SP Bancorp, Inc.
Form 10-Q
May 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 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	**27-3347359**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer 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 x 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 x NO ¨.

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

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

As of May 6, 2013, 1,638,750 shares of the registrant s common stock, par value $0.01 per share, were issued and outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SP Bancorp, Inc.

Consolidated Balance Sheets

In thousands, except share amounts (unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$ 21,782	$ 22,318
Federal funds sold	9,220	1,615
Total cash and cash equivalents	31,002	23,933
Securities available for sale (amortized cost of $14,948 and $15,658 at March 31, 2013 and December 31, 2012, respectively)	15,024	15,713
Fixed annuity investment	1,235	1,223
Loans held for sale	8,906	7,290
Loans, net of allowance for losses of $2,486 and $2,420 at March 31, 2013 and December 31, 2012, respectively	221,058	222,288
Accrued interest receivable	680	724
Other real estate owned	1,790	1,477
Premises and equipment, net	4,214	4,249
Federal Home Loan Bank stock and other restricted stock, at cost	1,354	1,149
Bank-owned life insurance	7,502	7,439
Deferred income taxes, net	903	910
Other assets	1,687	1,726
Total assets	$ 295,355	$ 288,121
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Noninterest-bearing	$ 26,278	$ 22,336
Interest-bearing	226,095	210,004
Total deposits	252,373	232,340
Borrowings	7,333	20,316
Accrued interest payable	39	9
Other liabilities	2,101	2,416
Total liabilities	261,846	255,081
Commitments and contingent liabilities		
Stockholders equity		
Preferred stock, $0.01 par value, 50,000,000 share authorized; none issued or outstanding		
Common stock, $0.01 par value; 100,000,000 shares authorized, 1,638,750 shares issued and outstanding at March 31, 2013 and December 31, 2012	16	16
Additional paid-in capital	14,507	14,453
Unallocated Employee Stock Ownership Plan shares	(1,298)	(1,314)
Retained earnings substantially restricted	20,234	19,849
Accumulated other comprehensive income	50	36

Total stockholders equity	33,509	33,040
Total liabilities and stockholders equity	$ 295,355	$ 288,121

See Notes to Consolidated Financial Statements

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SP Bancorp, Inc.

Consolidated Statements of Income

In thousands, expect per share amounts (unaudited)

	Three Months Ended March 31, 2013	2012
Interest income:		
Interest and fees on loans	$ 2,737	$ 2,772
Securities taxable	(8)	38
Securities nontaxable	18	50
Other interest earning assets	43	32
Total interest income	2,790	2,892
Interest expense:		
Deposit accounts	273	285
Borrowings	44	87
Total interest expense	317	372
Net interest income	2,473	2,520
Provision for loan losses	75	487
Net interest income after provision for loan losses	2,398	2,033
Noninterest income:		
Service charges	281	294
Gain on sale of securities available for sale		320
Gain on sale of mortgage loans	576	367
Increase in cash surrender value of bank owned life insurance	63	56
Other	122	65
Total noninterest income	1,042	1,102
Noninterest expense:		
Compensation and benefits	1,713	1,448
Occupancy costs	248	255
Equipment expense	36	65
Data processing expense	169	134
ATM expense	106	96
Professional and outside services	296	337
Stationary and supplies	24	30
Marketing	54	54
FDIC insurance assessments	62	46
Operations from other real estate owned	12	31
Other expense	154	277
Total noninterest expense	2,874	2,773
Income before income tax expense	566	362
Income tax expense	181	83

Net income	$	385	$	279
Basic earnings per share	$	0.25	$	0.17
Diluted earnings per share	$	0.25	$	0.17

See Notes to Consolidated Financial Statements

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SP Bancorp, Inc.

