

SP Bancorp, Inc.
Form 10-Q
November 06, 2013
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, 2013

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)

Maryland (State or other jurisdiction of	27-3347359 (I.R.S. Employer
incorporation or organization)	Identification No.)
5224 W. Plano Parkway,	
Plano, Texas	75093
(Address of principal executive offices)	Zip Code
(972) 931-5311	
(Registrant's telephone number, including area code)	
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 (§232.405 of this chapter) 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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of November 4, 2013, 1,567,950 shares of the registrant's common stock, par value \$0.01 per share, were issued and outstanding.

Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1.	<u>FINANCIAL STATEMENTS</u>	3
ITEM 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	29
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	46
ITEM 4.	<u>CONTROLS AND PROCEDURES</u>	46

PART II. OTHER INFORMATION

ITEM 1.	<u>LEGAL PROCEEDINGS</u>	46
ITEM 1A.	<u>RISK FACTORS</u>	46
ITEM 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	46
ITEM 3.	<u>DEFAULTS UPON SENIOR SECURITIES</u>	47
ITEM 4.	<u>MINE SAFETY DISCLOSURES</u>	47
ITEM 5.	<u>OTHER INFORMATION</u>	47
ITEM 6.	<u>EXHIBITS</u>	47
	<u>SIGNATURES</u>	48

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SP Bancorp, Inc.****Consolidated Balance Sheets***In thousands, except share amounts (unaudited)*

	September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	\$ 26,590	\$ 22,318
Federal funds sold	21,815	1,615
Total cash and cash equivalents	48,405	23,933
Securities available for sale (amortized cost of \$17,198 and \$15,658 at September 30, 2013 and December 31, 2012, respectively)	17,041	15,713
Fixed annuity investment	1,255	1,223
Loans held for sale	1,675	7,290
Loans, net of allowance for losses of \$2,240 and \$2,420 at September 30, 2013 and December 31, 2012, respectively	220,113	222,288
Accrued interest receivable	774	724
Other real estate owned	157	1,477
Premises and equipment, net	4,115	4,249
Federal Home Loan Bank stock, at cost	440	1,099
Bank-owned life insurance	7,621	7,439
Deferred income taxes, net	939	910
Other assets	2,946	1,776
Total assets	\$ 305,481	\$ 288,121
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Noninterest-bearing	\$ 31,622	\$ 22,336
Interest-bearing	231,434	210,004
Total deposits	263,056	232,340
Borrowings	7,356	20,316
Accrued interest payable	34	9
Other liabilities	2,045	2,416
Total liabilities	272,491	255,081

Commitments and contingent liabilities

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, 1,582,950 shares issued and outstanding at September 30, 2013 and 1,638,750 shares issued and outstanding at December 31, 2012	16	16
Additional paid in capital	14,068	14,453
Unallocated Employee Stock Ownership Plan shares 121,103 shares at September 30, 2013 and 131,633 shares at December 31, 2012	(1,261)	(1,314)
Retained earnings - substantially restricted	20,271	19,849
Accumulated other comprehensive (loss) income	(104)	36
Total stockholders equity	32,990	33,040
Total liabilities and stockholders equity	\$ 305,481	\$ 288,121

See accompanying Condensed Notes to Consolidated Financial Statements

Table of Contents**SP Bancorp, Inc.****Consolidated Statements of Income***In thousands, except per share amounts (unaudited)*

	Three Months Ended September 30,		One Months Ended September 30,	
	2013	2012	2013	2012
Interest income:				
Interest and fees on loans	\$ 2,659	\$ 2,832	\$ 8,155	\$ 8,421
Securities - taxable	4	52	3	135
Securities - nontaxable	32	16	70	92
Other interest - earning assets	51	37	139	104
Total interest income	2,746	2,937	8,367	8,752
Interest expense:				
Deposit accounts	342	280	921	854
Borrowings	41	73	127	243
Total interest expense	383	353	1,048	1,097
Net interest income	2,363	2,584	7,319	7,655
Provision for loan losses	142	155	317	857
Net interest income after provision for loan losses	2,221	2,429	7,002	6,798
Noninterest income:				
Service charges	257	290	799	858
Gain on sale of securities available for sale	15	128	29	628
Gain on sale of mortgage loans	303	630	1,278	1,509
Mortgage warehouse fees	114	60	310	148
Increase in cash surrender value of bank owned life insurance	59	67	182	180
Other	73	46	207	124
Total noninterest income	821	1,221	2,805	3,447
Noninterest expense:				
Compensation and benefits	1,440	1,650	4,743	4,610
Occupancy costs	259	262	740	758
Equipment expense	35	32	104	156
Data processing expense	177	146	514	416
ATM expense	86	83	285	239
Professional and outside services	355	336	1,040	1,014

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

Stationary and supplies	17	19	58	70
Marketing	44	49	152	159
FDIC insurance assessments	39	63	161	162
Provision for losses on other real estate owned	26	11	69	255
Operations from other real estate owned	(17)	21	32	87
Other expense	159	183	477	861
Total noninterest expense	2,620	2,855	8,375	8,787
Income before income tax expense	422	795	1,432	1,458
Income tax expense	141	253	462	402
Net income	\$ 281	\$ 542	\$ 970	\$ 1,056
Basic earnings per share	\$ 0.18	\$ 0.35	\$ 0.63	\$ 0.67
Diluted earnings per share	\$ 0.18	\$ 0.35	\$ 0.63	\$ 0.67

See accompanying Condensed Notes to Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 281	\$ 542	\$ 970	\$ 1,056
Other comprehensive loss, before tax:				
Net unrealized (losses) gains on available for sale securities, arising during the year	15	74	(183)	465
Reclassification adjustment for gain on sale of securities available for sale, included in net income	(15)	(128)	(29)	(628)
Other comprehensive loss, before tax		(54)	(212)	(163)
Income tax benefit		(18)	(72)	(54)
Other comprehensive loss, net of tax		(36)	(140)	(109)
Comprehensive income	\$ 281	\$ 506	\$ 830	\$ 947

See accompanying Condensed Notes to Consolidated Financial Statements

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

	Common Stock	Additional Paid-in Capital	Unallocated Employee Stock Ownership Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2011	\$ 17	\$ 15,278	\$ (1,018)	\$ 18,636	\$ 214	\$ 33,127
Net income				1,056		1,056
Other comprehensive loss					(109)	(109)
Employee Stock Ownership Plan shares purchased in open market			(373)			(373)
Employee Stock Ownership Plan shares allocated		11	58			69
Repurchase and retirement of common stock		(660)		(185)		(845)
Balance, September 30, 2012	\$ 17	\$ 14,629	\$ (1,333)	\$ 19,507	\$ 105	\$ 32,925
Balance, December 31, 2012	\$ 16	\$ 14,453	\$ (1,314)	\$ 19,849	\$ 36	\$ 33,040
Net income				970		970
Other comprehensive loss					(140)	(140)
Employee Stock Ownership Plan shares allocated		39	53			92
Stock based compensation		133				133
Repurchase and retirement of common stock		(557)		(548)		(1,105)
Balance, September 30, 2013	\$ 16	\$ 14,068	\$ (1,261)	\$ 20,271	\$ (104)	\$ 32,990

See accompanying Condensed Notes to Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2013	2012
Cash flows provided (used in) by operating activities:		
Net income	\$ 970	\$ 1,056
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	201	215
Amortization of premiums on securities	296	344
Employee Stock Ownership Plan expense	92	69
Stock based compensation	133	
Provision for loan losses	317	857
Provision for losses on other real estate owned	69	255
Gain on sale of securities available for sale	(29)	(628)
Gain on sale of mortgage loans	(1,278)	(1,509)
Proceeds from sale of mortgage loans	52,001	56,930
Loans originated for sale	(45,108)	(59,109)
Increase in cash surrender value of bank-owned life insurance	(182)	(180)
(Increase) decrease in accrued interest receivable	(50)	219
(Increase) decrease in other assets and deferred income taxes, net	(1,148)	1,216
Increase in fixed asset annuity investment	(32)	(35)
(Decrease) increase in accrued interest payable and other liabilities	(375)	672
Net cash provided by (used in) operating activities	5,877	372
Cash flows (used in) provided by investing activities:		
Purchase of securities available for sale	(7,966)	(12,580)
Maturities, calls and principal pay downs on securities available for sale	2,785	1,571
Proceeds from sale of securities available for sale	3,374	16,484
Redemptions of Federal Home Loan Bank stock	709	481
Loan repayments, net of (originations)	2,641	(10,123)
Proceeds from sale of impaired loans	185	
Net proceeds from sale of (improvements to) other real estate owned	283	92
Purchase of premises and equipment	(67)	(143)
Purchase of bank owned life insurance		(1,000)
Net cash (used in) provided by investing activities	1,944	(5,218)
Cash flows provided by (used in) financing activities:		
Net increase in deposit accounts	30,716	24,894
Federal Home Loan Bank advances	1,500	21,623

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

Repayment of Federal Home Loan Bank advances	(14,460)	(23,311)
Employee Stock Ownership Plan shares purchased		(373)
Repurchase of common stock	(1,105)	(845)
Net cash provided by (used in) financing activities	16,651	21,988
Net increase (decrease) in cash and cash equivalents	24,472	17,142
Cash and cash equivalents at beginning of period	23,933	9,928
Cash and cash equivalents at end of period	\$ 48,405	\$ 27,070
Supplemental cash flow information:		
Income taxes paid	\$ 28	\$ 213
Interest paid	1,023	1,086
Noncash transactions:		
Transfer of loans to other real estate owned and repossessed assets	\$ 316	\$
Transfer of loans held for portfolio to loans held for sale	1,710	
Sale of loans, internally financed	1,525	
Sale of other real estate owned, internally financed	1,284	
<i>See accompanying Condensed Notes to Consolidated Financial Statements</i>		

Table of Contents

SP Bancorp, Inc.

Condensed Notes to Consolidated Financial Statements

Dollars in thousands, except per share and share amounts (unaudited)

Note 1. Summary of Significant Accounting Policies

Nature of Operations. SP Bancorp, Inc., a Maryland corporation (the Company) is a registered savings and loan holding company and the parent of SharePlus Federal Bank a federal savings bank (the Bank). The Company is regulated by the Board of Governors of the Federal Reserve System (the Federal Reserve Board) and the Bank is regulated by the Office of the Comptroller of the Currency (the OCC) and the Federal Deposit Insurance Corporation (the FDIC). On September 4, 2013, the Bank filed an application with the Texas Department of Banking (the TDB) to convert its charter to a Texas state bank charter and notified the Federal Reserve Board of its intention to file applications to become a member of the Federal Reserve System and for the Company to become a bank holding company. If the applications are approved, the TDB and the Federal Reserve Board will become the primary regulators of the Bank and the Company will be regulated by the Federal Reserve Board as a bank holding company.

