

Cullman Bancorp, Inc.
Form 10-Q
May 07, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended March 31, 2012

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For transition period from to

Commission File Number 000-53801

Cullman Bancorp, Inc.

(Exact Name of Registrant as Specified in Charter)

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

Federal
(State of Other Jurisdiction of
Incorporation)

63-0052835
(I.R.S Employer
Identification Number)

316 Second Avenue S.W.,

Cullman, Alabama
(Address of Principal Executive Officer)

35055
(Zip Code)

256-734-1740

Registrant's telephone number, including area code

Not Applicable

(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 filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date.

2,564,458 of Common Stock, par value \$.01 per share, were issued and outstanding as of May 7, 2012.

Table of Contents

CULLMAN BANCORP, INC.

Form 10-Q Quarterly Report

Table of Contents

| | | |
|------------------------|--|-----------|
| | <u>PART I</u> | |
| <u>ITEM 1.</u> | <u>FINANCIAL STATEMENTS</u> | 1 |
| <u>ITEM 2.</u> | <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF CULLMAN BANCORP, INC.</u> | 23 |
| <u>ITEM 3.</u> | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 28 |
| <u>ITEM 4.</u> | <u>CONTROLS AND PROCEDURES</u> | 28 |
| | <u>PART II</u> | |
| <u>ITEM 1.</u> | <u>LEGAL PROCEEDINGS</u> | 29 |
| <u>ITEM 1A.</u> | <u>RISK FACTORS</u> | 29 |
| <u>ITEM 2.</u> | <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> | 29 |
| <u>ITEM 3.</u> | <u>DEFAULTS UPON SENIOR SECURITIES</u> | 29 |
| <u>ITEM 4.</u> | <u>MINE SAFETY DISCLOSURES</u> | 29 |
| <u>ITEM 5.</u> | <u>OTHER INFORMATION</u> | 29 |
| <u>ITEM 6.</u> | <u>EXHIBITS</u> | 29 |
| | <u>SIGNATURES</u> | 30 |

Table of Contents**Part I****ITEM 1. FINANCIAL STATEMENTS****CULLMAN BANCORP, INC.****CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(All amounts in thousands, except share and per share data)

| | March 31, 2012 | December 31, 2011 |
|---|---------------------------|------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,570 | \$ 1,997 |
| Federal funds sold | 6,091 | 7,479 |
| Cash and cash equivalents | 8,661 | 9,476 |
| Securities available for sale | 33,308 | 29,706 |
| Loans, net of allowance of \$1,236 and \$1,108, respectively | 161,398 | 164,215 |
| Loans held for sale | 68 | 441 |
| Premises and equipment, net | 10,807 | 10,870 |
| Foreclosed real estate | 561 | 1,541 |
| Accrued interest receivable | 1,026 | 1,056 |
| Restricted equity securities | 2,410 | 2,410 |
| Bank owned life insurance | 4,480 | 2,455 |
| Other assets | 1,674 | 781 |
| Total assets | \$ 224,393 | \$ 222,951 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits | | |
| Non-interest bearing | \$ 10,401 | \$ 9,906 |
| Interest bearing | 128,445 | 128,241 |
| Total deposits | 138,846 | 138,147 |
| Federal Home Loan Bank advances | 42,000 | 42,000 |
| Long-term debt | 787 | 787 |
| Accrued interest payable and other liabilities | 1,978 | 1,624 |
| Total liabilities | 183,611 | 182,558 |
| Shareholders' equity | | |
| Common stock, \$0.01 par value; 20,000,000 shares authorized; 2,564,458 and 2,561,996 shares outstanding, respectively, at March 31, 2012 and December 31, 2011 | 26 | 26 |
| Additional paid-in capital | 10,516 | 10,461 |
| Retained earnings | 31,006 | 30,589 |
| Accumulated other comprehensive income | 234 | 317 |
| Unearned ESOP shares, at cost | (809) | (821) |
| Amount reclassified on ESOP shares | (191) | (179) |
| Total shareholders' equity | 40,782 | 40,393 |

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

| | | |
|--|------------|------------|
| Total liabilities and shareholders' equity | \$ 224,393 | \$ 222,951 |
|--|------------|------------|

See accompanying notes to the consolidated financial statements

Table of Contents

CULLMAN BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

(All amounts in thousands, except share and per share data)

| | Three Months Ended March 31, | |
|--|---|--------------|
| | 2012 | 2011 |
| Interest and dividend income: | | |
| Loans, including fees | \$ 2,632 | \$ 2,768 |
| Securities, taxable | 236 | 227 |
| Federal funds sold and other | 11 | 6 |
| Total interest income | 2,879 | 3,001 |
| Interest expense: | | |
| Deposits | 286 | 441 |
| Federal Home Loan Bank advances and other borrowings | 369 | 424 |
| Total interest expense | 655 | 865 |
| Net interest income | 2,224 | 2,136 |
| Provision for loan losses | 127 | 92 |
| Net interest income after provision for loan losses | 2,097 | 2,044 |
| Noninterest income: | | |
| Service charges on deposit accounts | 115 | 99 |
| Income on bank owned life insurance | 26 | 26 |
| Gain on sales of mortgage loans | 75 | 57 |
| Other | 61 | 14 |
| Total noninterest income | 277 | 196 |
| Noninterest expense: | | |
| Salaries and employee benefits | 793 | 766 |
| Occupancy and equipment | 157 | 157 |
| Data processing | 136 | 132 |
| Professional and supervisory fees | 79 | 139 |
| Office expense | 36 | 34 |
| Advertising | 18 | 20 |
| FDIC deposit insurance | 33 | 32 |
| Losses on foreclosed real estate | 85 | 50 |
| Other | 66 | 84 |
| Total noninterest expense | 1,403 | 1,414 |
| Income before income taxes | 971 | 826 |
| Income tax expense | 349 | 303 |
| Net income | \$ 622 | \$ 523 |

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

| | | |
|---|---------|---------|
| Other comprehensive income, net of tax | | |
| Unrealized (loss) on securities available for sale, net of tax | \$ (83) | \$ (53) |
| Reclassification adjustment for losses (gains) realized in income, net of tax | | |
| Other comprehensive income (loss) | (83) | (53) |
| Comprehensive income | \$ 539 | \$ 470 |
| Earnings per share: (Note 3) | | |
| Basic | \$ 0.25 | \$ 0.21 |
| Diluted | \$ 0.25 | \$ 0.21 |
| Dividends declared per common share | \$ 0.08 | \$ 0.08 |

See accompanying notes to the consolidated financial statements

Table of Contents

CULLMAN BANCORP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

(All amounts in thousands, except share and per share data)

| | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (loss) | Unearned ESOP Shares | Amount Reclassified on ESOP Shares | Total |
|--|-----------------|----------------------------------|----------------------|---|----------------------------|---|-----------|
| Balance at January 1, 2011 | \$ 25 | \$ 10,330 | \$ 29,134 | \$ (232) | \$ (887) | \$ (100) | \$ 38,270 |
| Net income | | | 523 | | | | 523 |
| Net change in accumulated other comprehensive income | | | | (53) | | | (53) |
| ESOP shares earned | | | | | 13 | | 13 |
| Stock-based compensation expense | | 30 | | | | | 30 |
| Dividends (1) | | | (125) | | | | (125) |
| Issuance of 49,249 shares of restricted stock | 1 | (1) | | | | | |
| Reclassification of common stock in ESOP subject to repurchase obligation | | | | | | (13) | (13) |
| Balance at March 31, 2011 | \$ 26 | \$ 10,359 | \$ 29,532 | \$ (285) | \$ (874) | \$ (113) | \$ 38,645 |
| Balance at January 1, 2012 | \$ 26 | \$ 10,461 | \$ 30,589 | \$ 317 | \$ (821) | \$ (179) | \$ 40,393 |
| Net income | | | 622 | | | | 622 |
| Net change in accumulated other comprehensive income | | | | (83) | | | (83) |
| ESOP shares earned | | | | | 12 | | 12 |
| Exercise of 2,462 common stock options | | 25 | | | | | 25 |
| Stock-based compensation expense | | 30 | | | | | 30 |
| Dividends | | | (205) | | | | (205) |
| Reclassification of common stock in ESOP subject to repurchase obligation | | | | | | (12) | (12) |
| Balance at March 31, 2012 | \$ 26 | \$ 10,516 | \$ 31,006 | \$ 234 | \$ (809) | \$ (191) | \$ 40,782 |