Consolidated Statements of Comprehensive Income

In thousands (unaudited)

	Three Months Ended March 31, 2013	2012
Net income	$ 385	$ 279
Other comprehensive income (loss) before tax:		
Net unrealized gains on available for sale securities, arising during the year	21	229
Reclassification adjustment for gain on sale of securities available for sale, included in net income		(320)
Other comprehensive income (loss), before tax	21	(91)
Income tax expense (benefit)	7	(30)
Other comprehensive income (loss), net of tax	14	(61)
Comprehensive income	$ 399	$ 218

See Notes to Consolidated Financial Statements

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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 (Loss) Income	Total Stockholders Equity
Balance, December 31, 2011	$ 17	$ 15,278	$ (1,018)	$ 18,636	$ 214	$ 33,127
Net income				279		279
Other comprehensive income					(61)	(61)
Employee Stock Ownership Plan shares purchased in open market			(320)			(320)
Employee Stock Ownership Plan shares allocated		2	18			20
Repurchase of common stock		(82)		(16)		(98)
Balance, March 31, 2012	$ 17	$ 15,198	$ (1,320)	$ 18,899	$ 153	$ 32,947
Balance, December 31, 2012	$ 16	$ 14,453	$ (1,314)	$ 19,849	$ 36	$ 33,040
Net income				385		385
Other comprehensive income					14	14
Employee Stock Ownership Plan shares allocated		11	16			27
Stock based compensation		43				43
Balance, March 31, 2013	$ 16	$ 14,507	$ (1,298)	$ 20,234	$ 50	$ 33,509

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SP Bancorp, Inc.

Consolidated Statements of Cash Flows

In thousands (unaudited)

	Three Months Ended March 31, 2013	2012
Cash flows (used in) provided by operating activities:		
Net income	$ 385	$ 279
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	67	71
Amortization of premiums on securities	123	133
Employee Stock Ownership Plan expense	27	20
Stock based compensation	43	
Provision for loan losses	75	487
Deferred income taxes	7	(32)
Gain on sale of securities available for sale		(320)
Gain on sale of mortgage loans	(576)	(367)
Proceeds from sale of mortgage loans	19,189	15,988
Loans originated for sale	(20,229)	(14,936)
Increase in cash surrender value of bank-owned life insurance	(63)	(56)
Decrease in accrued interest receivable	44	171
Decrease in other assets	32	1,207
Increase in fixed asset annuity investment	(12)	(12)
(Decrease) increase in accrued interest payable and other liabilities	(285)	241
Net cash (used in) provided by operating activities	(1,173)	2,874
Cash flows provided by investing activities:		
Purchase of securities available for sale	(453)	(5,614)
Maturities, calls and principal pay downs on securities available for sale	1,040	502
Proceeds from sale of securities available for sale		12,979
(Purchases) redemptions of Federal Home Loan Bank stock	(205)	358
Loan repayments, net of (originations)	654	(924)
Proceeds from sale of impaired loans	185	
Net proceeds from sale of (additions to) other real estate owned and repossessed assets	3	(200)
Purchase of premises and equipment	(32)	
Net cash provided by investing activities	1,192	7,101
Cash flows provided by (used in) financing activities:		
Net increase in deposit accounts	20,033	17,084
Repayment of Federal Home Loan Bank advances, net	(12,983)	(16,935)
Employee Stock Ownership Plan shares purchased		(320)
Repurchase of common stock		(98)
Net cash provided by (used in) financing activities	7,050	(269)
Net increase in cash and cash equivalents	7,069	9,706
Cash and cash equivalents at beginning of period	23,933	9,928
Cash and cash equivalents at end of period	$ 31,002	$ 19,634

Supplemental cash flow information:				
Interest paid	$	287	$	374
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	$	

See Notes to Consolidated Financial Statements

SP Bancorp, Inc.

Notes to Consolidated Financial Statements

Dollars in thousands, except per share amounts (unaudited)

Note 1. Summary of Significant Accounting Policies

Nature of Operations. SP Bancorp, Inc. (the Company) is a federal savings and loan holding company and the parent of SharePlus Federal Bank (the Bank). The Company is regulated by the Board of Governors of the Federal Reserve System and the Bank is regulated by the Office of the Comptroller of the Currency (the OCC) and the Federal Deposit Insurance Corporation (the FDIC).

The Bank operates as a full-service bank, providing services including the acceptance of checking and savings deposits, and the origination of primarily one- to four-family residential mortgage loans and, to a lesser extent, commercial real estate, home equity, commercial business, automobile, and personal loans. In addition to the Bank s home office in Plano, Texas, the Bank has four branches: one located near downtown Dallas, Texas; one located near the Bank s headquarters in Plano, Texas; one located in Louisville, Kentucky; and one located in Irvine, California. The Bank is in the process of closing its Irvine, California branch and has filed a notice with the OCC in connection therewith. During March 2013, the Bank closed one of its branches located in Louisville, Kentucky.