All dollar amounts in the Condensed Notes to Consolidated Financial Statements are in thousands, except per share and share amounts. Certain prior period amounts have been reclassified to conform to current period presentation.

The Bank operates as a full-service bank, providing services that include the acceptance of checking and savings deposits, the origination of one- to four-family residential mortgage, mortgage warehouse, commercial real estate, commercial business, home equity, automobile and personal loans. In addition to the Bank's home office in Plano, Texas, the Bank has three branches: one located near downtown Dallas, Texas; one located near the Bank's headquarters in Plano, Texas; and one located in Louisville, Kentucky. During June 2013, the Bank closed its Irvine, California branch. During March 2013, the Bank closed one of its branches located in Louisville, Kentucky, but an agency office remains there.

Basis of Presentation. The accompanying unaudited consolidated financial statements of the Company and its wholly-owned subsidiary, the Bank, have been prepared in accordance with United States Generally Accepted Accounting Principles (GAAP) for interim financial information and in accordance with guidance provided by the Securities and Exchange Commission (the SEC) in the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Transactions between the consolidated companies have been eliminated. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on March 6, 2013. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. The Company has one reportable segment consisting of the Bank. The Company's Chief Executive Officer uses consolidated results to make operating and strategic decisions.

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

Earnings per Share. Earnings per share (EPS) are based upon the weighted-average shares outstanding. Shares of common stock, par value \$0.01 per share (common stock), held by the SharePlus Federal Bank Employee Stock Ownership Plan (the ESOP), which have been committed to be released, are considered outstanding. The table below sets forth the reconciliation between weighted average shares outstanding used for calculating basic and diluted EPS for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Earnings (numerator)				
Net income for common stockholders	\$ 281	\$ 542	\$ 970	\$ 1,056
Less: net income allocated to participating securities	5		19	
Net income allocated to common stockholders	\$ 276	\$ 542	\$ 951	\$ 1,056
Shares (denominator)				
Weighted average shares outstanding for basic EPS (in thousands)	1,512	1,544	1,515	1,581
Dilutive effect of employee stock-based awards				
Adjusted weighted average shares outstanding	1,512	1,544	1,515	1,581
Earnings per share:				
Basic	\$ 0.18	\$ 0.35	\$ 0.63	\$ 0.67
Diluted	\$ 0.18	\$ 0.35	\$ 0.63	\$ 0.67

Participating securities consist of unvested restricted stock awards (though no actual shares of common stock related to restricted stock units are issued until settlement of such awards) that receive non-forfeitable dividends or dividend equivalents at the same rate as holders of the Company's common stock. For the three and nine months ended September 30, 2013, the Company excluded from the diluted EPS calculation restricted stock awards of 30,000 shares because they were participating securities. Stock options of 69,500 were excluded from calculation of diluted earnings per share because the effect was anti-dilutive. There were no restricted stock awards or stock options outstanding during the three and nine months ended September 30, 2012.

Note 2. Stock Conversion

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, the Company, was established as part of the conversion. Following this conversion, the Company consummated an initial public offering of 1,725,000 shares of common stock at \$10.00 per share. Net proceeds of \$14,480 were raised in the stock offering, after deduction of conversion costs of \$1,942 and excluding \$828 that was loaned by the Company to a trust for the benefit of the ESOP. The ESOP was authorized to purchase up to 138,000 shares of common stock. The ESOP purchased 67,750 of those shares in the offering and 70,250 shares in the open market through December 31, 2012.

The Company's common stock is traded on the NASDAQ Capital Market under the symbol SPBC. 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 June 30, 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.

Table of Contents

SP Bancorp, Inc.

Condensed Notes to Consolidated Financial Statements

Dollars in thousands, except per share and share amounts (unaudited)

The Bank may not declare or pay a dividend on or repurchase any of its capital stock if such action would have the effect of causing equity capital to be reduced below the liquidation account balance or regulatory capital requirements. Any purchase of the Company's common stock must be conducted in accordance with applicable laws and regulations.

On February 27, 2012, the Company announced that its board of directors had authorized a stock repurchase program pursuant to which the Company was authorized to repurchase up to 5% of its issued and outstanding shares, or up to approximately 86,250 shares. As of December 31, 2012, the Company had repurchased 86,250 shares. As a result of these purchases, the program expired pursuant to its terms.

On August 5, 2013, the Company's board of directors authorized a stock repurchase program pursuant to which the Company was authorized to repurchase up to 5% of its issued and outstanding shares, or up to approximately 81,937 shares. The stock repurchase program permits shares to be repurchased in open market or private transactions, including through block trades, and pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. Repurchases under the stock repurchase program may be made at management's discretion at prices management considers to be attractive and in the best interests of both the Company and its stockholders. Management's decision to repurchase shares will be subject to various factors including general market conditions, the availability and/or trading price of the Company's stock, alternative uses for capital, the Company's financial performance and liquidity, and other factors deemed appropriate. The stock repurchase program has no expiration date and may be suspended, terminated or modified at any time for any reason. The Company had repurchased 55,800 shares under the stock repurchase program through September 30, 2013. In connection with this stock repurchase program, during the third quarter of 2013 the Bank paid a dividend to the Company in the amount of \$1,000 and during October 2013, the Bank paid a dividend of \$350.

Table of Contents**SP Bancorp, Inc.****Condensed Notes to Consolidated Financial Statements***Dollars in thousands, except per share and share amounts (unaudited)***Note 3. Securities**

Securities are classified in the consolidated balance sheets according to management's intent. At September 30, 2013 and December 31, 2012, all of the Company's securities were classified as available for sale. The table below sets forth the amortized cost of securities and their approximate fair values at September 30, 2013 and December 31, 2012:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2013:				
Municipal securities	\$ 7,293	\$ 80	\$ (249)	\$ 7,124
Collateralized mortgage obligations guaranteed by FNMA and FHLMC	2,748	22	(6)	2,764
Mortgage-backed securities guaranteed by SBA, FNMA, GMNA and FHLMC	4,125	29	(13)	4,141
Asset-backed securities substantially guaranteed by the United States Government	3,032		(20)	3,012
	\$ 17,198	\$ 131	\$ (288)	\$ 17,041
December 31, 2012:				
Municipal securities	\$ 2,088	\$ 56	\$ (12)	\$ 2,132
Collateralized mortgage obligations guaranteed by FNMA and FHLMC	5,594	33	(16)	5,611
Mortgage-backed securities guaranteed by SBA, FNMA, GMNA and FHLMC	4,940	58	(34)	4,964
Asset-backed securities substantially guaranteed by the United States Government	3,036		(30)	3,006
	\$ 15,658	\$ 147	\$ (92)	\$ 15,713

Collateralized mortgage obligations and mortgage-backed securities are backed by one- to four-family residential 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 United States Government.

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

The table below sets forth proceeds, gross gains and gross losses from sales of securities held as available for sale for the nine months ended September 30, 2013 and 2012:

	Nine Months Ended September 30,	
	2013	2012
Proceeds	\$ 3,374	\$ 16,484
Gross gains	\$ 29	\$ 709
Gross losses	\$	\$ 81

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

The table below sets forth gross unrealized losses and fair values by investment category and length of time in a continuous unrealized loss position at September 30, 2013 and December 31, 2012:

	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	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2013:							
Municipal securities	6	\$ 3,814	\$ (249)	\$	\$	\$ 3,814	\$ (249)
Collateralized mortgage obligations guaranteed by FNMA and FHLMC	2	1,046	(1)	626	(5)	1,672	(6)
Mortgage-backed securities	1	1,531	(13)			1,531	(13)
Asset-backed securities substantially guaranteed by the United States Government	1			3,012	(20)	3,012	(20)
	10	\$ 6,391	\$ (263)	\$ 3,638	\$ (25)	\$ 10,029	\$ (288)
December 31, 2012:							
Municipal securities	2	\$ 1,066	\$ (12)	\$	\$	\$ 1,066	\$ (12)
Collateralized mortgage obligations guaranteed by FNMA and FHLMC	2	1,975	(16)			1,975	(16)
Mortgage-backed securities	1	1,775	(34)			1,775	(34)
Asset-backed securities substantially guaranteed by the United States Government	1	3,006	(30)			3,006	(30)
	6	\$ 7,822	\$ (92)	\$	\$	\$ 7,822	\$ (92)

The unrealized losses reflected in the table above were generally due to changes in interest rates. The unrealized losses are considered to be temporary as they reflect fair values on September 30, 2013 and December 31, 2012,

respectively, and are subject to change daily as interest rates fluctuate. The Bank does not intend to sell these securities and it is more-likely-than-not that the Bank will not be required to sell them prior to 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 of the securities, and (3) the intent of the Bank 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 table below sets forth scheduled maturities of securities at September 30, 2013 and December 31, 2012. 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, 2013		December 31, 2012	
	Amortized Cost	Market Value	Amortized Cost	Market Value
After 5 years through 10 years	\$ 3,032	\$ 3,012	\$ 3,036	\$ 3,006
Due after 10 years	7,293	7,124	2,088	2,132
	10,325	10,136	5,124	5,138
Mortgage backed securities and collateralized mortgage obligations	6,873	6,905	10,534	10,575
	\$ 17,198	\$ 17,041	\$ 15,658	\$ 15,713

Table of Contents**SP Bancorp, Inc.****Condensed Notes to Consolidated Financial Statements***Dollars in thousands, except per share and share amounts (unaudited)***Note 4. Loans and Allowance for Loan Losses**

The table below sets forth loans at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Commercial business	\$ 15,473	\$ 12,505
Commercial real estate	38,265	41,489
One- to four-family	119,709	122,601
Mortgage warehouse	35,382	33,094
Home equity	7,809	8,564
Consumer	4,970	5,760
	221,608	224,013
Premiums, net	56	66
Deferred loan costs, net	689	629
Allowance for loan losses	(2,240)	(2,420)
	\$ 220,113	\$ 222,288

The Bank originates loans to individuals and businesses, primarily geographically concentrated near the Bank's headquarters in Plano, Texas and its branch in Dallas, 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 for other general business purposes, including inventory and accounts receivable financing. 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, strip mall 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 residential mortgage loans are underwritten based on the applicant's employment and credit history and the appraised value of the property. The assets that serve as collateral for these loans could be negatively impacted by declining real estate values, adverse market conditions and the general economy.