- (1) Cash dividends of \$0.08 per share were declared on March 15, 2011 for 1,554,984 of the 2,561,996 shares outstanding at March 31, 2011. Cullman Savings Bank, MHC, the Company's mutual holding company, was granted a dividend payment waiver from the Office of Thrift Supervision for all but 375,000 of the 1,382,012 shares of the Company's stock held by Cullman Savings Bank, MHC. No future dividend waivers are expected to be granted by the Federal Reserve Bank, the regulatory body now responsible for mutual holding companies.

See accompanying notes to the consolidated financial statements

Table of Contents

CULLMAN BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(All amounts in thousands, except share and per share data)

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2012 | 2011 |
| Cash Flows From Operating Activities | | |
| Net income | \$ 622 | \$ 523 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Provision for loan losses | 127 | 92 |
| Depreciation and amortization, net | 82 | 80 |
| Deferred income tax benefit | (43) | (45) |
| Loss on sale and impairments of foreclosed real estate | 85 | 50 |
| Income on bank owned life insurance | (26) | (26) |
| ESOP compensation expense | 12 | 13 |
| Stock based compensation expense | 30 | 30 |
| Gain on sale of mortgage loans | (75) | (57) |
| Mortgage loans originated for sale | (2,649) | (2,937) |
| Mortgage loans sold | 3,097 | 3,141 |
| Net change in operating assets and liabilities | | |
| Accrued interest receivable | 30 | (36) |
| Accrued interest payable | (1) | (14) |
| Other | 343 | 277 |
| Net cash from operating activities | 1,634 | 1,091 |
| Cash Flows From Investing Activities | | |
| Purchases of premises and equipment | (20) | (36) |
| Purchases of securities | (12,995) | (1,000) |
| Proceeds from maturities, paydowns and calls of securities | 9,262 | 2,447 |
| Proceeds from sales of foreclosed real estate | 300 | |
| Purchases of bank owned life insurance | (2,000) | |
| Loan originations and payments, net | 2,485 | 2,419 |
| Net cash from investing activities | (2,968) | 3,830 |
| Cash Flows from Financing Activities | | |
| Net change in deposits | 699 | (2,442) |
| Exercise of common stock options | 25 | |
| Cash payment of dividends | (205) | |
| Net cash from financing activities | 519 | (2,442) |
| Change in cash and cash equivalents | (815) | 2,479 |
| Cash and cash equivalents, beginning of period | 9,476 | 2,542 |
| Cash and cash equivalents, end of period | \$ 8,661 | \$ 5,021 |
| Cash paid during the period for: | | |
| Interest paid | \$ 656 | \$ 879 |
| Income taxes paid | \$ | \$ |

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

Supplemental noncash disclosures:

| | | |
|---|--------|--------|
| Transfers from loans to foreclosed assets | \$ 241 | \$ 966 |
| Loans advanced for sales of foreclosed assets | \$ 87 | \$ 627 |

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Cullman Bancorp, Inc. have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulations S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The consolidated financial statements of Cullman Bancorp, Inc. (the Bancorp or the Company) include the accounts of its wholly owned subsidiary, Cullman Savings Bank (the Bank) and its 99% ownership of Cullman Village Apartments (collectively referred to herein as the Company, we, us, or our). Intercompany transactions and balances are eliminated in the consolidation. The Company is majority owned (53.9%) by Cullman Savings Bank, MHC. These financial statements do not include the transactions and balances of Cullman Savings Bank, MHC.

Cullman Bancorp, Inc., headquartered in Cullman, Alabama was formed to serve as the stock holding company for Cullman Savings Bank as part of the mutual-to-stock conversion of Cullman Savings Bank. On October 8, 2009, the Bank completed its conversion and reorganization from a mutual savings bank into a two-tier mutual holding company. In accordance with the plan of reorganization, Cullman Bancorp, Inc. (of which Cullman Savings Bank became a wholly-owned subsidiary) issued and sold shares of capital stock to eligible depositors of Cullman Savings Bank and others.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company s financial position as of March 31, 2012 and December 31, 2011 and the results of operations and cash flows for the interim periods ended March 31, 2012 and 2011. All interim amounts have not been audited, and the results of operations for the interim periods herein are not necessarily indicative of the results of operations to be expected for the year. These consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto included in the Form 10-K Annual Report of Cullman Bancorp, Inc. for the year ended December 31, 2011.

(2) NEW ACCOUNTING STANDARDS

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. The amendments to the FASB Accounting Standards Codification in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The implementation of this update did not have a significant effect to the consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU amends the FASB Accounting Standards Codification to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The Company has implemented this update and comprehensive income is reflected in our

consolidated statements of income.

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

(3) EARNINGS PER SHARE (EPS)

Basic EPS is determined by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the period. ESOP shares are considered outstanding for this calculation unless unearned. Diluted EPS is determined by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the period, adjusted for the dilutive effect of common share equivalents. The factors used in the earnings per common share computation follow:

| | Three months ended | |
|--|---------------------------|---------------------------|
| | March 31, 2012 | March 31, 2011 |
| Earnings per share | | |
| Net Income | \$ 622 | \$ 523 |
| Less: Distributed earnings allocated to participating securities | (3) | (4) |
| Less: (Undistributed income) dividends in excess of earnings allocated to participating securities | (6) | (8) |
| Net earnings allocated to common stock | \$ 613 | \$ 511 |
| Weighted common shares outstanding including participating securities | | |
| | 2,563,646 | 2,552,147 |
| Less: Participating securities | (39,400) | (49,249) |
| Less: Average Unearned ESOP Shares | (82,140) | (88,650) |
| Weighted average shares | 2,442,106 | 2,414,248 |
| Basic earnings per share | \$ 0.25 | \$ 0.21 |
| Net earnings allocated to common stock | \$ 613 | \$ 511 |
| Weighted average shares | 2,442,106 | 2,414,248 |
| Add: dilutive effects of assumed exercises of stock options | 13,341 | |
| Average shares and dilutive potential common shares | 2,455,447 | 2,414,248 |
| Dilutive earnings per share | \$ 0.25 | \$ 0.21 |

Options to purchase 120,662 shares of the Company's common stock at a weighted-average exercise price of \$10.30 per share were considered dilutive for the three months ended March 31, 2012. There were no potential dilutive common shares for the three months ended March 31, 2011.