Basis of Presentation. The accompanying unaudited condensed 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 condensed 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 months ended March 31, 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.

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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 used for calculating basic and diluted EPS for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31, 2013	2012
Earnings (numerator)		
Net income for common stockholders	$ 385	$ 279
Less: net income allocated to participating securities	7	
Net income allocated to common stockholders	$ 378	$ 279
Shares (denominator)		
Weighted average shares outstanding for basic EPS (thousands)	1,515	1,615
Dilutive effect of employee stock-based awards	9	
Adjusted weighted average shares outstanding	1,524	1,615
Earnings per share:		
Basic	$ 0.25	$ 0.17
Diluted	$ 0.25	$ 0.17

Participating securities include non-vested 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 months ended March 31, 2013, the Company excluded from the diluted EPS calculation restricted stock awards of 30,000 shares because they are participating securities. There were no restricted stock awards or stock options outstanding during the three months ended March 31, 2012.

Recent Authoritative Accounting Guidance. In February 2013, the Financial Accounting Standards Board issued an accounting standards update to finalize the reporting requirements for items reclassified out of accumulated other comprehensive income (AOCI). Items fully reclassified out of AOCI to net income must have the effect of the reclassification disclosed according to the respective income statement line item and must be disclosed either on the face of the financial statements by income statement line item, or in the notes thereto. For public companies, the amendments in the update became effective for interim and annual periods beginning on or after December 15, 2012. As of March 31, 2013, the impact of this update on the Company s disclosures was minimal as the only changes to AOCI were changes in market values related to available for sale securities.

Note 2. Stock Conversion

On October 29, 2010, the Bank completed its conversion from a federal mutual savings bank to a 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 which 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.

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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 March 31, 2010, the latest balance sheet date in the final prospectus used in the conversion. The liquidation account is maintained for the benefit of eligible holders who continue to maintain their accounts at the Bank. The liquidation account is reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder s interest in the liquidation account. In the event of a complete liquidation of the Bank, and only in such event, each eligible account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the adjusted qualifying account balances then held.

The Bank may not declare, pay a dividend on, or repurchase any of its capital stock if the effect thereof would cause equity capital to be reduced below the liquidation account amount or regulatory capital requirements. Any purchase of the 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.

Note 3. Securities

Securities are classified in the consolidated balance sheets according to management s intent. At March 31, 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 March 31, 2013 and December 31, 2012:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2013:				
Municipal securities	$ 2,537	$ 44	$ (52)	$ 2,529
Collateralized mortgage obligations guaranteed by FNMA and FHLMC	4,728	41	(7)	4,762
Mortgage-backed securities guaranteed by SBA, FNMA, GMNA and FHLMC	4,648	69	(17)	4,700
Asset-backed securities substantially guaranteed by the United States Government	3,035		(2)	3,033
	$ 14,948	$ 154	$ (78)	$ 15,024
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 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.

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The table below sets forth proceeds from sales of securities available for sale, gross gains and gross losses for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31, 2013	2012
Proceeds from sale	$	$ 12,979
Gross gains	$	$ 401
Gross losses	$	$ 81

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 March 31, 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	
		Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
March 31, 2013:							
Municipal securities	3	$ 1,476	$ (52)	$	$	$ 1,476	$ (52)
Collateralized mortgage obligations guaranteed by FNMA and FHLMC	1	856	(7)			856	(7)
Mortgage-backed securities	1	1,656	(17)			1,656	(17)
Asset-backed securities substantially guaranteed by the United States Government	1	3,033	(2)			3,033	(2)
	6	$ 7,021	$ (78)	$	$	$ 7,021	$ (78)
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 March 31, 2013 and December 31, 2012 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, 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.

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The table below sets forth scheduled maturities of securities at March 31, 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.