Mortgage Warehouse. Mortgage warehouse loans are funded based on agreements with mortgage lenders pursuant to which we purchase legal ownership interests in the individual loans such lenders originate. These loans are typically paid off within 30 days of being funded when the loan is sold into the secondary market. All loans are underwritten consistently with established programs for permanent financing with investors, who have met the Bank's underwriting criteria.

Table of Contents**SP Bancorp, Inc.****Condensed Notes to Consolidated Financial Statements**

Dollars in thousands, except per share and share amounts (unaudited)

Home Equity. Home equity loans are underwritten similarly to one- to four-family residential mortgage loans. Collateral value could be negatively impacted by declining real estate values, adverse market conditions and the general economy.

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.

The table below sets forth an age analysis of past due loans by loan class as of September 30, 2013 and December 31, 2012:

	Commercial Business	Commercial Real Estate	One- to Four- Family	Mortgage Warehouse	Home Equity	Consumer	Total
September 30, 2013							
Past due:							
30-59 days	\$	\$	\$ 1,280	\$	\$	\$ 1	\$ 1,281
60-89 days			657				657
90 days or more			694				694
Total past due			2,631			1	2,632
Current	15,473	38,265	117,078	35,382	7,809	4,969	218,976
Total loans	\$ 15,473	\$ 38,265	\$ 119,709	\$ 35,382	\$ 7,809	\$ 4,970	\$ 221,608
December 31, 2012							
Past due:							
30-59 days	\$	\$	\$ 2,773	\$	\$	\$ 18	\$ 2,791
60-89 days			45				45
90 days or more			321				321
Total past due			3,139			18	3,157
Current	12,505	41,489	119,462	33,094	8,564	5,742	220,856
Total loans	\$ 12,505	\$ 41,489	\$ 122,601	\$ 33,094	\$ 8,564	\$ 5,760	\$ 224,013

The Bank uses a 10-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 10 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 correspond to the risk ratings of six, seven, eight, nine and 10, 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 as 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.****Condensed Notes to Consolidated Financial Statements***Dollars in thousands, except per share and share amounts (unaudited)*

The table below sets forth a summary of loans by grade or classification as of September 30, 2013 and December 31, 2012:

	Commercial						
	Commercial Business	Real Estate	One- to Four-Family	Mortgage Warehouse	Home Equity	Consumer	Total
September 30, 2013							
Credit quality indicator:							
Credit risk profile by grade or classification							
Pass	\$ 15,473	\$ 37,070	\$ 115,598	\$ 35,382	\$ 7,786	\$ 4,956	\$ 216,265
Special mention			103			3	106
Substandard			1,916			2	1,918
Substandard nonaccrual		1,195	2,092		23	9	3,319
Doubtful							
Loss							
Total	\$ 15,473	\$ 38,265	\$ 119,709	\$ 35,382	\$ 7,809	\$ 4,970	\$ 221,608
December 31, 2012							
Credit quality indicator:							
Credit risk profile by grade or classification							
Pass	\$ 12,505	\$ 36,568	\$ 117,232	\$ 33,094	\$ 8,564	\$ 5,739	\$ 213,702
Special mention			157				157
Substandard		246	1,888			6	2,140
Substandard nonaccrual		4,675	3,324			15	8,014
Doubtful							
Loss							
Total	\$ 12,505	\$ 41,489	\$ 122,601	\$ 33,094	\$ 8,564	\$ 5,760	\$ 224,013

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

The table below summarizes impaired loans and nonperforming loans by loan class at September 30, 2013 and December 31, 2012:

	Commercial						
	Commercial Business	Real Estate	One- to Four-Family	Mortgage Warehouse	Home Equity	Consumer	Total
September 30, 2013							
Impaired loans:							
Impaired loans with an allowance for loan losses	\$	\$ 1,195	\$ 377	\$	\$ 23	\$ 8	\$ 1,603
Impaired loans with no allowance for loan losses			2,473			4	2,477
Total impaired loans	\$	\$ 1,195	\$ 2,850	\$	\$ 23	\$ 12	\$ 4,080
Unpaid principal balance of impaired loans	\$	\$ 1,195	\$ 2,850	\$	\$ 23	\$ 12	\$ 4,080
Allowance for loan losses on impaired loans	\$	\$ 425	\$ 112	\$	\$ 23	\$ 3	\$ 563
Average recorded investment in impaired loans	\$	\$ 2,563	\$ 3,276	\$	\$ 12	\$ 15	\$ 5,866
Troubled debt restructurings (not including nonaccrual loans)			758			2	760
Nonperforming loans:							
Nonaccrual loans	\$	\$ 1,195	\$ 2,092	\$	\$ 23	\$ 9	\$ 3,319
Loans past due 90 days and still accruing							
	\$	\$ 1,195	\$ 2,092	\$	\$ 23	\$ 9	\$ 3,319
December 31, 2012							
Impaired loans:							
Impaired loans with an allowance for loan losses	\$	\$ 4,675	\$ 384	\$	\$	\$ 11	\$ 5,070
Impaired loans with no allowance for loan losses			3,594			10	3,604
Total impaired loans	\$	\$ 4,675	\$ 3,978	\$	\$	\$ 21	\$ 8,674

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

Unpaid principal balance of impaired loans	\$	\$ 4,675	\$ 3,978	\$	\$	\$ 21	\$ 8,674
Allowance for loan losses on impaired loans	\$	\$ 610	\$ 90	\$	\$	\$ 3	\$ 703
Average recorded investment in impaired loans	\$	\$ 5,412	\$ 2,321	\$	\$ 5	\$ 24	\$ 7,762
Troubled debt restructurings (not including nonaccrual loans)						10	10
Nonperforming loans:							
Nonaccrual loans	\$	\$ 4,675	\$ 3,324	\$	\$	\$ 15	\$ 8,014
Loans past due 90 days and still accruing							
	\$	\$ 4,675	\$ 3,324	\$	\$	\$ 15	\$ 8,014

For the nine months ended September 30, 2013 and 2012, gross interest income that would have been recorded had our nonaccrual loans been current in accordance with their original terms was \$131 and \$492, respectively. For the three months ended September 30, 2013 and 2012, gross interest income that would have been recorded had our nonaccrual loans been current in accordance with their original terms was \$48 and \$285, respectively. Interest income recognized, substantially on a cash basis, on such loans for the nine months ended September 30, 2013 and 2012 was \$27 and \$418, respectively. Interest income recognized, substantially on a cash basis, on such loans for the three months ended September 30, 2013 and 2012 was \$4 and \$270, respectively.

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

The table below sets forth a summary of the activity in the allowance for loan losses by loan class for the three and nine months ended September 30, 2013 and 2012 and the 12 months ended December 31, 2012, and total investment in loans at September 30, 2013, December 31, 2012 and September 30, 2012:

	Commercial Business	Commercial Real Estate	One- to Four- Family	Mortgage Warehouse	Home Equity	Consumer	Total
Nine Month Ended September 30, 2013							
Allowance for loan losses:							
Balance beginning of year	\$ 326	\$ 1,215	\$ 731	\$	\$ 83	\$ 65	\$ 2,420
Provision for loan losses	139	371	(150)		(17)	(26)	317
Loans charged to allowance		(503)				(13)	(516)
Recoveries of loans previously charged off			1		7	11	19
Balance, end of period	\$ 465	\$ 1,083	\$ 582	\$	\$ 73	\$ 37	\$ 2,240
Ending balance:							
individually evaluated for impairment	\$	\$ 425	\$ 112	\$	\$ 23	\$ 3	\$ 563
Ending balance: collectively evaluated for impairment	\$ 465	\$ 658	\$ 470	\$	\$ 50	\$ 34	\$ 1,677
Loans:							
Ending balance	\$ 15,473	\$ 38,265	\$ 119,709	\$ 35,382	\$ 7,809	\$ 4,970	\$ 221,608
Ending balance:							
individually evaluated for impairment	\$	\$ 1,195	\$ 2,850	\$	\$ 23	\$ 12	\$ 4,080
Ending balance: collectively evaluated for impairment	\$ 15,473	\$ 37,070	\$ 116,859	\$ 35,382	\$ 7,786	\$ 4,958	\$ 217,528
	Commercial Business	Commercial Real Estate	One- to Four- Family	Mortgage Warehouse	Home Equity	Consumer	Total

	Estate		Family									
Three Months Ended												
September 30, 2013												
Allowance for loan losses:												
Balance beginning of period	\$	410	\$	1,046	\$	744	\$	92	\$	54	\$	2,346
Provision for loan losses		55		287		(162)		(21)		(17)		142
Loans charged to allowance				(250)						(3)		(253)
Recoveries of loans previously charged off								2		3		5
Balance, end of period	\$	465	\$	1,083	\$	582	\$	73	\$	37	\$	2,240

12 Months Ended												
December 31, 2012												
Allowance for loan losses:												
Balance beginning of year	\$	130	\$	624	\$	778	\$	133	\$	89	\$	1,754
Provision for loan losses		196		591		248		(26)		9		1,018
Loans charged to allowance						(297)		(28)		(46)		(371)
Recoveries of loans previously charged off						2		4		13		19
Balance, end of period	\$	326	\$	1,215	\$	731	\$	83	\$	65	\$	2,420

Ending balance:												
individually evaluated for impairment												
	\$		\$	610	\$	90	\$		\$	3	\$	703

Ending balance: collectively evaluated for impairment												
	\$	326	\$	605	\$	641	\$	83	\$	62	\$	1,717

Loans:														
Ending balance	\$	12,505	\$	41,489	\$	122,601	\$	33,094	\$	8,564	\$	5,760	\$	224,013

Ending balance:												
individually evaluated for impairment												
	\$		\$	4,675	\$	3,978	\$		\$	21	\$	8,674

Ending balance: collectively evaluated for impairment														
	\$	12,505	\$	36,814	\$	118,623	\$	33,094	\$	8,564	\$	5,739	\$	215,339

Nine Months Ended												
September 30, 2012												
Allowance for loan losses:												
Balance beginning of year	\$	130	\$	624	\$	778	\$	133	\$	89	\$	1,754
Provision for loan losses		96		506		273		(15)		(3)		857
Loans charged to 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

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

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 \$ 122,289 \$ 36,271 \$ 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 \$ 120,405 \$ 36,271 \$ 8,730 \$ 6,125 \$ 215,038

Three Months Ended

September 30, 2012

Allowance for loan losses:												
Balance beginning of year	\$	193	\$	974	\$	868	\$	91	\$	60	\$	2,186
Provision for loan losses		33		156		(56)				22		155
Loans charged to 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

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

The \$540 decrease in the provision for loan losses at September 30, 2013 as compared to September 30, 2012 was primarily attributable to a higher amount of nonperforming loans during the first nine months of 2012.