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

(4) SECURITIES AVAILABLE FOR SALE

The fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) at March 31, 2012 and December 31, 2011 were as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--|-------------------|------------------------------|-------------------------------|----------------------------|
| <u>March 31, 2012</u> | | | | |
| U.S. Government sponsored entities | \$ 23,987 | \$ 14 | \$ (210) | \$ 23,791 |
| Municipal taxable | 5,144 | 397 | | 5,541 |
| Residential mortgage-backed, GSE | 1,803 | 87 | | 1,890 |
| Residential mortgage-backed, private label | 590 | 12 | | 602 |
| Ultra Short mortgage mutual fund | 1,414 | 70 | | 1,484 |
| Total | \$ 32,938 | \$ 580 | \$ (210) | \$ 33,308 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--|-------------------|------------------------------|-------------------------------|----------------------------|
| <u>December 31, 2011</u> | | | | |
| U.S. Government sponsored entities | \$ 19,989 | \$ 29 | \$ (25) | \$ 19,993 |
| Municipal taxable | 5,146 | 327 | | 5,473 |
| Residential mortgage-backed, GSE | 2,032 | 93 | | 2,125 |
| Residential mortgage-backed, private label | 623 | 8 | | 631 |
| Ultra Short mortgage mutual fund | 1,414 | 70 | | 1,484 |
| Total | \$ 29,204 | \$ 527 | \$ (25) | \$ 29,706 |

The Company's mortgage-backed securities are primarily issued by government sponsored enterprises (GSEs) such as Fannie Mae and Ginnie Mae as denoted in the table above as GSE. At March 31, 2012 and December 31, 2011, the Company had only one private label mortgage-backed security.

There were no sales of securities for the three months ended March 31, 2012 and 2011.

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

The amortized cost and fair value of the investment securities portfolio are shown below by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity and securities with no maturity date are shown separately.

| | March 31, 2012 | |
|-----------------------------|-------------------|-------------------------|
| | Amortized Cost | Estimated Fair Value |
| Due from one to five years | \$ | \$ |
| Due from five to ten years | 12,998 | 12,931 |
| Due after ten years | 16,133 | 16,401 |
| Mutual fund | 1,414 | 1,484 |
| Residential mortgage-backed | 2,393 | 2,492 |
| Total | \$ 32,938 | \$ 33,308 |

Carrying amounts of securities pledged to secure public deposits, repurchase agreements, and Federal Home Loan Bank advances as of March 31, 2012 and December 31, 2011 were \$6,695 and \$6,786, respectively. At March 31, 2012 and December 31, 2011, there were no holdings of securities of any one issuer, other than the U.S. Government sponsored entities, in an amount greater than 10% of shareholders equity.

The following table shows securities with unrealized losses at March 31, 2012 and December 31, 2011, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

| | Less than 12 months | | 12 Months or More | | Total | |
|------------------------------------|---------------------|--------------------|----------------------|--------------------|---------------|--------------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| March 31, 2012 | | | | | | |
| U.S. Government sponsored entities | \$ 19,779 | \$ (210) | \$ | \$ | \$ 19,779 | \$ (210) |
| Total temporarily impaired | \$ 19,779 | \$ (210) | \$ | \$ | \$ 19,779 | \$ (210) |

| | Less than 12 months | | 12 Months or More | | Total | |
|------------------------------------|---------------------|--------------------|----------------------|--------------------|---------------|--------------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| December 31, 2011 | | | | | | |
| U.S. Government sponsored entities | \$ 7,970 | \$ (25) | \$ | \$ | \$ 7,970 | \$ (25) |

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

| | | | | | | |
|----------------------------|----------|---------|----|----|----------|---------|
| Total temporarily impaired | \$ 7,970 | \$ (25) | \$ | \$ | \$ 7,970 | \$ (25) |
|----------------------------|----------|---------|----|----|----------|---------|

There were seven U.S. Government sponsored entities securities unrealized losses at March 31, 2012. None of the unrealized losses for these securities have been recognized into net income for the three months ended March 31, 2012 because the issuer's bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach their maturity date or reset date.

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company considers the length of time and the extent to which the fair value has been less than cost and the financial condition and near-term prospects of the issuer. Additionally, the Company considers its intent to sell or whether it will be more likely than not required to sell the security prior to the security's anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal Government sponsored entities, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

(5) LOANS

Loans at March 31, 2012 and December 31, 2011 were as follows:

| | March 31, 2012 | December 31, 2011 |
|---------------------------------------|-------------------|----------------------|
| Real estate loans: | | |
| One- to four-family | \$ 77,133 | \$ 78,869 |
| Multi-family | 5,127 | 5,184 |
| Commercial real estate | 63,243 | 63,336 |
| Construction | 1,409 | 1,667 |
| Total real estate loans | 146,912 | 149,056 |
| Commercial loans | 7,115 | 7,221 |
| Consumer loans: | | |
| Home equity loans and lines of credit | 4,945 | 5,286 |
| Other consumer loans | 3,980 | 4,097 |
| Total loans | 162,952 | 165,660 |
| Net deferred loan fees | (318) | (337) |
| Allowance for loan losses | (1,236) | (1,108) |
| Loans, net | \$ 161,398 | \$ 164,215 |

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

The following tables present the activity in the allowance for loan losses for the three months ended March 31, 2012 and 2011 and the balances of the allowance for loan losses and recorded investment in loans based on impairment method at March 31, 2012, 2011 and December 31, 2011. The recorded investment in loans in any of the following tables does not include accrued and unpaid interest or any deferred loan fees or costs, as amounts are not significant.

| | Real estate | | | | | | Total |
|--|--------------------|--------------|------------|--------------|------------|----------|------------|
| | One-to-Four Family | Multi-family | Commercial | Construction | Commercial | Consumer | |
| March 31, 2012 | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Beginning balance | \$ 540 | \$ 10 | \$ 413 | \$ 2 | \$ 18 | \$ 125 | \$ 1,108 |
| Charge-offs | | | | | | | |
| Recoveries | | | | | | 1 | 1 |
| Provisions | 83 | | (47) | (1) | 98 | (6) | 127 |
| Ending balance | \$ 623 | \$ 10 | \$ 366 | \$ 1 | \$ 116 | \$ 120 | \$ 1,236 |
| Ending allowance attributed to loans: | | | | | | | |
| Individually evaluated for impairment | 330 | | 110 | | 98 | | \$ 538 |
| Collectively evaluated for impairment | 293 | 10 | 256 | 1 | 18 | 120 | 698 |
| Total ending allowance balance: | \$ 623 | \$ 10 | \$ 366 | \$ 1 | \$ 116 | \$ 120 | \$ 1,236 |
| Loans: | | | | | | | |
| Loans individually evaluated for impairment: | \$ 2,657 | \$ 1,901 | \$ 1,863 | \$ | \$ 98 | \$ 122 | \$ 6,641 |
| Loans collectively evaluated for impairment: | 74,476 | 3,226 | 61,380 | 1,409 | 7,017 | 8,803 | 156,311 |
| Total ending loans balance | \$ 77,133 | \$ 5,127 | \$ 63,243 | \$ 1,409 | \$ 7,115 | \$ 8,925 | \$ 162,952 |

| | Real estate | | | | | | Total |
|---------------------------------------|--------------------|--------------|------------|--------------|------------|----------|--------|
| | One-to-Four Family | Multi-family | Commercial | Construction | Commercial | Consumer | |
| March 31, 2011 | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Beginning balance | \$ 332 | \$ 9 | \$ 356 | \$ 9 | \$ 47 | \$ 101 | \$ 854 |
| Charge-offs | (2) | | (47) | | | | (49) |
| Recoveries | | | | | | 1 | 1 |
| Provisions | 61 | 1 | 31 | (4) | | 3 | 92 |
| Ending balance | \$ 391 | \$ 10 | \$ 340 | \$ 5 | \$ 47 | \$ 105 | \$ 898 |
| Ending allowance attributed to loans: | | | | | | | |

