

SP Bancorp, Inc.  
Form 10-Q  
May 14, 2012  
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**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 March 31, 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)

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**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, outstanding as of May 6, 2012 were 1,716,600.

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**SP Bancorp, Inc.**

**FORM 10-Q**

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

	March 31, 2012	December 31, 2011
<b>ASSETS</b>		
Cash and due from banks	\$ 2,429	\$ 2,978
Federal funds sold	17,205	6,950
<b>Total cash and cash equivalents</b>	<b>19,634</b>	<b>9,928</b>
Securities available for sale (amortized cost of \$17,094 at March 31, 2012 and \$24,774 at December 31, 2011)	17,326	25,097
Fixed annuity investment	1,188	1,176
Loans held for sale	4,199	4,884
Loans, net of allowance for losses of \$2,037 at March 31, 2012 and \$1,754 at December 31, 2011	213,125	212,688
Accrued interest receivable	790	961
Other real estate owned ( OREO )	2,024	1,824
Premises and equipment, net	4,275	4,346
Federal Home Loan Bank ( FHLB ) stock and other restricted stock, at cost	1,662	2,020
Bank-owned life insurance ( BOLI )	6,249	6,193
Deferred tax assets	541	509
Other assets	2,156	3,333
<b>Total assets</b>	<b>\$ 273,169</b>	<b>\$ 272,959</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Deposits:		
Noninterest-bearing	\$ 21,566	\$ 8,898
Interest-bearing	207,452	203,036
<b>Total deposits</b>	<b>229,018</b>	<b>211,934</b>
Borrowings	9,043	25,978
Accrued interest payable	27	29
Other liabilities	2,134	1,891
<b>Total liabilities</b>	<b>240,222</b>	<b>239,832</b>
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; 1,725,000 shares issued; 1,716,800 and 1,725,000 shares outstanding, respectively	17	17
Treasury stock, 8,200 shares at cost	(98)	
Additional paid-in capital	15,280	15,278
Unallocated Employee Stock Ownership Plan ( ESOP ) shares	(1,320)	(1,018)
Retained earnings substantially restricted	18,915	18,636
Accumulated other comprehensive income	153	214
<b>Total stockholders equity</b>	<b>32,947</b>	<b>33,127</b>

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<b>Total liabilities and stockholders equity</b>	\$ 273,169	\$ 272,959
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See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2012	2011
<b>Interest income:</b>		
Interest and fees on loans	\$ 2,772	\$ 2,618
Securities taxable	38	80
Securities nontaxable	50	34
Other interest earning assets	32	22
<b>Total interest income</b>	<b>2,892</b>	<b>2,754</b>
<b>Interest expense:</b>		
Deposit accounts	285	339
Borrowings	87	112
<b>Total interest expense</b>	<b>372</b>	<b>451</b>
<b>Net interest income</b>	<b>2,520</b>	<b>2,303</b>
Provision for loan losses	487	120
<b>Net interest income after provision for loan losses</b>	<b>2,033</b>	<b>2,183</b>
<b>Noninterest income:</b>		
Service charges	294	320
Gain on sale of securities available for sale	320	28
Gain on sale of mortgage loans	367	223
Increase in cash surrender value of BOLI	56	17
Other	65	105
<b>Total noninterest income</b>	<b>1,102</b>	<b>693</b>
<b>Noninterest expense:</b>		
Compensation and benefits	1,448	1,286
Occupancy costs	255	269
Equipment expense	65	69
Data processing expense	134	115
ATM expense	96	91
Professional and outside services	337	232
Stationery and supplies	30	38
Marketing	54	44
FDIC insurance assessments	46	92
Operations from OREO	31	102
Other	277	237
<b>Total noninterest expense</b>	<b>2,773</b>	<b>2,575</b>

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<b>Income before income tax expense</b>	362	301
<b>Income tax expense</b>	83	84
<b>Net income</b>	\$ 279	\$ 217
<b>Basic and diluted earnings per share</b>	\$ 0.17	\$ 0.13

See Notes to Consolidated Financial Statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<i>(Unaudited)</i>	
Other comprehensive (loss) income, before tax:		
Net change in unrealized gains on available for sale securities	\$ 229	\$ 173
Reclassification adjustment for gain on sale of securities available for sale	(320)	(28)
Other comprehensive (loss) income before tax	(91)	145
Income tax benefit (expense)	30	(54)
Other comprehensive (loss) income, net of tax	(61)	91
Net income	279	217
Comprehensive income	\$ 218	\$ 308

See Notes to Consolidated Financial Statements.