Loans or portions of loans are charged against the allowance for loan losses when loans are determined to be uncollectible, including troubled debt restructurings. The Company evaluates the need for an allocated allowance when loans are determined to be impaired. The allocated 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 provided an allocated allowance for loan losses of \$115 and \$328 to customers whose loan terms had been modified in troubled debt restructurings as of September 30, 2013 and December 31, 2012, respectively. The Company has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings at September 30, 2013 or December 31, 2012.

During the nine months ended September 30, 2013, one loan, which was previously modified during the nine months ended September 30, 2012, was modified to reduce the interest rate and to extend the interest only payment terms for 12 months. During the nine months ended September 30, 2012, one loan was modified to reduce the interest rate and to extend the interest only payment terms to 24 months. No loans were modified during the three months ended September 30, 2013 or 2012.

During the nine months ended September 30, 2013 and 2012, there were no additional allowance for loan and lease loss provisions or charge offs of principal, for loans that were classified as troubled debt restructurings at September 30, 2013 and 2012. The table below sets forth a summary of troubled debt restructurings for the nine months ended September 30, 2013 and 2012:

	Number of Contracts	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment
September 30, 2013			
Commercial business		\$	\$
Commercial real estate			
One- to four-family	1	392	392
Mortgage warehouse			
Home equity			
Consumer			
	1	\$ 392	\$ 392
September 30, 2012			

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

Commercial business				
Commercial real estate				
One- to four-family	1	392		392
Mortgage warehouse				
Home equity				
Consumer				
	1	\$ 392	\$	392

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

The table below sets forth loans that were restructured during the previous 12 months that subsequently defaulted during the nine months ended September 30, 2013 and 2012, respectively:

	Number of Contracts	Recorded Investment
September 30, 2013		
Commercial business		\$
Commercial real estate		
One- to four-family		
Mortgage warehouse		
Home equity		
Consumer		
		\$
September 30, 2012		
Commercial business		
Commercial real estate	3	1,267
One- to four-family		
Mortgage warehouse		
Home equity		
Consumer	3	\$ 1,267

The Bank originated \$45,108 and \$59,109 in loans during the nine months ended September 30, 2013 and 2012, respectively, with the intent to sell them to various correspondent lending institutions. Proceeds on sales of these loans were \$52,001 and \$56,930 for the nine months ended September 30, 2013 and 2012, respectively. Gains on such sales were \$1,278 and \$1,509 for the nine months ended September 30, 2013 and 2012, respectively. These loans were sold with servicing rights released.

Loans serviced for the benefit of others were \$4,457; \$1,591 and \$3,216 at September 30, 2013, December 31, 2012 and September 30, 2012, respectively.

Note 5. Borrowings

The Bank periodically borrows from the Federal Home Loan Bank of Dallas (the FHLB). At September 30, 2013, the Bank had a total of 10 such advances totaling \$7,356, net of \$249 in unamortized prepayment fees incurred during the third quarter of 2012. These advances have various maturities ranging from January 5, 2015 through February 2, 2023

at interest rates ranging from 0.74% to 2.33%. These FHLB advances were secured by FHLB stock, real estate loans and securities with a total value of \$78,366 and the Bank had remaining credit under the FHLB advance program of \$70,763 at September 30, 2013.

At December 31, 2012, the Bank had a total of eight FHLB advances totaling \$20,316, net of \$307 in unamortized prepayment fees incurred in the third quarter of 2012. These advances had various maturities ranging from January 2, 2013 through September 6, 2018 at interest rates ranging from 0.08% to 1.53%.

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

During 2012, the Bank prepaid \$6,123 of advances from the FHLB that were scheduled to mature at various times during fiscal years 2013 and 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 the 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. Employee Benefits

Defined contribution plan. The Bank's 401(k) plan covers all eligible employees, as defined therein. The Bank matches 100% of employee contributions up to 5% of employees' salaries. The Bank made matching contributions totaling \$39 and \$40 during the three months ended September 30, 2013 and 2012, respectively, and matching contributions totaling \$121 and \$115 during the nine months ended September 30, 2013 and 2012, respectively.

The Bank had a nonqualified deferred compensation plan for the benefit of one executive officer. This plan matured and paid the executive \$243 during the second quarter of 2013 and has no remaining obligation. The Bank funded its obligations pursuant to this plan with a fixed rate annuity. Expense of \$19 and \$35 was recorded for each of the nine months ended September 30, 2013 and 2012, respectively.

ESOP. In conjunction with the Company's initial public offering, the Bank adopted the ESOP for eligible employees. The ESOP has purchased 138,000 shares of common stock for allocation to participants thereunder.

To be eligible to participate in the ESOP, employees must have completed at least 1,000 hours of service during each plan year, which begins on January 1st. Benefits issued under the ESOP vest over a period of six years, with 20% of the benefits vesting following two years of service and the remaining 80% vesting at a rate of 20% for each additional year of service thereafter. The Bank makes minimum annual contributions to the ESOP equal to the ESOP's debt service. The ESOP shares are pledged as collateral on the ESOP loan. As the loan is repaid, shares are released from collateral and allocated to participating employees, based on the proportion of loan principal and interest repaid and the compensation of the participants.

The table below sets forth the ESOP shares at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Allocated shares	16,897	6,367
Unearned shares	121,103	131,633
Total ESOP Shares	138,000	138,000

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

Fair value of unearned shares (in thousands)	\$	2,392	\$	1,927
Compensation expense recognized from the release of share from ESOP (in thousands)	\$	92 ¹	\$	97 ¹

(1) September 30, 2013 amount is for nine months; December 31, 2012 amount is for 12 months.
Share-based compensation. On May 17, 2012, the Company established the 2012 Equity Incentive Plan (the Incentive Plan), a long-term incentive plan under which 241,500 shares of common stock were authorized for equity-based awards. The Incentive Plan has been approved by the Company's stockholders and is administered by the Compensation Committee of the Company's board of directors (the Committee).

Table of Contents**SP Bancorp, Inc.****Condensed Notes to Consolidated Financial Statements**

Dollars in thousands, except per share and share amounts (unaudited)

The types of awards that may be granted under the Incentive Plan include stock options, restricted stock and restricted stock units. As of September 30, 2013 and September 30, 2012, 142,000 and 241,500 shares remained available for grants under the Incentive Plan. Awards under the Incentive Plan are evidenced by an award agreement that: (i) specifies the number of stock options, restricted shares or restricted stock units covered by the award; (ii) specifies the date of grant; (iii) specifies the vesting period or conditions to vesting; and (iv) contains such other terms and conditions not inconsistent with the Incentive Plan, including the effect of termination of a participant's employment or service with the Company as the Committee may, in its discretion, prescribe. The option price for each grant must be at least equal to the fair value of a share of the Company's common stock on the date of grant. Options are granted at such time as the Committee determines at the date of grant and in no event can the exercise period exceed a maximum of 10 years. Upon a change-in-control of the Company, as defined in the Incentive Plan, all outstanding options and non-vested stock awards and units would immediately vest.

The table below sets forth share-based compensation expense for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Share-based compensation expense				
Stock options	\$ 22	\$	\$ 65	\$
Restricted stock	23		68	
Total compensation expense recognized	\$ 45	\$	\$ 133	\$

As of September 30, 2013, the Company had \$748 of unrecognized pre-tax compensation cost related to non-vested share-based compensation arrangements, which is expected to be recognized over 4.16 years.

There were no options outstanding during the first nine months of 2012. The table below sets forth a summary of stock option activity under the Incentive Plan for the nine months ended September 30, 2013:

	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at January 1, 2013	69,500	\$ 15.25	\$ 17
Granted		\$	\$
Exercised		\$	\$
Canceled		\$	\$

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

Outstanding at September 30, 2013	69,500	\$	15.25	\$	313
Vested and exercisable at September 30, 2013		\$	NA		
Vested and exercisable weighted average remaining contractual terms at September 30, 2013 (in years)		\$	NA		

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

No shares of restricted stock were outstanding during the first nine months of 2012. The table below sets forth a summary of restricted stock activity under the Incentive Plan for the nine months ended September 30, 2013:

	Number of Shares	Grant Date Weighted-Average Cost
Unvested at January 1, 2013	30,000	\$ 15.25
Shares awarded		\$
Restrictions lapsed and shares released		\$
Canceled		\$
Unvested at September 30, 2013	30,000	\$ 15.25

Note 7. Income Taxes

The table below sets forth income tax expense and the effective tax rates for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Income tax expense	\$ 141	\$ 253	\$ 462	\$ 402
Effective tax rate	33.4%	31.8%	32.3%	27.6%

The differences between the statutory rate of 34.0% and the effective tax rates presented in the table above were primarily attributable to permanent differences related to tax exempt income consisting of interest on municipal obligations and bank-owned life insurance income.

There were no significant changes in deferred tax items during the nine months ended September 30, 2013, as compared to December 31, 2012.

Note 8. Financial Instruments With Off-Balance Sheet Risk

The Company 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. The Company's exposure to credit loss in the event of nonperformance by the counter party to the financial instrument for commitments to extend credit is represented by the contractual amount of these instruments.

The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

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

The table below sets forth the approximate amounts of these financial instruments at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Commitments to extend credit	\$ 34,834	\$ 22,688

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. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, single and multi-family residences, plant and equipment, cattle and income-producing commercial properties. At September 30, 2013, commitments to fund fixed rate loans of \$17,114, including \$9,529 of mortgage warehouse loans, were included in the commitments to extend credit. At December 31, 2012, commitments to fund fixed rate loans of \$9,803 including \$1,906 of mortgage warehouse loans, were included in the commitments to extend credit. The increase in fixed rate commitments is reflective of the growth in our mortgage warehouse lending business. Interest rates on commitments to fund fixed rate loans, including unsecured loans, ranged from 3.49% to 17.90% at September 30, 2013 and from 2.63% to 17.90% at December 31, 2012.

The Company did not incur any significant losses on its commitments for the nine months ended September 30, 2013 or 2012. Although the maximum exposure to loss is the amount of such commitments, management anticipates no material losses from such activities.

Note 9. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by federal 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 require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in applicable regulations) to

risk-weighted assets (as defined in applicable regulation), of core capital (as defined in applicable regulations) to adjusted tangible assets (as defined in applicable regulations) and of tangible capital (as defined in applicable regulations) to tangible assets. As of September 30, 2013 and December 31, 2012, the Bank met all capital adequacy requirements to which it was subject without giving effect to the Basel III capital rules adopted by the Federal Reserve Board on July 2, 2013 and by the OCC on July 9, 2013.