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

| | | | | | | | |
|--|-----------|----------|-----------|----------|----------|-----------|------------|
| Individually evaluated for impairment | 25 | | 35 | | 25 | | \$ 85 |
| Collectively evaluated for impairment | 366 | 10 | 305 | 5 | 22 | 105 | 813 |
| Total ending allowance balance: | \$ 391 | \$ 10 | \$ 340 | \$ 5 | \$ 47 | \$ 105 | \$ 898 |
| Loans: | | | | | | | |
| Loans individually evaluated for impairment: | \$ 2,464 | \$ 1,980 | \$ 4,198 | \$ | \$ 109 | \$ 158 | \$ 8,909 |
| Loans collectively evaluated for impairment: | 81,402 | 3,392 | 59,422 | 4,779 | 7,382 | 10,477 | 166,854 |
| Total ending loans balance | \$ 83,866 | \$ 5,372 | \$ 63,620 | \$ 4,779 | \$ 7,491 | \$ 10,635 | \$ 175,763 |

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

| December 31, 2011 | Real estate | | | | | | Total |
|--|--------------------|-----------------|------------------|-----------------|-----------------|-----------------|-------------------|
| | One-to-Four Family | Multi-family | Commercial | Construction | Commercial | Consumer | |
| Allowance for loan losses: | | | | | | | |
| Ending allowance attributed to loans: | | | | | | | |
| Individually evaluated for impairment | \$ 240 | \$ | \$ 110 | \$ | \$ | \$ | \$ 350 |
| Collectively evaluated for impairment | 300 | 10 | 303 | 2 | 18 | 125 | 758 |
| Total ending allowance balance: | \$ 540 | \$ 10 | \$ 413 | \$ 2 | \$ 18 | \$ 125 | \$ 1,108 |
| Loans: | | | | | | | |
| Loans individually evaluated for impairment: | \$ 2,582 | \$ 1,910 | \$ 1,712 | \$ | \$ 99 | \$ 122 | \$ 6,425 |
| Loans collectively evaluated for impairment: | 76,287 | 3,274 | 61,624 | 1,667 | 7,122 | 9,261 | 159,235 |
| Total ending loans balance | \$ 78,869 | \$ 5,184 | \$ 63,336 | \$ 1,667 | \$ 7,221 | \$ 9,383 | \$ 165,660 |

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

The following table presents loans individually evaluated for impairment by portfolio class at March 31, 2012 and December 31, 2011:

| | March 31, 2012 | | | | | December 31, 2011 | | | | |
|---------------------------------------|--------------------------|---------------------|-------------------|-----------------------------|----------------------------|--------------------------|---------------------|-------------------|-----------------------------|----------------------------|
| | Unpaid principal balance | Recorded investment | Related allowance | Average Recorded Investment | Interest Income Recognized | Unpaid principal balance | Recorded investment | Related allowance | Average Recorded Investment | Interest Income Recognized |
| With no recorded allowance: | | | | | | | | | | |
| Real estate loans: | | | | | | | | | | |
| One- to four-family | \$ 1,417 | \$ 1,417 | \$ | \$ 1,392 | \$ 26 | \$ 1,367 | \$ 1,367 | \$ | \$ 1,255 | \$ 88 |
| Multi-family | 1,901 | 1,901 | | 1,906 | 37 | 1,910 | 1,910 | | 1,939 | 138 |
| Commercial | 1,666 | 1,666 | | 1,591 | 32 | 1,515 | 1,515 | | 3,030 | 167 |
| Construction | | | | | | | | | | |
| Total real estate loans | 4,984 | 4,984 | | 4,889 | 95 | 4,792 | 4,792 | | 6,224 | 393 |
| Commercial | | | | 50 | | 99 | 99 | | 52 | 1 |
| Consumer: | | | | | | | | | | |
| Home equity loans and lines of credit | 122 | 122 | | 122 | 2 | 122 | 122 | | 131 | 3 |
| Other consumer loans | | | | | | | | | | |
| Total | \$ 5,106 | \$ 5,106 | \$ | \$ 5,061 | \$ 97 | \$ 5,013 | \$ 5,013 | \$ | \$ 6,407 | \$ 397 |
| With recorded allowance: | | | | | | | | | | |
| Real estate loans: | | | | | | | | | | |
| One- to four-family | \$ 1,240 | \$ 1,240 | \$ 330 | \$ 1,228 | \$ 4 | \$ 1,215 | \$ 1,215 | \$ 240 | \$ 1,120 | \$ 34 |
| Multi-family | | | | | | | | | | |
| Commercial | 197 | 197 | 110 | 197 | | 197 | 197 | 110 | 179 | |
| Construction | | | | | | | | | | |
| Total real estate loans | 1,437 | 1,437 | 440 | 1,425 | 4 | 1,412 | 1,412 | 350 | 1,299 | 34 |
| Commercial | 98 | 98 | 98 | 49 | 2 | | | | 40 | |
| Consumer: | | | | | | | | | | |
| Home equity loans and lines of credit | | | | | | | | | | |
| Other consumer loans | | | | | | | | | | |
| Total | \$ 1,535 | \$ 1,535 | \$ 538 | \$ 1,474 | \$ 6 | \$ 1,412 | \$ 1,412 | \$ 350 | \$ 1,339 | \$ 34 |
| Totals: | | | | | | | | | | |
| Real estate | \$ 6,421 | \$ 6,421 | \$ 440 | \$ 6,314 | \$ 99 | \$ 6,204 | \$ 6,204 | \$ 350 | \$ 7,523 | \$ 427 |
| Commercial and Consumer | 220 | 220 | 98 | 221 | 4 | 221 | 221 | | 223 | 4 |
| Total | \$ 6,641 | \$ 6,641 | \$ 538 | \$ 6,535 | \$ 103 | \$ 6,425 | \$ 6,425 | \$ 350 | \$ 7,746 | \$ 431 |

Interest income recognized was equal to cash collected during the three months ended March 31, 2012 and the year ended December 31, 2011.

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

The following tables present the aging of the recorded investment in past due loans at March 31, 2012 and December 31, 2011 by portfolio class of loans:

| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Current | Total Loans | Accruing loans past due 90 days or more |
|---------------------------------------|------------------------------|------------------------------|--------------------------------------|----------------------|------------|----------------|---|
| March 31, 2012 | | | | | | | |
| Real estate loans: | | | | | | | |
| One- to four-family | \$ 1,265 | \$ 107 | \$ 189 | \$ 1,561 | \$ 75,572 | \$ 77,133 | \$ |
| Multi-family | 589 | | | 589 | 4,538 | 5,127 | |
| Commercial | 602 | 18 | | 620 | 62,623 | 63,243 | |
| Construction | | | | | 1,409 | 1,409 | |
| Total real estate loans | 2,456 | 125 | 189 | 2,770 | 144,142 | 146,912 | |
| Commercial loans | 381 | | | 381 | 6,734 | 7,115 | |
| Consumer loans: | | | | | | | |
| Home equity loans and lines of credit | | | | | 4,945 | 4,945 | |
| Other consumer loans | 10 | 4 | | 14 | 3,966 | 3,980 | |
| Total | \$ 2,847 | \$ 129 | \$ 189 | \$ 3,165 | \$ 159,787 | \$ 162,952 | \$ |
| December 31, 2011 | | | | | | | |
| Real estate loans: | | | | | | | |
| One- to four-family | \$ 2,157 | \$ 130 | \$ 122 | \$ 2,409 | \$ 76,460 | \$ 78,869 | \$ |
| Multi-family | | | | | 5,184 | 5,184 | |
| Commercial | 32 | | | 32 | 63,304 | 63,336 | |
| Construction | | | | | 1,667 | 1,667 | |
| Total real estate loans | 2,189 | 130 | 122 | 2,441 | 146,615 | 149,056 | |
| Commercial loans | 150 | 25 | | 175 | 7,046 | 7,221 | |
| Consumer loans: | | | | | | | |
| Home equity loans and lines of credit | | | | | 5,286 | 5,286 | |
| Other consumer loans | 84 | 2 | | 86 | 4,011 | 4,097 | |
| Total | \$ 2,423 | \$ 157 | \$ 122 | \$ 2,702 | \$ 162,958 | \$ 165,660 | \$ |

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

Nonaccrual loans at March 31, 2012 and December 31, 2011 were \$189 and \$1,572, respectively. These loans are disclosed in one-to-four family class above at March 31, 2012 and December 31, 2011. Additional required disclosure by class was deemed immaterial to the financial statements. Non-performing loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Troubled Debt Restructurings:

Troubled debt restructurings at March 31, 2012 and December 31, 2011 were \$2,932 and \$3,033, respectively. The amount of impairment allocated to loans whose loan terms have been modified in troubled debt restructurings at March 31, 2012 and December 31, 2011 was \$350 and \$260, respectively. The Company has committed to lend no additional amounts at March 31, 2012 to customers with outstanding loans that are classified as troubled debt restructurings. There were no loans modified as troubled debt restructurings during the three month period March 31, 2012.

