allowances. These commercial real estate loans remained current at September 30, 2012.

For the nine months ended September 30, 2012, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was \$492,000. Interest income recognized on such loans for the nine months ended September 30, 2012 was \$418,000.

At September 30, 2012, we had a total of 16 loans that were not currently classified as non-accrual, 90 days past due or troubled debt restructurings, but where known information about possible credit problems of borrowers caused management to have serious concerns as to the ability of the borrowers to comply with present loan repayment terms and that could result in disclosure as non-accrual, 90 days past due or troubled debt restructurings. Two of these loans are automobile loans with an aggregate principal balance of \$25,000 and were made to individuals who declared personal bankruptcy. Twelve of these loans, with an aggregate balance of \$2.5 million are collateralized by one- to four-family residential mortgages of borrowers who have, on occasion, been late with scheduled payments. One of these loans is a land loan totaling \$246,000 with guarantors who recently brought the loan current and also made a \$50,000 principal reduction. One of these loans is a commercial real estate loan totaling \$328,000 that is current but the premises remain unoccupied at the present time. The borrower has this property under contract for sale, and this transaction is expected to close prior to year end.

Troubled Debt Restructurings. Troubled debt restructurings include loans for which either a portion of interest or principal has been forgiven, or for loans modified at interest rates or on terms materially less favorable than current market rates. We periodically modify loans to extend the term or make other concessions to help a borrower stay current on their loan and to avoid foreclosure. We generally do not forgive principal or interest on loans or modify the interest rates on loans to rates that are below market rates. At September 30, 2012, we had \$197,000 of troubled debt restructurings (not included in nonaccrual loans) related to four consumer loans totaling \$14,000 and one residential loan totaling \$183,000. Of this \$197,000 in troubled debt restructurings (not included in nonaccrual loans), one loan totaling \$183,000 was past due between 30-89 days.

Other Real Estate Owned. At September 30, 2012, we had \$1.5 million in other real estate owned, consisting of one commercial real estate property.

Classification of Assets. Assets that do not expose us to risk sufficient to warrant classification, but which possess potential weaknesses that deserve our close attention, are required to be designated as special mention. As of September 30, 2012, we had \$1.1 million of assets designated as special mention with no allocated allowances.

When we classify assets as either substandard nonaccrual or doubtful, we allocate a portion of the related general loss allowances to such assets as we deem prudent. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. When we classify a problem asset as doubtful, we charge the asset off. For other classified assets, we provide an allocated allowance for that portion of the asset that is considered uncollectible. Our determination as to the classification of our assets and the amount of our loss allowances are subject to review by our principal federal regulator, the Office of the Comptroller of the Currency, which can require that we establish additional loss allowances. We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of our review of our assets at September 30, 2012, substandard assets consisted of loans of \$10.6 million with an allocated allowance of \$522,000 and other real estate owned of \$1.5 million. There were no doubtful or loss assets at September 30, 2012.

Table of Contents

As of September 30, 2012, our largest substandard asset was a \$2.0 million commercial real estate loan collateralized by 119 acres of raw land located in Celina, Texas. The loan was originated in February 2008 to a developer who purchased the property for residential development. The land was appraised at \$4.4 million in early 2008 and the loan to value was 47% at the time the loan was originated. The Bank had the property appraised again in December 2011. The appraised value was \$2.3 million resulting in a loan to value of 87%. In February 2012, the borrower missed his quarterly payment and this loan was placed on non-accrual. The borrower subsequently brought the loan current and the loan now has interest reserves in place.

Allowance for Loan Losses

Analysis and Determination of the Allowance for Loan Losses. Our allowance for loan losses is the amount considered necessary to reflect probable incurred losses in our loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of two key elements: (1) allocated allowances for impaired loans; and (2) a general valuation allowance for non-impaired loans. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

Allocated Allowances for Impaired Loans. We establish an allocated allowance when loans are determined to be impaired. Loss is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. Factors in identifying a specific problem loan include: (1) the strength of the customer's personal or business cash flows; (2) the availability of other sources of repayment; (3) the amount due or past due; (4) the type and value of collateral; (5) the strength of our collateral position; (6) the estimated cost to sell the collateral; and (7) the borrower's effort to cure the delinquency. In addition, for loans secured by real estate, we consider the extent of any past due and unpaid property taxes applicable to the property serving as collateral on the mortgage.