Table of Contents**SP Bancorp, Inc.****Condensed Notes to Consolidated Financial Statements**

Dollars in thousands, except per share and share amounts (unaudited)

At September 30, 2013 and December 31, 2012, 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 would have changed the Bank's category.

During the third quarter of 2013, the Bank applied to the TDB to change its charter from a federal thrift to a Texas state bank charter and notified the Federal Reserve Board of its intention to file applications to become a member of the Federal Reserve System and for the Company to become a bank holding company. Upon approval, the Bank will operate under the name SharePlus Bank.

The table below sets forth the Bank's capital ratios as of September 30, 2013 and December 31, 2012 (without giving effect to the final Basel III capital rules):

	Actual		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2013						
Total capital to risk weighted assets	\$ 32,443	14.24%	\$ 18,231	8.00%	\$ 22,789	10.00%
Tier 1 capital to risk weighted assets	30,203	13.25%	9,115	4.00%	13,673	6.00%
Tier 1 capital to assets	30,203	9.92%	12,173	4.00%	15,216	5.00%
December 31, 2012						
Total capital to risk weighted assets	\$ 32,866	15.56%	\$ 16,894	8.00%	\$ 21,118	10.00%
Tier 1 capital to risk weighted assets	30,446	14.42%	8,447	4.00%	12,671	6.00%
Tier 1 capital to assets	30,446	10.59%	11,497	4.00%	14,371	5.00%

Management continues to evaluate the final Basel III capital rules as they apply to the Company and the Bank, beginning in reporting periods after January 1, 2015. For the March 31, 2013 FDIC Consolidated Report of Condition and Income (the Call Report) filing and filings thereafter, the Federal Financial Institutions Examination Council issued supplemental instructions for the preparation of the Call Report indicating the loans obtained in a mortgage warehouse loan program that do not qualify for sale accounting should be assigned a 100% risk weight. The Bank previously assigned a risk weighting of 20% or 50% to these loans. The September 30, 2013 information presented in the table above reflects the changes included in the supplemental instructions for the Call Report while the December 31, 2012 information reflects previous Call Report instructions. Had these instructions been in place at December 31, 2012, Tier 1 capital to risk weighted assets would have been 13.34% and total capital to risk weighted assets would have been 14.40%. The change does not impact the Tier 1 capital to assets ratio.

Note 10. 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

Table of Contents

SP Bancorp, Inc.

Condensed Notes to Consolidated Financial Statements

Dollars in thousands, except per share and share amounts (unaudited)

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 independent, knowledgeable, able to transact and 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 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.****Condensed Notes to Consolidated Financial Statements***Dollars in thousands, except per share and share amounts (unaudited)*

The table below sets forth the assets and liabilities reported on the consolidated balance sheet at their fair value as of September 30, 2013 and December 31, 2012 by level within the ASC 820 fair value measurement hierarchy:

	Fair Value Measurements at Using			
	Quoted Prices in	Active		Significant Other
	Markets	Markets		Significant Other
	for Identical	for Significant Other		Significant Other
	Assets	Observable		Unobservable
	Inputs	Inputs		Inputs
	(Level 1)	(Level 2)		(Level 3)
Carrying	Value	\$	\$	\$
September 30, 2013				
Measured on a recurring basis:				
Assets:				
Securities available for sale:				
Municipal securities	\$ 7,124	\$	\$ 7,124	\$
Collateralized mortgage obligations	2,764		2,764	
Mortgage-backed securities	4,141		4,141	
Asset-backed securities	3,012		3,012	
Fixed annuity investment	1,255		1,255	
Measured on a nonrecurring basis:				
Assets:				
Impaired loans	1,040			1,040
OREO	157			157
December 31, 2012				
Measured on a recurring basis:				
Assets:				
Securities available for sale:				
Municipal securities	\$ 2,132	\$	\$ 2,132	\$
Collateralized mortgage obligations	5,611		5,611	
Mortgage-backed securities	4,964		4,964	
Asset-backed securities	3,006		3,006	
Fixed annuity investment	1,223		1,223	
Measured on a nonrecurring basis:				
Assets:				
Impaired loans	4,368			4,368
OREO	1,477			1,477

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.

Certain financial assets 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 (OREO) is initially recorded at fair value less estimated costs of disposal, which establishes a new cost basis.

Table of Contents**SP Bancorp, Inc.****Condensed Notes to Consolidated Financial Statements**

Dollars in thousands, except per share and share amounts (unaudited)

For the nine months ended September 30, 2013 and the year ended December 31, 2012, loans with principal balances of \$1,603 and \$5,071, respectively, were re-measured and additional provisions for losses of \$563 and \$703, respectively, were recorded.

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

The table below sets forth Level 3 assets measured at fair value on a non-recurring basis at September 30, 2013 and the significant unobservable inputs used in the fair value measurements:

Assets	Fair Value	Valuation Technique	Unobservable Input(s)	Loan/Property Type	Range (Weighted Average)
Impaired loans	\$ 770	Income method	Capitalization rate	Commercial real estate	6.5%
Impaired loans	\$ 265	Comparable sales	Adjustments for differences between comparable sales	One-to-four family	(6)%-16%
Impaired loans	\$ 5	Collateral method	NA	Consumer	N/A

Note 11. Fair Value of Financial Instruments

The table below sets forth the estimated fair values of the Company's financial instruments at September 30, 2013 and December 31, 2012:

	September 30, 2013		December 31, 2012	
	Carrying Amount	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Level 1 inputs:				
Cash and cash equivalents	\$ 48,405	\$ 48,405	\$ 23,933	\$ 23,933
Level 2 inputs:				
Securities available for sale	17,041	17,041	15,713	15,713
Fixed annuity investment	1,255	1,255	1,223	1,223
Federal Home Loan Bank stock	440	N/A	1,099	N/A

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

Restricted stock	50	N/A	50	N/A
Accrued interest receivable	774	774	724	724
Level 3 inputs:				
Loans and loans held for sale	221,788	221,205	229,578	229,219
Financial liabilities:				
Level 2 inputs:				
Deposits	263,056	257,983	232,340	232,530
Accrued interest payable	34	34	9	9
Borrowings	7,356	6,941	20,316	20,334
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, 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. The methods used to estimate the fair value of loans do not necessarily represent an exit price.

Table of Contents

SP Bancorp, Inc.

Condensed Notes to Consolidated Financial Statements

Dollars in thousands, except per share and share amounts (unaudited)

With the exception of sales of loans held for sale and the liquidation of OREO, the Company does not typically sell or transfer assets and liabilities in the normal course of business.

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

Securities. See Note 10 - Fair Value Measurements for additional information related to methods and assumptions used to estimate fair values for securities. It was not practicable to determine the fair value of FHLB stock and other restricted securities due to restrictions on the transferability of such securities.

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 the FHLB. The fair value of advances from the FHLB 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. 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 at September 30, 2013 and results of operations for the three and nine months ended September 30, 2013 and 2012 is intended to assist in understanding the financial condition and results of operations of SP Bancorp, Inc. ("SP Bancorp", "we", "us" or 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 quarterly report on Form 10-Q for the period ended September 30, 2013 (this "Quarterly Report").

FORWARD-LOOKING STATEMENTS

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

statements regarding 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

statements regarding 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. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events, except as may be required by applicable law.

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;

changes in consumer spending, borrowing and savings habits;

Table of Contents

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 (the SEC) and the Public Company Accounting Oversight Board;

changes in federal, state and local tax rates;

our ability to attract and retain key personnel;

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. Factors that might cause such differences include, but are not limited to, those discussed above and in the risk factors disclosed under the heading Risk Factors in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on March 6, 2013 (the Form 10-K), and the unaudited consolidated financial statements and notes thereto included elsewhere in this Quarterly Report.

Overview

SP Bancorp was incorporated as a Maryland corporation on June 16, 2010 and owns all of the outstanding shares of common stock of SharePlus Federal Bank (the Bank). The Bank converted from a federal mutual savings bank to a federal capital stock savings bank on October 29, 2010.

As of September 30, 2013, we had \$305 million of total assets, \$222 million of loans, net, including loans held for sale, \$263 million of deposits and \$33 million of total stockholders' equity on a consolidated basis.

For the three months ended September 30, 2013, we had \$281,000 of net income, compared to \$542,000 of net income for the three months ended September 30, 2012. For the nine months ended September 30, 2013, we had \$970,000 of net income, compared to \$1,056,000 of net income for the nine months ended September 30, 2012. The decrease in net income during the three and nine months ended September 30, 2013 resulted primarily from a decrease in net interest income and a decrease in noninterest income. These decreases were partially offset by a decrease in the provision for loan losses and a decrease in noninterest expense. Income taxes also decreased for the three months ended September 30, 2013 when compared to the same period in 2012.

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 results of operations are also significantly affected by general economic and competitive conditions, as well as changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable laws, regulations or government policies may also materially affect our financial condition and results of operations.

Table of Contents

Critical Accounting Policies. There have been no material changes to the critical accounting policies disclosed in the Company's Form 10-K.

Comparison of Financial Condition at September 30, 2013 and December 31, 2012*Summary of Selected Balance Sheet Data*

	September 30, 2013	December 31, 2012	Increase/ (Decrease)	% Change
	<i>(Dollars in thousands)</i>			
Total assets	\$ 305,481	\$ 288,121	\$ 17,360	6.03%
Total cash and cash equivalents	48,405	23,933	24,472	102.25
Securities available for sale, at fair value	17,041	15,713	1,328	8.45
Loans held for sale	1,675	7,290	(5,615)	(77.02)
Loans, net	220,113	222,288	(2,175)	(0.98)
Other real estate owned	157	1,477	(1,320)	(89.37)
Premises and equipment, net	4,115	4,249	(134)	(3.15)
Federal Home Loan Bank of Dallas stock	440	1,099	(659)	(59.96)
Bank-owned life insurance	7,621	7,439	182	2.45
Other assets ⁽¹⁾	5,914	4,633	1,281	27.65
Deposits	263,056	232,340	30,716	13.22
Borrowings	7,356	20,316	(12,960)	(63.79)
Stockholders' equity	32,990	33,040	(50)	(0.15)

(1) Includes fixed annuity investment, accrued interest receivable, deferred tax assets and other assets. Total assets increased \$17.4 million to \$305.5 million at September 30, 2013. The increase in total assets was driven by increases in customer deposits that were reinvested in cash and cash equivalents and in securities and used to reduce borrowings.

Net loans, including loans held for sale, decreased \$7.8 million to \$221.8 million at September 30, 2013. All loan categories with the exception of commercial business loans and mortgage warehouse loans decreased. Commercial business loans and mortgage warehouse loans increased as a result of higher loan production from new and existing customers.