There was one residential real estate loan with a recorded investment of \$122 that was modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three months ended March 31, 2012. A loan is considered to be in payment default once it is 60 days contractually past due under the modified terms. The troubled debt restructuring that subsequently defaulted as described above did not increase the allowance for loans losses or result in any charge off during the three months ended March 31, 2012.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

Credit Quality Indicators:

The Company utilizes a grading system whereby all loans are assigned a grade based on the risk profile of each loan. Loan grades are determined based on an evaluation of relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. All loans, regardless of size, are analyzed and are given a grade based upon the management's assessment of the ability of borrowers to service their debts. Loans with balances greater than \$100 are evaluated on a quarterly basis and smaller loans are reviewed as necessary based on change in borrower status or payment history.

The Company uses the following definitions for loan grades:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

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

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above are graded Pass. These loans are included within groups of homogenous pools of loans based upon portfolio segment and class for estimation of the allowance for loan losses on a collective basis. Loan relationships graded substandard and doubtful of \$100 or more are individually evaluated for impairment.

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

At March 31, 2012 and December 31, 2011 and based on the most recent analysis performed, the loan grade for each loan by portfolio class is as follows:

| | Real estate | | | | | | | |
|-----------------|-----------------------|----------------------|-------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
| | One-to-four Family | | Multi-family | | Commercial | | Construction | |
| | March 31, 2012 | December 31, 2011 | March 31, 2012 | December 31, 2011 | March 31, 2012 | December 31, 2011 | March 31, 2012 | December 31, 2011 |
| Pass | \$ 72,909 | \$ 74,761 | \$ 3,226 | \$ 3,274 | \$ 53,007 | \$ 54,291 | \$ 1,409 | \$ 1,667 |
| Special mention | 1,567 | 1,041 | | | 8,163 | 7,223 | | |
| Substandard | 2,657 | 3,067 | 1,901 | 1,910 | 2,073 | 1,822 | | |
| Doubtful | | | | | | | | |
| Total | \$ 77,133 | \$ 78,869 | \$ 5,127 | \$ 5,184 | \$ 63,243 | \$ 63,336 | \$ 1,409 | \$ 1,667 |

| | Commercial | | Home Equity Loans and Lines of Credit | | Other Consumer Loans | | Totals | |
|-----------------|-------------------|----------------------|---------------------------------------|----------------------|----------------------|----------------------|-------------------|----------------------|
| | March 31, 2012 | December 31, 2011 | March 31, 2012 | December 31, 2011 | March 31, 2012 | December 31, 2011 | March 31, 2012 | December 31, 2011 |
| Pass | \$ 6,351 | \$ 7,122 | \$ 4,823 | \$ 5,164 | \$ 3,949 | \$ 4,066 | \$ 145,674 | \$ 150,345 |
| Special mention | 666 | | | | 25 | 25 | 10,421 | 8,289 |
| Substandard | 98 | 99 | 122 | 122 | 6 | 6 | 6,857 | 7,026 |
| Doubtful | | | | | | | | |
| Total | \$ 7,115 | \$ 7,221 | \$ 4,945 | \$ 5,286 | \$ 3,980 | \$ 4,097 | \$ 162,952 | \$ 165,660 |

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Investment Securities:

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). The Company's taxable municipal investment securities' fair values are determined based on a discounted cash flow analysis prepared by an independent third party.

Impaired Loans:

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned:

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

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

For appraisals where the value is \$250 or above for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Appraisal Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with via independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Company compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value. The most recent analysis performed indicated that a discount of 10% should be applied to properties with appraisals performed within 12 months.

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

The tables below present the balances of assets and liabilities measured at fair value on a recurring and non-recurring basis by level within the hierarchy as of March 31, 2012 and December 31, 2011:

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

| | Fair Value Measurements | | | | | |
|--|--------------------------------|--------------------------------|--------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | (Level 1) March 31, 2012 | (Level 2) March 31, 2012 | (Level 3) March 31, 2012 | (Level 1) December 31, 2011 | (Level 2) December 31, 2011 | (Level 3) December 31, 2011 |
| Financial assets: | | | | | | |
| U.S. Government sponsored entities | \$ | \$ 23,791 | \$ | \$ | \$ 19,993 | \$ |
| Municipal - taxable | | 1,942 | 3,599 | | 1,914 | 3,559 |
| Residential mortgage-backed, GSE | | 1,890 | | | 2,125 | |
| Residential mortgage-backed, private label | | 602 | | | 631 | |
| Ultra Short mortgage mutual fund | 1,484 | | | 1,484 | | |
| Total investment securities available for sale | \$ 1,484 | \$ 28,225 | \$ 3,599 | \$ 1,484 | \$ 24,663 | \$ 3,559 |

There were no significant transfers between Level 1 and Level 2 during 2012 or 2011.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2012:

| | Municipals - Taxable 2012 |
|--|------------------------------|
| Balance of recurring level 3 assets at January 1 | \$ 3,559 |
| Unrealized gains | 40 |
| Balance of recurring Level 3 assets at March 31 | \$ 3,599 |

Our state and municipal securities valuations are supported by analysis prepared by an independent third party. Their approach to determining fair value involves using recently executed transactions for similar securities and market quotations for similar securities. As these securities are not rated by the rating agencies and trading volumes are thin, it was determined that these were valued using Level 3 inputs.

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

Assets and Liabilities Measured on a Non-Recurring Basis

Level 3 assets and liabilities measured at fair value on a non-recurring basis are summarized below:

| | Fair Value Measurements (Level 3) | |
|---|--------------------------------------|----------------------|
| | March 31, 2012 | December 31, 2011 |
| Assets: | | |
| Impaired loans, with specific allocations | | |
| Real estate loans: | | |
| One-to four-family | \$ 910 | \$ 975 |
| Commercial | 87 | 87 |
| Total loans | \$ 997 | \$ 1,062 |
| Foreclosed real estate: | | |
| One-to four-family | \$ 130 | \$ 1,025 |
| Commercial | 431 | 516 |
| Total foreclosed real estate | \$ 561 | \$ 1,541 |

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had carrying amounts of \$997 and \$1,062, which consists of the unpaid principal balances of \$1,535 and \$1,412 less valuation allowances of \$538 and \$350 at March 31, 2012 and December 31, 2011, respectively. The impact to the provision to loan losses from the change in the valuation allowances was \$127 for the three months ended March 31, 2012 and \$230 for the year ended December 31, 2011.