	March 31, 2013 Available for Sale		December 31, 2012 Available for Sale	
	Amortized Cost	Market Value	Amortized Cost	Market Value
After 5 years through 10 years	$ 3,035	$ 3,033	$ 3,036	$ 3,006
Due after 10 years	2,537	2,529	2,088	2,132
	5,572	5,562	5,124	5,138
Mortgage backed securities and collateralized mortgage obligations	9,376	9,462	10,534	10,575
	$ 14,948	$ 15,024	$ 15,658	$ 15,713

Note 4. Loans and Allowance for Loan Losses

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

	March 31, 2013	December 31, 2012
Commercial business	$ 13,351	$ 12,505
Commercial real estate	42,079	41,489
One- to four-family	120,842	122,601
Mortgage warehouse	32,232	33,094
Home equity	8,972	8,564
Consumer	5,372	5,760
	222,848	224,013
Premiums, net	59	66
Deferred loan costs, net	637	629
Allowance for loan losses	(2,486)	(2,420)
	$ 221,058	$ 222,288

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

Commercial Business. Commercial business loans are made to customers for the purpose of acquiring equipment and 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.

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Dollars in thousands, except per share amounts (unaudited)

One- to Four-Family. One- to four-family loans are underwritten based on the applicant s employment and credit history and the appraised value of the property. The assets that serve as collateral for these loans could be negatively impacted by declining real estate values.

Mortgage Warehouse. Mortgage warehouse loans are funded based on agreements with mortgage lenders pursuant to which we purchase legal ownership interests in 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 financially sound investors.

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

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

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

	Commercial Business	Commercial Real Estate	One-to Four-Family	Mortgage Warehouse	Home Equity	Consumer	Total
March 31, 2013							
Past due:							
30-59 days	$	$	$ 589	$	$	$	$ 589
60-89 days							
90 days or more			47				47
Total past due			636				636
Current	13,351	42,079	120,206	32,232	8,972	5,372	222,212
Total loans	$ 13,351	$ 42,079	$ 120,842	$ 32,232	$ 8,972	$ 5,372	$ 222,848
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 ten-point internal risk rating system for commercial real estate and commercial business loans, which provides a comprehensive analysis of the credit risk inherent in each loan. The rating system provides for five pass ratings. Rating grades six through ten comprise the adversely rated credits.

SP Bancorp, Inc.

Notes to Consolidated Financial Statements

Dollars in thousands, except per share amounts (unaudited)

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 ten, respectively. The classifications are updated, when warranted.

A loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard and substandard nonaccrual loans include those characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have all of the weaknesses inherent in those classified 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.

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

	Commercial Business	Commercial Real Estate	One- to Four-Family	Mortgage Warehouse	Home Equity	Consumer	Total
March 31, 2013							
Credit quality indicator:							
Credit risk profile by grade or classification							
Pass	$ 13,351	$ 38,929	$ 115,802	$ 32,232	$ 8,972	$ 5,354	$ 214,640
Special mention			123				123
Substandard		246	1,306			5	1,557
Substandard nonaccrual		2,904	3,611			13	6,528
Doubtful							
Loss							
Total	$ 13,351	$ 42,079	$ 120,842	$ 32,232	$ 8,972	$ 5,372	$ 222,848
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

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Dollars in thousands, except per share amounts (unaudited)

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

	Commercial Business	Commercial Real Estate	One- to Four-Family	Mortgage Warehouse	Home Equity	Consumer	Total
March 31, 2013							
Impaired loans:							
Impaired loans with an allowance for loan losses	$	$ 2,904	$ 381	$	$	$ 10	$ 3,295
Impaired loans with no allowance for loan losses			3,247			8	3,255
Total impaired loans	$	$ 2,904	$ 3,628	$	$	$ 18	$ 6,550
Unpaid principal balance of impaired loans	$	$ 2,904	$ 3,628	$	$	$ 18	$ 6,550
Allowance for loan losses on impaired loans	$	$ 635	$ 112	$	$	$ 3	$ 750
Average recorded investment in impaired loans	$	$ 3,790	$ 3,803	$	$	$ 19	$ 7,612
Nonperforming loans:							
Nonaccrual loans	$	$ 2,904	$ 3,613	$	$	$ 13	$ 6,530
Loans past due 90 days and still accruing							
Troubled debt restructurings (not including nonaccrual loans)						7	7
	$	$ 2,904	$ 3,613	$	$	$ 20	$ 6,537
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
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
Nonperforming loans:							
Nonaccrual loans	$	$ 4,675	$ 3,324	$	$	$ 15	$ 8,014
Loans past due 90 days and still accruing							
Troubled debt restructurings (not including nonaccrual loans)						10	10
	$	$ 4,675	$ 3,324	$	$	$ 25	$ 8,024

For the three months ended March 31, 2013 and 2012, gross interest income that would have been recorded had our nonaccrual loans been current in accordance with their original terms was $103 and $80, respectively. Interest income recognized, substantially on a cash basis, on such loans for the three months ended March 31, 2013 and 2012 was $2 and $0, respectively.