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

	Common Stock	Treasury Stock	Additional Paid-In Capital	Unallocated ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income	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				(18)			(18)
ESOP shares allocated			1	10			11
Net income					217		217
Unrealized gain on securities available for sale, net of tax of \$ 64						109	109
Reclassification adjustment for gain on securities available for sale included in net income, net of tax of (\$ 10)						(18)	(18)
<b>Balance, March 31, 2011</b>	<b>\$ 17</b>	<b>\$</b>	<b>\$ 15,276</b>	<b>\$ (825)</b>	<b>\$ 17,918</b>	<b>\$ 4</b>	<b>\$ 32,390</b>
Balance, December 31, 2011	\$ 17	\$	\$ 15,278	\$ (1,018)	\$ 18,636	\$ 214	\$ 33,127
ESOP shares purchased in the open market				(320)			(320)
ESOP shares allocated			2	18			20
Net income					279		279
Unrealized gain on securities available for sale, net of tax of \$ 88						141	141
Reclassification adjustment for gain on securities available for sale included in net income, net of tax of (\$ 118)						(202)	(202)
Repurchase of common stock		(98)					(98)
<b>Balance, March 31, 2012</b>	<b>\$ 17</b>	<b>\$ (98)</b>	<b>\$ 15,280</b>	<b>\$ (1,320)</b>	<b>\$ 18,915</b>	<b>\$ 153</b>	<b>\$ 32,947</b>

See Notes to Consolidated Financial Statements.

**Table of Contents****SP Bancorp, Inc.****Consolidated Statements of Cash Flows (Unaudited)****(In thousands)**

	Three Months Ended March 31,	
	2012	2011
<b>Cash flows from operating activities:</b>		
Net income	\$ 279	\$ 217
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	71	93
Amortization of premiums on securities	133	145
ESOP expense	20	11
Provision for loan losses	487	120
Gain on sale of securities available for sale	(320)	(28)
Gain on sale of mortgage loans	(367)	(223)
Proceeds from sale of mortgage loans	15,988	12,720
Loans originated for sale	(14,936)	(10,248)
Increase in cash surrender value of BOLI	(56)	(17)
Decrease (increase) in accrued interest receivable	171	(5)
Decrease in other assets and deferred tax assets	1,175	15
(Increase) in fixed annuity investment	(12)	(11)
Increase (decrease) in accrued interest payable and other liabilities	241	(321)
<b>Net cash provided by operating activities</b>	<b>2,874</b>	<b>2,468</b>
<b>Cash flows from investing activities:</b>		
Purchase of securities available for sale	(5,614)	(5,753)
Maturities, calls and principal paydowns on securities available for sale	502	1,164
Proceeds from sale of securities available for sale	12,979	1,880
Redemptions (purchases) of FHLB stock	358	(1)
Originations, net of loan repayments	(924)	(4,560)
Additions to other real estate owned	(200)	
Purchases of premises and equipment		(48)
Purchase of BOLI		(6,000)
<b>Net cash provided by (used in) investing activities</b>	<b>7,101</b>	<b>(13,318)</b>
<b>Cash flows from financing activities:</b>		
Net increase in deposit accounts	17,084	20,551
Repayment of FHLB advances, net	(16,935)	(3)
ESOP shares purchased	(320)	(18)
Conversion costs		(15)
Repurchase of common stock	(98)	
<b>Net cash (used in) provided by financing activities</b>	<b>(269)</b>	<b>20,515</b>
Net increase in cash and cash equivalents	9,706	9,665
Cash and cash equivalents at beginning of period	9,928	11,814
Cash and cash equivalents at end of period	\$ 19,634	\$ 21,479

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Supplemental cash flow information:

Cash transactions:

Income taxes paid	\$	\$	90
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Interest expense paid	\$	374	\$	446
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Noncash transactions:

Transfers of loans to other real estate owned	\$	\$	1,843
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See Notes to Consolidated Financial Statements.

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### SP Bancorp, Inc.

#### Notes to Consolidated Financial Statements (Unaudited)

(In thousands)

#### 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 \$14.5 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 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).

##### 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 March 31, 2012 and for the three months ended March 31, 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 March 31, 2012 and for the three months ended March 31, 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.

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

**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 March 31,	
	2012	2011
Net income	\$ 279	\$ 217
Weighted-average shares outstanding	1,615	1,641
Basic and diluted earnings per share	\$ 0.17	\$ 0.13

**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 months ended March 31, 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 for the three months ended March 31, 2012 resulted in adding separate Consolidated Statements of Comprehensive Income.

**Note 2. Stock Conversion**

On October 29, 2010, Share Plus 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 ESOP. The Bank's ESOP is authorized to purchase up to 138,000 shares of common stock. The ESOP purchased 67,750 of those shares in the offering and 66,056 shares in the open market through March 31, 2012. The remaining 4,194 shares are expected to be purchased in the near term. Shares of the Company's common stock purchased by the ESOP are held in a suspense account until released for allocation to participants.