Foreclosed real estate, which is measured at fair value less costs to sell, had a net carrying amount of \$561 and \$1,541 at March 31, 2012 and December 31, 2011, respectively. The net carrying amount consists of the outstanding balance net of a valuation allowance. The outstanding balance and valuation allowance of other real estate owned at March 31, 2012 and December 31, 2011 were \$975 and \$1,963, and \$414 and \$422, respectively. The resulting write-downs for the three months ended March 31, 2012 were \$75 and \$212 for the year ended December 31, 2011.

Loans held for sale, which are carried at the lower of cost or fair value, had fair values that approximated costs at March 31, 2012 and December 31, 2011 and were therefore carried at cost with no fair value valuation allowance at both period ends.

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at March 31, 2012

| Level 3 Quantitative Information at March 31, 2012 | | | | |
|--|------------|---------------------------|---|--------------------------|
| | Fair Value | Valuation Technique(s) | Unobservable Inputs(s) | Range (Weighted Average) |
| Assets: | | | | |
| Impaired loans, with specific allocations | | | | |
| Real estate loans: | | | | |
| One-to four-family | \$ 910 | Sales comparison approach | Adjustment for differences between the comparable sales | 0% to 20%(10%) |
| Commercial | 87 | Sales comparison approach | Adjustment for differences between the comparable sales | 0% to 20%(10%) |
| Total loans | \$ 997 | | | |
| Foreclosed real estate: | | | | |
| One-to four-family | \$ 130 | Sales comparison approach | Adjustment for differences between the comparable sales | 0% to 20%(10%) |
| Commercial | 431 | Sales comparison approach | Adjustment for differences between the comparable sales | 0% to 20%(10%) |
| Total foreclosed real estate | \$ 561 | | | |

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

The following tables present the carrying amounts and estimated fair values of the Company's on-balance sheet financial instruments at March 31, 2012 and December 31, 2011:

| | Carrying Amount | March 31, 2012 | | | Total |
|---------------------------------|--------------------|----------------|-----------|-----------|----------|
| | | (Level 1) | (Level 2) | (Level 3) | |
| Financial assets | | | | | |
| Cash and cash equivalents | \$ 8,661 | \$ 8,661 | \$ | \$ | \$ 8,661 |
| Securities available for sale | 33,308 | 1,484 | 28,265 | 3,559 | 33,308 |
| Loans, net | 161,398 | | 0 | 163,143 | 163,143 |
| Loans held for sale | 68 | | 68 | | 68 |
| Accrued interest receivable | 1,026 | 1,026 | | | 1,026 |
| Restricted equity securities | 2,410 | N/A | N/A | N/A | N/A |
| Financial liabilities | | | | | |
| Deposits | 138,846 | 62,598 | 76,636 | | 139,243 |
| Federal Home Loan Bank Advances | 42,000 | | 46,059 | | 46,059 |
| Long-term debt | 787 | | 787 | | 787 |
| Accrued interest payable | 222 | 222 | | | 222 |

| | December 31, 2011 | |
|---------------------------------|--------------------|------------|
| | Carrying Amount | Fair Value |
| Financial assets | | |
| Cash and cash equivalents | \$ 9,476 | \$ 9,476 |
| Securities available for sale | 29,706 | 29,706 |
| Loans, net | 164,215 | 173,842 |
| Loans held for sale | 441 | 441 |
| Accrued interest receivable | 1,056 | 1,056 |
| Restricted equity securities | 2,410 | N/A |
| Financial liabilities | | |
| Deposits | 138,147 | 139,464 |
| Federal Home Loan Bank Advances | 42,000 | 46,297 |
| Long-term debt | 787 | 787 |
| Accrued interest payable | 223 | 223 |

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits and deposits that reprice frequently or fully and are classified as Level 1. The methods for determining fair values for securities were described previously. For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other 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 resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price. The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit and long-term borrowings are estimated using a discounted cash flows calculation

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

that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification. It is not practicable to determine the fair value of restricted equity securities due to restrictions placed on transferability. The fair value of off-balance sheet items is not considered material.

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

(7) STOCK BASED COMPENSATION

In December of 2010, the stockholders approved the Cullman Bancorp, Inc. 2010 Equity Incentive Plan (the "Equity Incentive Plan") for employees and directors of the Company. The Equity Incentive Plan authorizes the issuance of up to 172,373 shares of the Company's common stock, with no more than 49,249 of shares as restricted stock awards and 123,124 as stock options, either incentive stock options or non-qualified stock options. The exercise price of options granted under the Equity Incentive Plan may not be less than the fair market value on the date the stock option is granted. The compensation committee of the board of directors has sole discretion to determine the amount and to whom equity incentive awards are granted.

On January 18, 2011, the compensation committee of the board of directors approved the issuance of 123,124 options to purchase Company stock and 49,249 shares of restricted stock. Stock options and restricted stock vest ratably over a five year period, and stock options expire ten years after issuance. Apart from the vesting schedule for both stock options and restricted stock, there are no performance-based conditions or any other material conditions applicable to the awards issued. At March 31, 2012 there were no shares available for future grants under this plan.

The following table summarizes stock option activity for the nine months ended March 31, 2012:

| | Options | Weighted-Average Exercise Price/Share | Weighted-Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value |
|--|---------|---|--|------------------------------|
| Outstanding January 1, 2012 | 123,124 | 10.30 | | |
| Granted | | | | |
| Exercised | (2,462) | | | |
| Forfeited | | | | |
| Outstanding -March 31, 2012 | 120,662 | \$ 10.30 | 8.75 | \$ 356(1) |
| Fully vested and exercisable at March 31, 2012 | 22,162 | \$ | | \$ |
| Expected to vest in future periods | 98,500 | | | |
| Fully vested and expected to vest March 31, 2012 | 120,662 | \$ 10.30 | 8.75 | \$ 356(1) |

(1) Based on closing price of \$13.25 per share on March 31, 2012.

Intrinsic value for stock options is defined as the difference between the current market value and the exercise price.

The fair value for each option grant is estimated on the date of grant using the Black-Scholes option pricing model that uses the following assumptions. The Company uses the U.S. Treasury yield curve in effect at the time of the grant to determine the risk-free interest rate. The

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

expected dividend yield is estimated using the projected annual dividend level and recent stock price of the Company's common stock at the date of grant. Expected stock volatility is based on historical volatilities of the SNL Financial Index of Thrifts. The expected life of the options is calculated based on the simplified method as provided for under Staff Accounting Bulletin No. 110.

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

The weighted-average assumptions used in the Black-Scholes option pricing model for the period indicated were as follows:

| | 2011 |
|---------------------------|-------------|
| Risk-free interest rate | 2.86% |
| Expected dividend yield | 4.37% |
| Expected stock volatility | 10.29 |
| Expected life (years) | 7 |
| Fair value | \$ 0.675 |

There were 24,624 options that vested during the three months ended March 31, 2012. Stock-based compensation expense for stock options for the three months ended March 31, 2012 and 2011 was \$5 and \$5, respectively. Total unrecognized compensation cost related to nonvested stock options was \$62 at March 31, 2012 and is expected to be recognized over a weighted-average period of 3.75 years.

The following table summarizes non-vested restricted stock activity for the three months ended March 31, 2012:

| | 2012 |
|---------------------------|-------------|
| Balance beginning of year | 49,249 |
| Granted | |
| Forfeited | |
| Earned and issued | (9,849) |
| Balance end of period | 39,400 |

The fair value of the restricted stock awards is amortized to compensation expense over the vesting period (generally five years) and is based on the market price of the Company's common stock at the date of grant multiplied by the number of shares granted that are expected to vest. The weighted-average grant date fair value of restricted stock granted during the three months ended March 31, 2011 was \$10.30 per share or \$507. Stock-based compensation expense for restricted stock included in non-interest expense for the three months ended March 31, 2012 and 2011 was \$25 and \$25, respectively. Unrecognized compensation expense for nonvested restricted stock awards was \$380 and is expected to be recognized over 3.75 years.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF CULLMAN BANCORP, INC.