Other real estate owned (OREO) decreased \$1.3 million due to the sale of previously foreclosed real estate.

Deposits increased \$30.7 million to \$263.1 million at September 30, 2013. Driven mostly by certificates of deposits, deposits increased as a result of inflows from both new and existing customers. This increase was partially the result of a local advertising campaign designed to lengthen our CD maturities.

Advances from the Federal Home Loan Bank of Dallas (the FHLB) decreased \$13.0 million to \$7.4 million at September 30, 2013 due to increased deposits and the corresponding payoffs of advances.

The decline in stockholders' equity was primarily due to the repurchase of 55,800 shares of our common stock during the third quarter of 2013, partially offset by \$970,000 of net income for the nine months ended September 30, 2013.

Table of Contents**Comparison of Operating Results for the Three Months Ended September 30, 2013 and 2012**

General. We recorded \$281,000 of net income for the three months ended September 30, 2013, compared to \$542,000 of net income for the same period in 2012. Net interest income was \$2.4 million for the three months ended September 30, 2013, decreasing \$221,000 as compared to the same period in 2012. The provision for loan losses decreased \$13,000, noninterest income decreased \$400,000, noninterest expense decreased \$235,000 and income taxes decreased \$112,000 for the three months ended September 30, 2013, as compared to the same period in 2012.

Summary of Net Interest Income

	Three Months Ended September 30, 2013			Increase/ (Decrease)	% Change
	2013	2012	(Decrease)		
	<i>(Dollars in thousands)</i>				
Interest income:					
Interest and fees on loans	\$ 2,659	\$ 2,832	\$ (173)		(6.11)%
Securities - taxable	4	52	(48)		(92.31)
Securities - nontaxable	32	16	16		100.00
Other interest - earning assets	51	37	14		37.84
Total interest income	2,746	2,937	(191)		(6.50)
Interest expense:					
Savings deposits	5	9	(4)		(44.44)
Money market	16	19	(3)		(15.79)
Demand deposit accounts	18	17	1		5.88
Certificates of deposit	303	235	68		28.94
Total deposits	342	280	62		22.14
Borrowings	41	73	(32)		(43.84)
Total interest expense	383	353	30		8.50
Net interest income	\$ 2,363	\$ 2,584	\$ (221)		(8.55)%

Summary of Average Yields, Average Rates and Average Balances**Average Yields and Rates**

	Three Months Ended September 30, 2013			Increase/ (Decrease) in basis points
	2013	2012		
Loans	4.80%	4.93%		(0.13)

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

Securities - taxable	0.15	1.41	(1.26)
Securities - nontaxable	3.01	3.53	(0.52)
Other interest - earning assets including FHLB Stock	0.40	0.52	(0.12)
Total interest-earning assets	3.82	4.26	(0.44)
Savings deposits	0.05	0.09	(0.04)
Money market	0.18	0.19	(0.01)
Demand deposit accounts	0.13	0.13	
Certificates of deposits	1.21	1.20	0.01
Total deposits	0.59	0.53	0.06
Borrowings	2.23	1.22	1.01
Total interest-bearing liabilities	0.64	0.60	0.04
Net interest rate spread	3.18	3.66	(0.48)
Net interest margin	3.28	3.75	(0.47)

Table of Contents**Average Balances**

	Three Months Ended September 30, 2013			Increase/ (Decrease)	% Change
	2013	2012	(Decrease)		
	<i>(Dollars in thousands)</i>				
Loans	\$ 221,610	\$ 229,991	\$ (8,381)		(3.64)%
Securities - taxable	10,556	14,768	(4,212)		(28.52)
Securities - nontaxable	4,251	1,812	2,439		134.60
Other interest earning assets	51,456	29,080	22,376		76.95
Total interest earning assets	287,873	275,651	12,222		4.43
Savings deposits	39,144	38,358	786		2.05
Money market deposits	35,111	40,045	(4,934)		(12.32)
Demand deposit accounts	56,084	53,284	2,800		5.25
Certificates of deposit	100,476	78,256	22,220		28.39
Total deposits	230,815	209,943	20,872		9.94
Borrowings	7,348	23,996	(16,648)		(69.38)
Total interest bearing liabilities	238,163	233,939	4,224		1.81
Net interest-earning assets	\$ 49,710	\$ 41,712	\$ 7,998		19.17

Interest Income. Interest and fees on loans decreased for the three months ended September 30, 2013 due to lower loan balances and lower average yields on the Bank's loan portfolio.

Interest income on taxable securities decreased for the three months ended September 30, 2013 due primarily to an increase in amortization associated with accelerated prepayments on certain securities.

Interest Expense. Interest expense on deposits increased for the three months ended September 30, 2013 due to growth in average deposit balances as well as increases in the average cost of deposits. The average rate we paid on deposits increased during the third quarter of 2013, as certificates of deposit represented a larger percentage of our deposits. Interest expense on borrowings decreased due to lower levels of borrowing.

Net Interest Income. Net interest income decreased for the three months ended September 30, 2013 as compared to the same period in 2012, primarily due to a decrease in our interest rate spread to 3.18% from 3.66%, as well as a 47 basis point decrease in our net interest margin to 3.28% from 3.75%.

Provision for Loan Losses. We recorded a provision for loan losses of \$142,000 for the three months ended September 30, 2013, compared to \$155,000 for the same period in 2012. The decrease in the provision for loan losses was primarily attributable to a lower amount of nonperforming loans in the third quarter of 2013, as well as improvements in the economy, which are factored into our allowance for loan loss methodology.

Table of Contents**Summary of Noninterest Income**

	Three Months Ended September 30,		Increase/ (Decrease)	% Change
	2013	2012	(Decrease)	
	<i>(Dollars in thousands)</i>			
Noninterest income:				
Service charges	\$ 257	\$ 290	\$ (33)	(11.38)%
Gain on sale of securities available for sale	15	128	(113)	(88.28)
Gain on sale of mortgage loans	303	630	(327)	(51.90)
Mortgage warehouse fees	114	60	54	90.00
Increase in cash surrender of bank owned life insurance	59	67	(8)	(11.94)
Other	73	46	27	58.70
Total noninterest income	\$ 821	\$ 1,221	\$ (400)	(32.76)%

Noninterest Income. Noninterest income decreased primarily due to lower gains on sale of mortgage loans and lower gains on sale of securities recognized in the third quarter of 2013, as compared to the same period in 2012. These decreases were partially offset by an increase in mortgage warehouse fees.

Summary of Noninterest Expense

	Three Months Ended September 30,		Increase/ (Decrease)	% Change
	2013	2012	(Decrease)	
	<i>(Dollars in thousands)</i>			
Noninterest expense:				
Compensation and benefits	\$ 1,440	\$ 1,650	\$ (210)	(12.73)%
Occupancy costs	259	262	(3)	(1.15)
Equipment expense	35	32	3	9.38
Data processing expense	177	146	31	21.23
ATM expense	86	83	3	3.61
Professional and outside services	355	336	19	5.65
Stationary and supplies	17	19	(2)	(10.53)
Marketing	44	49	(5)	(10.20)
FDIC insurance assessments	39	63	(24)	(38.10)
Provision for losses on other real estate owned	26	11	15	136.36
Operations from other real estate owned	(17)	21	(38)	(180.95)
Other expense	159	183	(24)	(13.11)
Total noninterest expense	\$ 2,620	\$ 2,855	\$ (235)	(8.23)%

Noninterest Expense. Noninterest expense decreased primarily due to a lower compensation and benefits expense recognized in the third quarter of 2013, as compared to the same period in 2012. The decrease in compensation and benefits expense was a result of lower mortgage commission expense and lower bonus expense. These decreases were

partially offset by higher salary levels and share-based compensation expense and increased costs associated with our addition of personnel in the Bank's commercial lending department. Data processing expense increased due to on-going costs associated with new products implemented during the first quarter of 2013. Professional and outside services costs increased due to \$100,000 of expense incurred related to our planned conversion to a state bank charter, which were partially offset by lower audit and outside consulting fees. FDIC insurance assessments decreased due to a lower assessment rate. The decline in operations from other real estate owned reflected the reversal of \$22,000 accrued in a previous period.

Table of Contents

Income Tax Expense. We recorded \$141,000 of income tax expense for the three months ended September 30, 2013, compared to \$253,000 of income tax expense for the same period in 2012. Our effective tax rate was 33.4% for the three months ended September 30, 2013, compared to 31.8% for the three months ended September 30, 2012. The differences between the statutory rate of 34.0% and the effective tax rates were primarily attributable to permanent differences related to tax exempt income consisting of interest on municipal obligations and bank-owned life insurance income.

Average Balances and Yields

The table below sets forth average balances, 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 no 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.

	Three Months Ended September 30, 2013			2012		
	Average Outstanding Balance	Interest	Yield/Rate ⁽¹⁾	Average Outstanding Balance	Interest	Yield/Rate ⁽¹⁾
<i>(Dollars in thousands)</i>						
Interest-earning assets:						
Loans	\$ 221,610	\$ 2,659	4.80%	\$ 229,991	\$ 2,832	4.93%
Securities - taxable	10,556	4	0.15	14,768	52	1.41
Securities - nontaxable	4,251	32	3.01	1,812	16	3.53
Other interest-earning assets	51,017	51	0.40	27,857	36	0.52
FHLB of Dallas stock	439			1,223	1	0.33
Total interest-earning assets	287,873	2,746	3.82	275,651	2,937	4.26
Noninterest-earning assets	15,505			17,530		
Total assets	\$ 303,378			\$ 293,181		
Interest-bearing liabilities:						
Savings deposits	\$ 39,144	5	0.05	\$ 38,358	9	0.09
Money market	35,111	16	0.18	40,045	19	0.19
Demand deposit accounts	56,084	18	0.13	53,284	17	0.13
Certificates of deposit	100,476	303	1.21	78,256	235	1.20
Total deposits	230,815	342	0.59	209,943	280	0.53
Borrowings	7,348	41	2.23	23,996	73	1.22
Total interest-bearing liabilities	238,163	383	0.64	233,939	353	0.60
Noninterest-bearing liabilities	31,423			26,406		
Total liabilities	269,586			260,345		

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

Equity	33,792	32,836
Total liabilities and equity	\$ 303,378	\$ 293,181
Net interest income	\$ 2,363	\$ 2,584
Net interest rate spread ⁽²⁾	3.18%	3.66%
Net interest-earning assets ⁽³⁾	\$ 49,710	\$ 41,712
Net interest margin ⁽⁴⁾	3.28%	3.75%
Average of interest-earning assets to interest-bearing liabilities	120.87%	117.83%

- (1) Yields and rates for the three months ended September 30, 2013 and 2012 are annualized.
- (2) Net 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**Comparison of Operating Results for the Nine Months Ended September 30, 2013 and 2012**

General. We recorded \$970,000 of net income for the nine months ended September 30, 2013, compared to \$1,056,000 of net income for the same period in 2012. Net interest income was \$7.3 million for the nine months ended September 30, 2013, decreasing \$336,000 as compared to the same period in 2012. The provision for loan losses decreased \$540,000, noninterest income decreased \$642,000 and noninterest expense decreased \$412,000 for the nine months ended September 30, 2013 as compared to the same period in 2012.