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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.

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**SP Bancorp, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**(In thousands)**

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 \$17.0 million, 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 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 8,200 shares under the stock repurchase program through March 31, 2012.

**Table of Contents****SP Bancorp, Inc.****Notes to Consolidated Financial Statements (Unaudited)****(In thousands)****Note 3. Securities**

Securities have been classified in the consolidated balance sheets according to management's intent. At March 31, 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 March 31, 2012 and December 31, 2011 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities Available for Sale</b>				
March 31, 2012:				
Municipal securities	\$ 4,249	\$ 215	\$	\$ 4,464
Collateralized mortgage obligations guaranteed by FNMA and FHLMC	6,968	31		6,999
Mortgage-backed securities guaranteed by SBA, FNMA, GNMA and FHLMC	5,877	39	(53)	5,863
	\$ 17,094	\$ 285	\$ (53)	\$ 17,326
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.

For the three months ended March 31, 2012, proceeds from sale of securities available for sale, gross gains and gross losses were \$12,979, \$401 and \$81, respectively.

For the three months ended March 31, 2011, proceeds from sale of securities available for sale, gross gains and gross losses were \$1,880, \$28 and \$0, respectively.



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

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

	Number of Security Positions with Unrealized losses	Continuous Unrealized Losses Existing for Less than 12 Months		Continuous Unrealized Losses Existing for 12 Months or Longer		Total	
		Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
<b>March 31, 2012:</b>							
Mortgage-backed securities	3	3,545	(53)			3,545	(53)
	3	\$ 3,545	\$ (53)	\$	\$	\$ 3,545	\$ (53)
<b>December 31, 2011:</b>							
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 gross unrealized losses were considered to be temporary as they reflected fair values on March 31, 2012 that are subject to change daily as interest rates fluctuate. 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 at least on 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.

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

The scheduled maturities of securities at March 31, 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.

	March 31, 2012		December 31, 2011	
	Amortized Cost	Market Value	Amortized Cost	Market Value
After 5 years through 10 years	\$	\$	\$	\$
Due after 10 years	4,249	4,464	8,737	9,122
	4,249	4,464	8,737	9,122
Mortgage-backed securities and collateralized mortgage obligations	12,845	12,862	16,037	15,975
	\$ 17,094	\$ 17,326	\$ 24,774	\$ 25,097

**Note 4. Loans and Allowance for Loan Losses**

Loans at March 31, 2012 and December 31, 2011 consisted of the following:

	March 31, 2012	December 31, 2011
Commercial business	\$ 7,095	\$ 6,986
Commercial real estate	41,348	38,348
One-to-four family	149,159	150,613
Home equity	9,418	9,612
Consumer	7,518	8,318
	214,538	213,877
Premiums, net	75	71
Deferred loan costs, net	549	494
Allowance for loan losses	(2,037)	(1,754)
	\$ 213,125	\$ 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.



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**SP Bancorp, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**(In thousands)**

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)****(In thousands)**

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

	Commercial Business	Commercial Real Estate	One-to-Four Family	Home Equity	Consumer	Total
<b>At March 31, 2012:</b>						
Past Due:						
30-59 days	\$	\$ 1,995	\$ 1,500	\$	\$ 31	\$ 3,526
60-89 days						
90 days or more			25	12		37
Total past due		1,995	1,525	12	31	3,563
Current	7,095	39,353	147,634	9,406	7,487	210,975
Total loans	\$ 7,095	\$ 41,348	\$ 149,159	\$ 9,418	\$ 7,518	\$ 214,538
<b>At December 31, 2011</b>						
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

The Bank utilizes a nine-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. The rating system provides for five pass ratings. Rating grades six through nine comprise the adversely rated credits.

The Bank classifies problem and potential problem loans for all loan types using the regulatory classifications of special mention, substandard, doubtful and loss, which for commercial real estate and commercial business loans correspond to the risk ratings of six, seven, eight and nine, respectively. The regulatory 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 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)****(In thousands)**

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

	Commercial Business	Commercial Real Estate	One-to-Four Family	Home Equity	Consumer	Total
<b>At March 31, 2012:</b>						
Credit Quality Indicator:						
Credit Risk Profile by Grade or Classification:						
Pass	\$ 7,095	\$ 34,171	\$ 146,823	\$ 9,406	\$ 7,484	\$ 204,979
Special Mention			562	12	34	608
Substandard		7,177	1,774			8,951
Doubtful						
Loss						
Total	\$ 7,095	\$ 41,348	\$ 149,159	\$ 9,418	\$ 7,518	\$ 214,538

**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			