This Quarterly Report contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include:

statements of our goals, intentions and expectations;

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

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

estimates of our risks and future costs and benefits.

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

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

our ability to manage our operations during the current United States weak economic condition;

our ability to manage the risk from the growth of our commercial real estate lending;

significant increases in our loan losses, exceeding our allowance;

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

adverse changes in the financial industry, securities, credit and national and local real estate markets (including real estate values);

general economic conditions, either nationally or in our market area;

changes in consumer spending, borrowing and savings habits, including lack of consumer confidence in financial institutions;

potential increases in deposit assessments;

significantly increased competition among depository and other financial institutions;

changes in accounting policies and practices, as may be adopted by the bank regulatory agencies and the authoritative accounting and auditing bodies;

legislative or regulatory changes, including increased banking assessments, that adversely affect our business and earnings; and

changes in our organization, compensation and benefit plans.

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.

Critical Accounting Policies

There are no material changes to the critical accounting policies disclosed in Form 10-K Annual Report of Cullman Bancorp, Inc. for the year ended December 31, 2011.

Table of Contents

Comparison of Financial Condition at March 31, 2012 and December 31, 2011

Our total assets increased to \$224.4 million at March 31, 2012 from \$223.0 million at December 31, 2011. The increase was primarily attributable to an increase in securities available for sale of \$3.6 million, or 12.1%, and increase in bank owned life insurance of \$2.0 million, or 82.5%, partially offset by decreases in loans of \$2.8 million, or 1.7%, and federal funds sold of \$1.4 million, or 18.6%. As demand for loans continues to decrease, we redeployed cash from loan repayments into purchases of available for sale securities and the purchase of additional bank owned life insurance.

Total equity increased to \$40.8 million at March 31, 2012 from \$40.4 million at December 31, 2011. The net increase of \$389,000, or 1.0%, was primarily attributable to net income of \$622,000, partially offset by \$205,000 of dividends paid during the three months ended March 31, 2012 and a decrease in accumulated other comprehensive income of \$83,000.

Table of Contents**Non-Performing Assets**

The table below sets forth the amounts and categories of our non-performing assets at the dates indicated:

| | March 31, 2012 | December 31, 2011 |
|--|------------------------|----------------------|
| | (Dollars in thousands) | |
| Non-Accrual: | | |
| Real estate loans: | | |
| One- to four-family | \$ 189 | \$ 1,572 |
| Multi-family | | |
| Commercial real estate | | |
| Construction | | |
| Total real estate loans | 189 | 1,572 |
| Commercial loans | | |
| Consumer loans | | |
| Total nonaccrual loans | \$ 189 | \$ 1,572 |
| Accruing loans past due 90 days or more: | | |
| Real estate loans: | | |
| One- to four-family | \$ | \$ |
| Multi-family | | |
| Commercial real estate | | |
| Construction | | |
| Total real estate loans | | |
| Commercial loans | | |
| Consumer loans | | |
| Total accruing loans past due 90 days or more | | |
| Total of nonaccrual and 90 days or more past due loans | \$ 189 | \$ 1,572 |
| Foreclosed real estate | | |
| One- to four-family | \$ 130 | \$ 1,025 |
| Commercial | 431 | 516 |
| Other nonperforming assets | | |
| Total nonperforming assets | 750 | 3,113 |
| Troubled debt restructurings | 2,932 | 3,033 |
| Troubled debt restructurings and total nonperforming assets | \$ 3,682 | \$ 6,146 |
| Total nonperforming loans to gross loans | 0.12% | 0.95% |
| Total nonperforming assets to total assets | 0.33% | 1.40% |
| Total nonperforming assets and troubled debt restructurings to total assets | 1.64% | 2.76% |

Table of Contents**Average Balance and Yields**

The following tables set forth average balance sheets, average yields and rates, and certain other information at and for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the tables as loans carrying a zero yield. The yields set forth below include the effect of net deferred costs, fees, discounts and premiums that are amortized or accreted to income.

| | For The Three Months Ended March 31, | | | | | |
|---|--------------------------------------|-----------------------------------|---------------|--------------------|-----------------------------------|---------------|
| | Average Balance | 2012 Interest and Dividends | Yield Cost | Average Balance | 2011 Interest and Dividends | Yield Cost |
| (Dollars in thousands) | | | | | | |
| Assets: | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans | \$ 164,593 | \$ 2,632 | 6.41% | \$ 177,114 | \$ 2,768 | 6.34% |
| Securities available for sale | 30,319 | 236 | 3.12 | 23,470 | 227 | 3.92 |
| Other interest-earning assets | 10,604 | 11 | 0.42 | 4,430 | 6 | 0.55 |
| Total interest-earning assets | 205,516 | 2,879 | 5.62 | 205,014 | 3,001 | 5.94 |
| Noninterest earning assets | 17,318 | | | 17,880 | | |
| Total average assets | \$ 222,834 | | | \$ 222,894 | | |
| Liabilities and equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| NOW and demand deposits | \$ 26,965 | 13 | 0.19 | \$ 24,152 | 32 | 0.54 |
| Regular savings and other deposits | 16,859 | 10 | 0.24 | 16,727 | 23 | 0.57 |
| Money market deposits | 7,644 | 5 | 0.26 | 8,091 | 13 | 0.64 |
| Certificates of deposit | 76,707 | 258 | 1.35 | 80,188 | 373 | 1.89 |
| Total interest-bearing deposits | 128,175 | 286 | 0.89 | 129,158 | 441 | 1.38 |
| FHLB advances and other borrowings | 42,787 | 369 | 3.46 | 47,816 | 424 | 3.63 |
| Total interest-bearing liabilities | 170,962 | 655 | 1.54 | 176,974 | 865 | 1.98 |
| Noninterest-bearing demand deposits | 10,361 | | | 6,431 | | |
| Other noninterest-bearing liabilities | 1,458 | | | 1,285 | | |
| Total liabilities | 182,781 | | | 184,690 | | |
| Equity | 40,053 | | | 38,204 | | |
| Total liabilities and equity | \$ 222,834 | | | \$ 222,894 | | |
| Net interest income | | \$ 2,224 | | | \$ 2,136 | |
| Interest rate spread | | | 4.08% | | | 3.95% |
| Net interest margin | | | 4.34% | | | 4.22% |
| Average interest-earning assets to average interest-bearing liabilities | 1.20X | | | 1.16X | | |

Table of Contents**Comparison of Operating Results for the Three Months Ended March 31, 2012 and 2011**

General. We recorded net income of \$622,000 for the three months ended March 31, 2012 compared to net income of \$523,000 for the three months ended March 31, 2011. The increase in net income was primarily attributable to an increase in net interest income after loan losses of \$53,000, or 2.6%, and increase in total noninterest income of \$81,000, or 41.3%, and a slight decrease in total noninterest expense of \$11,000, or 1.0%.

Interest Income. Interest income decreased by \$122,000 for the three months ended March 31, 2012 from \$3.0 million for the three months ended March 31, 2011, reflecting a decrease in the yield on interest earning assets to 5.6% from 5.9%, offsetting a slight increase in the average balance of interest earning assets to \$205.5 million for the three months ended March 31, 2012 compared to \$205.0 million for the three months ended March 31, 2011. The decrease in market interest rates contributed to the downward re-pricing of a portion of our existing assets and lower rates for new assets.