Summary of Net Interest Income

	Nine Months Ended September 30			
	2013	2012	Increase/ (Decrease)	% Change
	<i>(Dollars in thousands)</i>			
Interest income:				
Interest and fees on loans	\$ 8,155	\$ 8,421	\$ (266)	(3.16)%
Securities - taxable	3	135	(132)	(97.78)
Securities - nontaxable	70	92	(22)	(23.91)
Other interest - earning assets	139	104	35	33.65
Total interest income	8,367	8,752	(385)	(4.40)
Interest expense:				
Savings deposits	14	36	(22)	(61.11)
Money market	50	61	(11)	(18.03)
Demand deposit accounts	56	53	3	5.66
Certificates of deposit	801	704	97	13.78
Total deposits	921	854	67	7.85
Borrowings	127	243	(116)	(47.74)
Total interest expense	1,048	1,097	(49)	(4.47)
Net interest income	\$ 7,319	\$ 7,655	\$ (336)	(4.39)%

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

	Nine Months Ended September 30			Increase/ (Decrease) in basis points
	2013	2012		
Loans	4.82%	5.03%		(0.21)
Securities - taxable	0.03	1.26		(1.23)
Securities - nontaxable	2.94	3.40		(0.46)
Other interest - earning assets including FHLB Stock	0.46	0.54		(0.08)
Total interest-earning assets	3.96	4.37		(0.41)
Savings deposits	0.05	0.13		(0.08)
Money market	0.18	0.21		(0.03)
Demand deposit accounts	0.13	0.13		
Certificates of deposits	1.16	1.25		(0.09)
Total deposits	0.55	0.56		(0.01)
Borrowings	1.47	1.30		0.17
Total interest-bearing liabilities	0.59	0.64		(0.05)
Net interest rate spread	3.37	3.73		(0.36)
Net interest margin	3.47	3.82		(0.35)

Average Balances

	Nine Months Ended September 30			Increase/ (Decrease)	% Change
	2013	2012			
	<i>(Dollars in thousands)</i>				
Loans	\$ 225,579	\$ 223,217	\$ 2,362		1.06%
Securities - taxable	11,818	14,287	(2,469)		(17.28)
Securities - nontaxable	3,179	3,604	(425)		(11.79)
Other interest earning assets	40,886	26,211	14,675		55.99
Total interest earning assets	281,462	267,319	14,143		5.29
Savings deposits	38,452	36,639	1,813		4.95
Money market deposits	36,453	38,943	(2,490)		(6.39)
Demand deposit accounts	57,647	53,975	3,672		6.80
Certificates of deposit	92,136	74,958	17,178		22.92
Total deposits	224,688	204,515	20,173		9.86
Borrowings	11,525	25,008	(13,483)		(53.91)
Total interest bearing liabilities	236,213	229,523	6,690		2.91

Net interest-earning assets	\$ 45,249	\$ 37,796	\$ 7,453	19.72
-----------------------------	-----------	-----------	----------	-------

Interest Income. Interest and fees on loans decreased for the nine months ended September 30, 2013 due to lower average yields on the Bank's loan portfolio. The decrease in interest income related to lower yields was partially offset by loan growth.

Interest income on taxable securities decreased for the nine months ended September 30, 2013 due primarily to an increase in amortization associated with accelerated prepayments on certain securities.

Interest Expense. Interest expense on deposits increased for the nine months ended September 30, 2013 as the growth in average deposit balances more than offset the decrease in the average cost of deposits. The average rate we paid on deposits decreased as we were able to reprice our deposits downward in the declining interest rate environment. Interest expense on borrowings decreased due to lower levels of borrowing.

Table of Contents

Net Interest Income. Net interest income decreased for the nine months ended September 30, 2013 as compared to the same period in 2012, primarily due to a decrease in our interest rate spread to 3.37% from 3.73%.

Provision for Loan Losses. We recorded a provision for loan losses of \$317,000 for the nine months ended September 30, 2013, compared to \$857,000 for the same period in 2012. The decrease in the provision for loan losses was primarily attributable to a lower amount of nonperforming loans in the first nine months of 2013 and improvements in the economy, which are factored into our allowance for loan loss methodology.

Summary of Noninterest Income

	Nine Months Ended September 30, 2013			Increase/ (Decrease)	% Change
	2013	2012	(Decrease)		
	<i>(Dollars in thousands)</i>				
Noninterest income:					
Service charges	\$ 799	\$ 858	\$ (59)		(6.88)%
Gain on sale of securities available for sale	29	628	(599)		(95.38)
Gain on sale of mortgage loans	1,278	1,509	(231)		(15.31)
Mortgage warehouse fees	310	148	162		109.46
Increase in cash surrender of bank owned life insurance	182	180	2		1.11
Other	207	124	83		66.94
Total noninterest income	\$ 2,805	\$ 3,447	\$ (642)		(18.62)%

Noninterest Income. Noninterest income decreased primarily due to gains on securities available for sale that were recognized in the first nine months of 2012 and not repeated in the first nine months of 2013. Noninterest income also decreased due to declines in the gain on sale of mortgage loans due to lower volumes, declines in service charges as a result of lower non-sufficient funds charges and other deposit fees driven by new regulations related to overdraft protection programs. These decreases were partially offset by an increase in mortgage warehouse fees. Other noninterest income increased due to fees generated on investment sales and gains on disposals of OREO.

Table of Contents**Summary of Noninterest Expense**

	Nine Months Ended September 30, 2013			Increase/ (Decrease)	% Change
	2013	2012	(Decrease)		
	<i>(Dollars in thousands)</i>				
Noninterest expense:					
Compensation and benefits	\$ 4,743	\$ 4,610	\$ 133		2.89%
Occupancy costs	740	758	(18)		(2.37)
Equipment expense	104	156	(52)		(33.33)
Data processing expense	514	416	98		23.56
ATM expense	285	239	46		19.25
Professional and outside services	1,040	1,014	26		2.56
Stationary and supplies	58	70	(12)		(17.14)
Marketing	152	159	(7)		(4.40)
FDIC insurance assessments	161	162	(1)		(0.62)
Provision for losses on other real estate owned	69	255	(186)		(72.94)
Operations from other real estate owned	32	87	(55)		(63.22)
Other expense	477	861	(384)		(44.60)
Total noninterest expense	\$ 8,375	\$ 8,787	\$ (412)		(4.69)%

Noninterest Expense. Noninterest expense decreased for the nine months ended September 30, 2013, primarily as a result of a provision for losses on OREO and a provision for loss on a fraudulent wire transfer transaction that were recognized in the second quarter of 2012 and not repeated in 2013. These decreases were partially offset by an increase in compensation and benefits.

Compensation and benefits expense increased due to higher salary levels, our addition of personnel in the Bank's commercial lending department and increased share-based compensation expense. Data processing expense increased due to one-time costs associated with new products as well as the on-going cost of these products. ATM expense increased following the deployment of new ATM equipment to branches that were closed and converted to limited service locations. Equipment expense decreased as a result of cost cutting efforts by management to lower equipment maintenance costs. Operations from OREO decreased due to reductions in holding costs related to OREO during the nine months ended September 30, 2013. Other noninterest expense decreased as a result of a wire transfer fraud that occurred during the first quarter of 2012, resulting in \$278,000 in expense being recorded during the nine months ended September 30, 2012, which was not repeated in 2013.

Income Tax Expense. We recorded \$462,000 of income tax expense for the nine months ended September 30, 2013, compared to \$402,000 of income tax expense for the same period in 2012. Our effective tax rate was 32.3% for the nine months ended September 30, 2013, compared to 27.6% for the nine months ended September 30, 2012. The differences between the statutory rate of 34.0% and the effective tax rates were primarily attributable to permanent differences related to tax exempt income consisting of interest on municipal obligations and bank-owned life insurance income.

Table of Contents**Average Balances and Yields**

The table below sets forth average balances, 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 no 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.

	Nine Months Ended September 30,					
	2013			2012		
	Average Outstanding Balance	Interest	Yield/Rate ⁽¹⁾	Average Outstanding Balance	Interest	Yield/Rate ⁽¹⁾
	<i>(Dollars in thousands)</i>					
Interest-earning assets:						
Loans	\$ 225,579	\$ 8,155	4.82%	\$ 223,217	\$ 8,421	5.03%
Securities - taxable	11,818	3	0.03	14,287	135	1.26
Securities - nontaxable	3,179	70	2.94	3,604	92	3.40
Other interest-earning assets	40,076	137	0.46	24,794	100	0.54
FHLB of Dallas stock	810	2	0.33	1,417	4	0.38
Total interest-earning assets	281,462	8,367	3.96	267,319	8,752	4.37
Noninterest-earning assets	16,570			17,219		
Total assets	\$ 298,032			\$ 284,538		
Interest-bearing liabilities:						
Savings deposits	\$ 38,452	14	0.05	\$ 36,639	36	0.13
Money market	36,453	50	0.18	38,943	61	0.21
Demand deposit accounts	57,647	56	0.13	53,975	53	0.13
Certificates of deposit	92,136	801	1.16	74,958	704	1.25
Total deposits	224,688	921	0.55	204,515	854	0.56
Borrowings	11,525	127	1.47	25,008	243	1.30
Total interest-bearing liabilities	236,213	1,048	0.59	229,523	1,097	0.64
Noninterest-bearing liabilities	28,282			22,000		
Total liabilities	264,495			251,523		
Equity	33,537			33,015		
Total liabilities and equity	\$ 298,032			\$ 284,538		
Net interest income		\$ 7,319			\$ 7,655	
Net interest rate spread ⁽²⁾			3.37%			3.73%

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

Net interest-earning assets ⁽³⁾	\$ 45,249	\$ 37,796
Net interest margin ⁽⁴⁾	3.47%	3.82%
Average of interest-earning assets to interest-bearing liabilities	119.16%	116.47%

- (1) Yields and rates for the nine months ended September 30, 2013 and 2012 are annualized.
- (2) Net 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 FHLB 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, 2013 and 2012, our liquidity ratio averaged 18.4% and 12.9%, respectively. We believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of September 30, 2013 and for the next 12 months.