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

	Commercial Business	Commercial Real Estate	One- to Four-Family	Mortgage Warehouse	Home Equity	Consumer	Total
March 31, 2013							
Allowance for loan losses:							
Balance beginning of year	$ 326	1,215	$ 731	$	$ 83	$ 65	$ 2,420
Provision for loan losses	6	50	14		3	2	75
Loans charged to allowance		(5)				(10)	(15)
Recoveries of loans previously charged off			1		2	3	6
Balance, end of period	$ 332	$ 1,260	$ 746	$	$ 88	$ 60	$ 2,486
Ending balance: individually evaluated for impairment	$	$ 635	$ 112	$	$	$ 3	$ 750
Ending balance: collectively evaluated for impairment	$ 332	$ 625	$ 634	$	$ 88	$ 57	$ 1,736
Loans:							
Ending balance	$ 13,351	$ 42,079	$ 120,842	$ 32,232	$ 8,972	$ 5,372	$ 222,848
Ending balance individually evaluated for impairment	$	$ 2,904	$ 3,628	$	$	$ 18	$ 6,550
Ending balance collectively evaluated for impairment	$ 13,351	$ 39,175	$ 117,214	$ 32,232	$ 8,972	$ 5,354	$ 216,298
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 year	$ 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
March 31, 2012							
Allowance for loan losses:							
Balance beginning of year	$ 130	$ 624	$ 778	$	$ 133	$ 89	$ 1,754
Provision for loan losses	8	94	430		(50)	5	487
Loans charged to allowance			(199)			(8)	(207)
Recoveries of loans previously charged off					1	2	3
Balance, end of period	$ 138	$ 718	$ 1,009	$	$ 84	$ 88	$ 2,037
Ending balance: individually evaluated for impairment	$	$	$ 112	$	$	$ 5	$ 117
Ending balance: collectively evaluated for impairment	$ 138	$ 718	$ 897	$	$ 84	$ 83	$ 1,920
Loans:							
Ending balance	$ 7,095	$ 41,348	$ 132,874	$ 16,285	$ 9,418	$ 7,518	$ 214,538
Ending balance individually evaluated for impairment	$	$ 5,258	$ 2,052	$	$ 12	$ 26	$ 7,348
Ending balance collectively evaluated for impairment	$ 7,095	$ 36,090	$ 130,822	$ 16,285	$ 9,406	$ 7,492	$ 207,190

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For the quarter ended March 31, 2013, the Company recorded a provision for loan losses of $75, a decrease of $412 from the comparative 2012 quarter. The decrease in the provision was attributable to lower charge-off rates, declining balances of loans individually evaluated for impairment, and overall improvements in credit quality trends.

Loans or portions of loans are charged against the allowance for 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 has provided an allocated allowance for loan losses of $350 and $328 to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 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 March 31, 2013 or December 31, 2012.

During the three months ended March 31, 2013, one loan was modified to reduce the interest rate and to extend the interest only payment terms for 12 months. During the three months ended March 31, 2012, one loan was modified to reduce the interest rate and to extend the interest only payment terms to 24 months.