Interest income on loans decreased slightly by \$136,000 for the three months ended March 31, 2012 from \$2.8 million for the three months ended March 31, 2011, reflecting a decrease in the average balance of our loans to \$164.6 million for the three months ended March 31, 2012 from \$177.1 million for the three months ended March 31, 2011, which offset the slight increase in the average yield on loans to 6.4% from 6.3% for the same periods ended. The decrease in the average balances of our loans reflects the continued decline in market demand.

Interest income on investment securities increased slightly to \$236,000 for the three months ended March 31, 2012 from \$227,000 for the three months ended March 31, 2011. The decrease in the yield on securities to 3.1% for the three months ended March 31, 2012 from 3.9% for the three months ended March 31, 2011 was more than offset by the increase in the average balance of securities of \$6.8 million for the period.

Interest Expense. Interest expense decreased \$210,000, or 24.3%, to \$655,000 for the three months ended March 31, 2012 from \$865,000 for the three months ended March 31, 2011. The decrease reflected a decrease in the average rate paid on deposits and borrowings to 1.5% in for the three months ended March 31, 2012 from 2.0% for the three months ended March 31, 2011 and a decrease in the average balances of deposits and borrowings of \$6.0 million for the period.

Interest expense on certificates of deposit decreased to \$258,000 for the three months ended March 31, 2012 from \$373,000 for the three months ended March 31, 2011, reflecting a decrease in the average cost of certificates of deposit to 1.4% for the three months ended March 31, 2012 compared with 1.9% for the three months ended March 31, 2011 and a decrease in their average balances of \$3.5 million for the period.

Interest expense on NOW and demand deposits, along with savings deposits and money market deposits decreased to \$28,000 for the three months ended March 31, 2012 from \$68,000 for the three months ended March 31, 2011, reflecting a decrease of \$2.5 million in the average balance of such deposits as well as a decrease in the average cost of such deposits to 0.22% from 0.56%.

Interest expense on borrowings, primarily advances from the Federal Home Loan Bank, decreased to \$369,000 for the three months ended March 31, 2012 from \$424,000 for the three months ended March 31, 2011, reflecting a decrease in the average rate paid on such borrowings to 3.5% from 3.6%.

Net Interest Income. Net interest income increased to \$2.2 million for the three months ended March 31, 2012 from \$2.1 million for the three months ended March 31, 2011. The increase reflected an increase in our interest rate spread to 4.1% for the three months ended March 31, 2012 from 4.0% for the three months ended March 31, 2011 and an increase in our net interest margin to 4.3% from 4.2% for the same periods ended.

Provision for Loan Losses. We recorded a provision for loan losses of \$127,000 for the three months ended March 31, 2012 compared to \$92,000 for the three months ended March 31, 2011. The allowance for loan losses was \$1.2 million or 0.76% of total loans at March 31, 2012 compared to \$1.1 million, or 0.67% of total loans at December 31, 2011. The increase in our provision was attributed to an increase in the valuation allowance related to impaired loans of \$188,000 for the three months ended March 31, 2012. We had \$2.9 million in troubled debt restructurings at March 31, 2012 compared with \$3.0 million at December 31, 2011. Our non-accrual loans decreased to \$189,000 at March 31, 2012 from \$1.5 million at December 31, 2011. Our foreclosed real estate decreased to \$561,000 at March 31, 2012 from \$1.5 million at December 31, 2011. We used the same methodology in assessing the allowance for both periods. To the best of our knowledge, we have recorded all losses that are both probable and reasonably estimable for the three months ended March 31, 2012 and 2011.

Table of Contents

Noninterest Income. Noninterest income increased to \$277,000 for the three months ended March 31, 2012 from \$196,000 for the three months ended March 31, 2011. The increase in noninterest income was due to an increase in service charges on deposit accounts of \$16,000, an increase on gains of sales of mortgage loans of \$18,000, and an increase in other noninterest income of \$47,000, which was primarily attributed to gains on sales of foreclosed real estate of \$50,000.

Noninterest Expense. Noninterest expense decreased slightly by \$11,000 for the three months ended March 31, 2012 over the three months ended March 31, 2011. The decrease reflected a decrease in professional and supervisory fees of \$60,000, offset partially by an increase on losses of foreclosed real estate of \$35,000 and an increase in salaries and employee benefits of \$27,000.

Income Tax Expense. The provision for income taxes was \$349,000 for the three months ended March 31, 2012 compared to \$303,000 for the three months ended March 31, 2011. Our effective tax rate decreased to 35.9% for three months ended March 31, 2012 from 36.7% for the three months ended March 31, 2011.

Liquidity and Capital Resources

Our primary sources of funds are deposits and the proceeds from principal and interest payments on loans and investment 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. We generally manage the pricing of our deposits to be competitive within our market and to increase core deposit relationships.

Liquidity management is both a daily and long-term responsibility of management. We adjust our investments in liquid assets based upon management's assessment of (i) expected loan demand, (ii) expected deposit flows, (iii) yields available on interest-earning deposits and investment securities, and (iv) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning overnight deposits, federal funds sold, and short and intermediate-term U.S. Government sponsored agencies and mortgage-backed securities of short duration. If we require funds beyond our ability to generate them internally, we have additional borrowing capacity with the Federal Home Loan Bank of Atlanta. At March 31, 2012, we had \$42.0 million in advances from the Federal Home Loan Bank of Atlanta and an available borrowing limit of an additional \$46.8 million.

Common Stock Dividend Policy. During the quarter ended March 31, 2011, the Company declared a dividend of \$0.08 per share, or \$125,000 on all outstanding shares, except for 1,007,012 of the 1,382,012 shares of the Company's common stock held by Cullman Savings Bank, MHC. The OTS granted the Cullman Savings Bank, MHC a waiver on payment of the dividend on that portion of the shares. No future dividend waivers are expected to be granted by the Federal Reserve Bank, the regulatory body now responsible for mutual holding companies.

The determination of future dividends on the Company's common stock will depend on conditions existing at that time.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Disclosures of quantitative and qualitative market risk are not required by smaller reporting companies, such as the Company.

ITEM 4. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures.

An evaluation as of the end of the period covered by this quarterly report was carried out under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Based on that evaluation, the Company's management, including the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

b) Changes in Internal Control over Financial Reporting.

Table of Contents

The Company's management, including the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer, has evaluated any changes in the Company's internal control over financial reporting that occurred during the quarterly period covered by this report and has concluded that there was no change during the quarterly period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

The Company and its subsidiaries are subject to various legal actions that are considered ordinary routine litigation incidental to the business of the Company, and no claim for money damages exceeds ten percent of the Company's consolidated assets. In the opinion of management, based on currently available information, the resolution of these legal actions is not expected to have a material adverse effect on the Company's results of operations.

ITEM 1A. RISK FACTORS

Disclosures of risk factors are not required by smaller reporting companies, such as the Company.

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

(a) Not applicable.

(b) Not applicable.

(c) The Company did not repurchase any shares of common stock during the three months ended March 31, 2012.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

NONE

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The exhibits required by Item 601 of Regulation S-K are included with this Form 10-Q and are listed on the Index to Exhibits immediately following the Signatures.

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.

Cullman Bancorp, Inc.

Date: May 7, 2012

/s/ John A. Riley III
John A. Riley III

President & Chief Executive Officer

/s/ Michael Duke
Michael Duke

Senior Vice President and Chief Financial Officer

Table of Contents

INDEX TO EXHIBITS

| Exhibit number | Description |
|----------------|---|
| 31.1 | Certification of John A. Riley III, President and Chief Executive Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a). |
| 31.2 | Certification of Michael Duke, Chief Financial Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a). |
| 32 | Certification of John A. Riley III, President and Chief Executive Officer, and Michael Duke, Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following materials from the Cullman Bancorp, Inc. Form 10-Q for the quarter ended March 31, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Cash Flows and (iv) related notes, tagged as blocks of text. |