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 and investing activities during any given period. At September 30, 2013, cash and cash equivalents totaled \$48.4 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled \$17.0 million at September 30, 2013.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our consolidated statements of cash flows in our unaudited consolidated financial statements and the notes thereto, appearing in Part 1, Item 1 of this Quarterly Report.

At September 30, 2013, we had \$34.8 million in loan commitments outstanding, including \$29.7 million in unused lines of credit to borrowers. Certificates of deposit due within one year of September 30, 2013 totaled \$42.5 million, or 16.1% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including asset sales and FHLB 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, 2014. We believe, however, that based on past experience, a significant portion of such deposits will remain with us. We also have the ability to attract and retain deposits by increasing the interest rates offered.

Our primary investing activity is originating loans. During the nine months ended September 30, 2013 and 2012, we originated \$145.1 million and \$135.1 million of loans, respectively. We also purchased \$8.0 million and \$12.6 million of securities during the nine months ended September 30, 2013 and 2012, respectively.

Financing activities consist primarily of activity in deposit accounts and FHLB advances. We had a net increase of \$30.7 million in total deposits for the nine months ended September 30, 2013, and a net increase of \$24.9 million in total deposits for the nine months ended September 30, 2012. 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.

Liquidity management is both a daily and long-term function of business management. We have entered into borrowing agreements with the FHLB, which provide us with an additional source of funds to the extent that we require funds beyond what we generate through operations. FHLB advances decreased \$13.0 million from December 31, 2012, to \$7.4 million at September 30, 2013. Historically, advances from the FHLB have been used primarily to fund loan demand. At September 30, 2013, we had the ability to borrow up to \$78.4 million from the

FHLB.

41

Table of Contents

The 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, 2013, the Bank was in compliance with all regulatory capital requirements. The Bank is considered well capitalized under regulatory guidelines. See Note 9 Regulatory Matters of the notes to the unaudited consolidated financial statements included in Part I, Item 1 of this Quarterly Report.

On August 5, 2013, our board of directors approved a stock repurchase program (the Repurchase Program) pursuant to which we are authorized to repurchase up to 5% of our then issued and outstanding shares of common stock, or approximately 81,937 shares of common stock. Management's decision to repurchase shares is subject to various factors including general market conditions, the availability and/or trading price of our common stock, alternative uses for capital, our financial performance and liquidity, and other factors that may be relevant at the time of such decision. In connection with the Repurchase Program, during the third quarter of 2013, the Bank paid a dividend of \$1.0 million to the Company and during October 2013, the Bank paid a dividend of \$350,000 to the Company. During the third quarter of 2013, we repurchased and retired 55,800 shares of our common stock.

Classified Loans

At September 30, 2013 we had nine loans and at December 31, 2012, we had 13 loans that were not currently classified as nonaccrual, 90 days past due or troubled debt restructurings, but where known information about possible credit problems of borrowers caused management to have concerns as to the ability of the borrowers to comply with present loan repayment terms and that could result in disclosure as nonaccrual, 90 days past due or troubled debt restructurings. At September 30, 2013, these nine loans, with an aggregate balance of \$1.3 million, were collateralized by one- to four-family residential mortgage and consumer loans of borrowers who have, on occasion, been late with scheduled payments. At December 31, 2012, 12 of these loans, with an aggregate balance of \$2.0 million were collateralized by one- to four-family residential mortgage loans of borrowers who have, on occasion, been late with scheduled payments. One of these loans was a commercial real estate land loan totaling \$0.2 million impacted by slow leasing activity and rental rates below original projections at the time of origination.

Troubled Debt Restructurings

Troubled debt restructurings are defined to 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 to the creditor than current market rates and terms. To maximize our cash flows, we periodically modify loans to extend the term or make other concessions to help a borrower stay current on its 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, 2013, we had \$1.5 million of troubled debt restructurings comprised of two consumer loans totaling \$10,000 and four one- to four-family residential mortgage loans totaling \$1.5 million. Of this \$1.5 million in troubled debt restructurings, one loan totaling \$175,000 was past due greater than 90 days. At December 31, 2012, we had \$4.9 million of troubled debt restructurings comprised of two commercial real estate loans totaling \$3.1 million (which were sold in the first and second quarters of 2013), four consumer loans totaling \$21,000 and five residential loans totaling \$1.8 million (one of which totaling \$343,000 was foreclosed on in the first quarter of 2013.). Of this \$4.9 million in troubled debt restructurings, two loans totaling \$0.2 million were past due between 30-89 days.

Table of Contents**Nonperforming Assets**

Nonperforming Loans. At September 30, 2013 and December 31, 2012, our nonaccrual loans totaled \$3.3 and \$8.0 million, respectively. At September 30, 2013, nonaccrual loans consisted of 10 one- to four-family loans totaling \$2.1 million with \$112,000 in allocated allowances, one home equity loan totaling \$23,000 with \$23,000 in allocated reserves, two consumer loans totaling \$9,000 with \$3,000 in allocated allowances, and one commercial real estate loan totaling \$1.2 million with \$425,000 in allocated allowances. The commercial real estate loan remained current at September 30, 2013. At December 31, 2012, nonaccrual loans consisted of seven one- to four-family residential mortgage loans totaling \$3.3 million with \$90,000 in allocated allowances, two consumer loans totaling \$15,000 with \$3,000 in allocated allowances and three commercial real estate loans totaling \$4.7 million with \$610,000 in allocated allowances.

For the nine months ended September 30, 2013, gross interest income that would have been recorded had our nonaccrual loans been current in accordance with their original terms was \$131,000. Interest income recognized on such loans for the nine months ended September 30, 2012 was \$27,000.

OREO and Other Repossessed Assets. Real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is classified as OREO. When property is acquired it is recorded at its fair value less the cost to sell at the date of foreclosure, establishing a new cost basis. Estimated fair value generally represents the price a buyer would be willing to pay on the basis of current market conditions, including normal terms from other financial institutions, less the estimated costs to sell the property. Holding costs and declines in estimated fair value result in charges to expense after acquisition. In addition, we periodically repossess certain collateral, including automobiles and other titled vehicles, called repossessed assets. At September 30, 2013, we had \$157,000 in OREO and other repossessed assets, consisting of four one- to four-family residential properties. At December 31, 2012, we had \$1.5 million in OREO, consisting entirely of acquired commercial real estate. The decrease in OREO reflects the sale in the second quarter of 2013 of that property.

Classification of Assets

Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset 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 assets include those assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified as 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. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve our close attention, are required to be designated as special mention. As of September 30, 2013, we had \$106,000 of assets designated as special mention. As of December 31, 2012, we had \$157,000 of assets designated as special mention.

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

Table of Contents

and the amount of our loss allowances are subject to review by our principal federal regulator, the Office of the Comptroller of the Currency (the OCC), 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. Based on our review of our assets at September 30, 2013, substandard assets consisted of loans of \$5.2 million, with an allocated reserve of \$563,000 and OREO of \$157,000. There were no doubtful or loss assets at September 30, 2013. On the basis of our review of our assets at December 31, 2012, substandard assets consisted of loans of \$10.2 million, with an allocated reserve of \$703,000 and OREO of \$1.5 million. There were no doubtful or loss assets at December 31, 2012.

As of September 30, 2013, our largest substandard asset was a commercial real estate loan of \$1.2 million secured by a retail property. Although currently performing as agreed, the loan was classified as substandard due to the property's current condition.

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: (i) allocated allowances for impaired loans and (ii) 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 may 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 used to identify a specific problem loan include: (i) the strength of the customer's personal or business cash flows; (ii) the availability of other sources of repayment; (iii) the amount due or past due; (iv) the type and value of collateral; (v) the strength of our collateral position; (vi) the estimated cost to sell the collateral; and (vii) 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 OCC will periodically review our allowance for loan losses. The OCC may require that we recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

Table of Contents

The allowance for loan losses decreased \$180,000, or 7.4%, to \$2.2 million at September 30, 2013 from \$2.4 million at December 31, 2012. In addition, the allowance for loan losses to total loans receivable, including loans held for sale, decreased to 1.00% at September 30, 2013 as compared to 1.05% at December 31, 2012. The allowance for loan losses as a percentage of nonperforming loans increased to 67.49% at September 30, 2013 from 30.2% at December 31, 2012. The decrease in the allowance for loan losses was attributable primarily to a reduction in the amount of nonperforming loans and improving economic conditions, which are factored into our allowance for loan loss methodology.

Nonperforming loans decreased to \$3.3 million at September 30, 2013 from \$8.0 million at December 31, 2012. Nonaccrual loans consisted of 10 one- to four-family residential mortgage loans totaling \$2.1 million with \$112,000 in allocated allowances, one home equity loan totaling \$23,000 with \$23,000 in allocated reserves, one commercial real estate loan totaling \$1.2 million with \$425,000 in allocated allowances and two consumer loans totaling \$9,000 with an allocated allowance of \$3,000. The commercial real estate loan was current at September 30, 2013. Impaired loans with an allowance for loan losses were \$1.6 million at September 30, 2013. Impaired loans without an allowance for loan losses were \$2.5 million at September 30, 2013.

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

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 policy during the nine months ended September 30, 2013 or 2012. The accrual of interest on loans is discontinued at the time future payments are not reasonably assured or any such loan becomes 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 are routinely 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 commitments represent potential future cash obligations, 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 8 Financial Instruments with Off-Balance Sheet Risk of the notes to our unaudited consolidated financial statements included in this Quarterly Report.

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.

Table of Contents

Impact of Inflation and Changing Prices

Our consolidated financial statements and related notes have been prepared in accordance with U.S. GAAP, which 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Smaller reporting companies are not required to provide the information required by this item.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and the Executive 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 Exchange Act of 1934, as amended), as of September 30, 2013. Based on that evaluation, the Company's management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of September 30, 2013.

During the quarter ended September 30, 2013, there were 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

There have been no material changes from the risk factors disclosed under the heading "Risk Factors" in Item 1A of the Company's Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the third quarter of 2013, we made the following purchases of our common stock pursuant to the Repurchase Program:

Period

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
September 2013	55,800	\$ 19.76	55,800	26,137

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. (2)
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) Previously filed as Exhibit 3.1 to the Registration Statement on Form S-1, File No. 333-167967, filed with the SEC on July 2, 2010, and incorporated herein by reference.
- (2) Previously filed as Exhibit 3.2 to the Registration Statement on Form S-1, File No. 333-167967, filed with the SEC on July 2, 2010, and incorporated herein by reference.

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.

SP BANCORP, INC.

Date: November 6, 2013

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

Date: November 6, 2013

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