General Valuation Allowance on Non-impaired Loans. We establish a general allowance for non-impaired loans to recognize the inherent and probable losses associated with lending activities. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss experience for the last three years, adjusted for qualitative factors that could impact the allowance for loan losses. These qualitative factors may include changes in lending policies and procedures, existing general economic and business conditions affecting our primary market area, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, recent loss experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results. The applied loss factors are re-evaluated quarterly to ensure their relevance in the current real estate environment.

In addition, as an integral part of their examination process, the Office of the Comptroller of the Currency will periodically review our allowance for loan losses. Such agency may require that we recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

The allowance for loan losses increased \$536,000, or 30.6%, to \$2.3 million at September 30, 2012 from \$1.8 million at December 31, 2011. In addition, the allowance for loan losses to total loans receivable, including loans held for sale, increased to 0.99% at September 30, 2012 as compared to 0.80% at December 31, 2011. The allowance for loan losses as a percentage of nonperforming loans increased to 26.71% at September 30, 2012 from 24.96% at December 31, 2011. The increase was attributable primarily to an increase in the loss experience factors used to determine the general allowance for loan losses and allowances allocated to one single-family loan and one commercial real estate loan, which are both classified as troubled debt restructurings.

Table of Contents

Substandard (including substandard nonaccrual) loans increased to \$10.6 million at September 30, 2012 from \$8.7 million at December 31, 2011. Nonperforming loans, including troubled debt restructurings not included in nonaccrual loans, increased to \$8.6 million at September 30, 2012 from \$7.0 million at December 31, 2011. Nonperforming loans are evaluated to determine impairment.

Impaired loans with valuation allowances were \$3.4 million at September 30, 2012, and the related valuation allowance for loan losses was \$522,000. Impaired loans without specific valuation allowances were \$5.2 million at September 30, 2012.

To the best of our knowledge, we have provided for all losses that are both probable and reasonable to estimate at September 30, 2012 and December 31, 2011.

Appraisals are performed by a rotating list of independent, certified appraisers to obtain fair values on non-homogenous loans secured by real estate. The appraisals are generally obtained when market conditions change, annually for criticized loans, and at the time a loan becomes impaired.

We periodically evaluate the carrying value of loans and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations.

There were no changes in our nonaccrual or charge-off policies during the nine months ended September 30, 2012 or 2011. The accrual of interest on loans is discontinued at the time future payments are not reasonably assured or the loan is 90 days delinquent, unless the credit is well secured and in the process of collection. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans, including troubled debt restructurings, that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. For additional information, see Note 7 Financial Instruments with Off-Balance Sheet Risk of the notes to the consolidated financial statements.

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

Impact of Inflation and Changing Prices

Our consolidated financial statements and related notes have been prepared in accordance with U.S. GAAP. U.S. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration of changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

Table of Contents**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Not applicable, as the Registrant is a smaller reporting company.

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Senior Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of September 30, 2012. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Senior Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

During the quarter ended September 30, 2012, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II Other Information**Item 1. Legal Proceedings**

The Company is subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's financial condition or results of operations.

Item 1A. Risk Factors

Not applicable, as the Registrant is a smaller reporting company.

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

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs)
July 1, 2012 through July 31, 2012	5,750	\$ 13.04	5,750	55,300
August 1, 2012 through August 31, 2012	35,200	\$ 13.05	35,200	20,100
September 1, 2012 through September 30, 2012		\$		20,100
Total	40,950	\$ 13.05	40,950	

On February 27, 2012, the Board of Directors authorized the Company's first stock repurchase program of 86,250 shares.

Table of Contents

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

3.1	Articles of Incorporation of SP Bancorp Inc. (1)
3.2	Bylaws of SP Bancorp, Inc. (1)
4.0	Form of Common Stock Certificate of SP Bancorp, Inc. (1)
10.1	2010 Incentive Compensation Plan (1)
10.2	2008 Nonqualified Deferred Compensation Plan (1)
10.3	Phantom Stock Plan (1)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101. INS	XBRL Instance Document
101. SCH	XBRL Taxonomy Extension Schema Document
101. CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101. DEF	XBRL Taxonomy Extension Definition Linkbase Document
101. LAB	XBRL Taxonomy Extension Label Linkbase Document
101. PRE	XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference into this document from the Exhibits filed with the Securities Exchange Commission in the Registration Statement on Form S-1, and any amendments thereto, Registration No. 333-167967.

Table of Contents

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.

Date: November 13, 2012

SP BANCORP, INC.

/s/ Jeffrey Weaver
Jeffrey Weaver
President and Chief Executive Officer

Date: November 13, 2012

/s/ Suzanne C. Salls
Suzanne C. Salls
Senior Vice President and Chief Financial Officer