The table below sets forth a summary of troubled debt restructurings for the three months ended March 31, 2013 and 2012, and loans that were restructured during the previous 12 months that subsequently defaulted during the three months ended March 31, 2013 or 2012:

	Commercial Business	Commercial Real Estate	One-to Four-Family	Mortgage Warehouse	Home Equity	Consumer	Total
Troubled debt restructurings during the three months ended March 31, 2013:							
Number of contracts			1				1
Pre-restructuring outstanding recorded investment	$	$	$ 392	$	$	$	$ 392
Post-restructuring outstanding recorded investment	$	$	$ 382	$	$	$	$ 382
Troubled debt restructuring during the previous twelve months that subsequently defaulted during the three months ended March 31, 2013:							
Number of contracts							
Recorded investment	$	$	$	$	$	$	$
Troubled debt restructurings during the three months ended March 31, 2012:							
Number of contracts			1				1
Pre-restructuring outstanding recorded investment	$	$	$ 392	$	$	$	$ 392
Post-restructuring outstanding recorded investment	$	$	$ 392	$	$	$	$ 392

Troubled debt restructuring during the previous twelve months that subsequently defaulted during the three months ended March 31, 2012:							
Number of contracts			1				1
Recorded investment	$	$	$ 789	$	$	$	$ 789

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The Bank originated $20,229 and $14,936 in loans during the three months ended March 31, 2013 and 2012, respectively, with the intent to sell them to various correspondent lending institutions. Proceeds on sales of these loans were $19,189 and $15,988 for the three months ended March 31, 2013 and 2012, respectively. Gains on sales of these loans were $576 and $367 for the three months ended March 31, 2013 and 2012, respectively. These loans were sold with servicing rights released. There were no transfers of loans held for portfolio to loans held for sale during the periods presented.

Loans serviced for the benefit of others were $5,381, $1,591 and $3,243 at March 31, 2013, December 31, 2012 and March 31, 2012, respectively.

Note 5. Borrowings

The Bank periodically borrows from the Federal Home Loan Bank of Dallas (the FHLB). At March 31, 2013, the Bank had a total of 10 such advances totaling $7,333, net of $287 in amortized prepayment fees incurred during the third quarter of 2012. These advances have various maturities ranging from January 5, 2015 through February 1, 2023 at interest rates ranging from 0.74% to 2.33%.

At December 31, 2012, the Bank had a total of eight FHLB advances which totaled $20,316, net of $307 in amortized 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%.

FHLB advances were secured by FHLB stock, real estate loans and securities of $103,224 and $105,702, at March 31, 2013 and December 31, 2012, respectively. The Bank had remaining credit available under the FHLB advance program of $95,604 and $85,079 at March 31, 2013 and December 31, 2012, respectively.

During 2012, the Bank prepaid $6,123 of advances from the FHLB maturing in years 2013 through 2014, with a weighted-average rate of 3.46% and an average remaining term of 1.29 years. These borrowings were replaced with $6,123 of new advances from the FHLB maturing in years 2015 through 2018, with a weighted-average rate of 2.40% and an average remaining term of 4.02 years. The Bank paid $325 of prepayment fees to the FHLB in order to increase the duration and reduce interest costs of these advances. Such fees were deferred and are being recognized in interest expense using the interest method as an adjustment to the cost of the new advances over their remaining term.

Note 6. 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 $38 during the three months ended March 31, 2013 and 2012, respectively.

The Bank has a nonqualified deferred compensation plan for the benefit of one officer. The Bank is funding the agreement with a fixed rate annuity. The recorded obligation related to this plan of $235 and $188 at March 31, 2013 and 2012, respectively, is included in other liabilities. Expense of $12 was recorded for each of the three months ended March 31, 2013 and 2012. There were no payments made pursuant to this plan during the three months ended March 31, 2013 or 2012. A participant s benefit under the plan consists solely of the net amount credited to his or her account. The participant s account is credited periodically with any interest or other investment earnings credited under the annuity contract or other investment alternative identified in the plan. The amount credited to a participant s account vests at the rate of 20% per year, starting on the first anniversary of the initial participation date. The participant s account accelerates and will become 100% vested upon death, disability or upon a change in control. In the event of his termination for cause the account will be forfeited. Payment of the plan s benefit will be made in a single cash payment within 90 days of the earlier of the date on which the account becomes 100% vested or the date of the participant s separation from service other than for cause. In the event of death, payment will be made to the participant s beneficiaries.

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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.

Employees must have completed at least 1,000 hours of service during each plan year, which begins on January 1st, to be eligible to participate in the ESOP. 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 compensation of the participants.

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

	March 31, 2013	December 31, 2012
Allocated shares	13,387	6,367
Unearned shares	124,613	131,633
Total ESOP Shares	138,000	138,000
Fair value of unearned shares (in thousands)	$ 2,305	$ 1,927
Compensation expense recognized from the release of share from ESOP (in thousands)	$ 26 (1)	$ 97 (1)

(1) March 31, 2013 amount is for 3 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 Plan), a long-term incentive plan under which 241,500 common shares were authorized for equity-based awards. The Plan has been approved by the Company s stockholders and the Compensation Committee of the Company s board of directors (the Committee) administers the Plan.

The types of awards that may be granted under the Plan include stock options, restricted stock and restricted stock units. As of March 31, 2013, 142,000 shares remained available for grants under the Plan. Prior to the establishment of the Plan, no equity incentive plan had been adopted and, therefore, no securities were available for grant under any plan as of March 31, 2012. Awards under the 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 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 Plan, all outstanding options and non-vested stock awards and units would immediately vest.

The Company recognized $43 and $0 of share-based compensation expense for the three months ended March 31, 2013 and 2012, respectively, as a component of compensation and benefits. As of March 31, 2013, the Company had $838 of unrecognized pre-tax compensation cost related to non-vested share-based compensation arrangements, which is expected to be recognized over 4.66 years.

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There were no options outstanding during the first quarter of 2012. The table below sets forth a summary of stock option activity under the Plan for the three months ended March 31, 2013:

	Number of Options	Weighted-Average Exercise Price
Outstanding at January 1, 2013	69,500	$ 15.25
Granted		$
Exercised		$
Canceled		$
Outstanding at March 31, 2013	69,500	$ 15.25
Vested and exercisable at March 31, 2013		$ NA
Vested and exercisable weighted average remaining contractual terms (in years)		$ NA

No restricted stock shares were outstanding during the first quarter of 2012. The table below sets forth a summary of restricted stock activity under the Plan for the three months ended March 31, 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 March 31, 2013	30,000	$ 15.25

Note 7. Income Taxes

The difference between the statutory rate of 34.0% and the effective tax rates of 32.0% and 22.9% for the three months ended March 31, 2013 and 2012, respectively, was 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 three months ended March 31, 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 other 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.

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

	March 31, 2013	December 31, 2012
Commitments to extend credit	$ 35,237	$ 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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The 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 managements 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 March 31, 2013 and December 31, 2012, commitments to fund fixed rate loans of $21,001, including $12,768 of mortgage warehouse loans, and $9,803, including $1,906 of mortgage warehouse loans, respectively, were included in the commitments to extend credit. The increase in fixed rate commitments is reflective of the growth in our mortgage warehouse lending. Interest rates on commitments to fund fixed rate loans, including unsecured loans, ranged from 2.45% to 17.90% at March 31, 2013 and from 2.63% to 17.9% at December 31, 2012.

The Company did not incur any significant losses on its commitments for the three months ended March 31, 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 the 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 the regulations) to risk-weighted assets (as defined), of core capital (as defined) to adjusted tangible assets (as defined) and of tangible capital (as defined) to tangible assets. As of March 31, 2013 and December 31, 2012, the Bank met all capital adequacy requirements to which it was subject.

At March 31, 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.

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The table below sets forth the Bank s capital ratios as of March 31, 2013 and December 31, 2012:

	Actual		Minimum for Capital Adequacy Purposes		Maximum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
March 31, 2013						
Total capital to risk weighted assets	$ 33,507	14.19%	$ 18,885	8.00%	$ 23,606	10.00%
Tier 1 capital to risk weighted assets	31,021	13.14%	9,442	4.00%	14,164	6.00%
Tier 1 capital to assets	31,021	10.53%	11,787	4.00%	14,733	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%

For the March 31, 2013 FDIC Consolidated Report of Condition and Income (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 March 31, 2013 table presented 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 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.

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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.

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

		Fair Value Measurements at Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
March 31, 2013				
Measured on a recurring basis:				
Assets:				
Municipal securities	$ 2,529	$	$ 2,529	$
Collateralized mortgage obligations	4,762		4,762	
Mortgage-backed securities	4,700		4,700	
Asset-backed securities	3,033		3,033	
Fixed annuity investment	1,235		1,235	
Measured on a nonrecurring basis:				
Assets:				
Impaired loans	2,545			2,545
December 31, 2012				
Measured on a recurring basis:				
Assets:				
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	
Measur				