

Cullman Bancorp, Inc.  
Form 10-Q  
August 08, 2012  
[Table of Contents](#)

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

**FORM 10-Q**

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

For the Quarterly Period ended June 30, 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 August 8, 2012.

**Table of Contents**

**CULLMAN BANCORP, INC.**

Form 10-Q Quarterly Report

Table of Contents

	<b><u>PART I</u></b>	
ITEM 1.	<b><u>FINANCIAL STATEMENTS</u></b>	1
ITEM 2.	<b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF CULLMAN BANCORP, INC.</u></b>	23
ITEM 3.	<b><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	29
ITEM 4.	<b><u>CONTROLS AND PROCEDURES</u></b>	29
	<b><u>PART II</u></b>	
ITEM 1.	<b><u>LEGAL PROCEEDINGS</u></b>	30
ITEM 1A.	<b><u>RISK FACTORS</u></b>	30
ITEM 2.	<b><u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u></b>	30
ITEM 3.	<b><u>DEFAULTS UPON SENIOR SECURITIES</u></b>	30
ITEM 4.	<b><u>MINE SAFETY DISCLOSURES</u></b>	30
ITEM 5.	<b><u>OTHER INFORMATION</u></b>	30
ITEM 6.	<b><u>EXHIBITS</u></b>	30
	<b><u>SIGNATURES</u></b>	31

**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)

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,114	\$ 1,997
Federal funds sold	5,099	7,479
Cash and cash equivalents	8,213	9,476
Securities available for sale	28,011	29,706
Loans, net of allowance of \$1,509 and \$1,108, respectively	160,974	164,215
Loans held for sale	312	441
Premises and equipment, net	10,766	10,870
Foreclosed real estate	531	1,541
Accrued interest receivable	1,019	1,056
Restricted equity securities	2,265	2,410
Bank owned life insurance	4,526	2,455
Other assets	1,543	781
Total assets	\$ 218,160	\$ 222,951
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Deposits		
Non-interest bearing	\$ 5,833	\$ 9,906
Interest bearing	126,945	128,241
Total deposits	132,778	138,147
Federal Home Loan Bank advances	42,000	42,000
Long-term debt	787	787
Accrued interest payable and other liabilities	1,675	1,624
Total liabilities	177,240	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 June 30, 2012 and December 31, 2011	26	26
Additional paid-in capital	10,546	10,461
Retained earnings	30,876	30,589
Accumulated other comprehensive income	472	317
Unearned ESOP shares, at cost	(797)	(821)
Amount reclassified on ESOP shares	(203)	(179)

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

Total shareholders' equity	40,920	40,393
Total liabilities and shareholders' equity	\$ 218,160	\$ 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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Interest and dividend income:</b>				
Loans, including fees	\$ 2,539	\$ 2,715	\$ 5,171	\$ 5,484
Securities, taxable	230	222	466	449
Securities, tax exempt	2		2	
Federal funds sold and other	10	8	21	14
<b>Total interest income</b>	<b>2,781</b>	<b>2,945</b>	<b>5,660</b>	<b>5,947</b>
<b>Interest expense:</b>				
Deposits	263	422	549	863
Federal Home Loan Bank advances and other borrowings	369	429	737	853
<b>Total interest expense</b>	<b>632</b>	<b>851</b>	<b>1,286</b>	<b>1,716</b>
<b>Net interest income</b>	<b>2,149</b>	<b>2,094</b>	<b>4,374</b>	<b>4,231</b>
Provision for loan losses	877	107	1,005	199
<b>Net interest income after provision for loan losses</b>	<b>1,272</b>	<b>1,987</b>	<b>3,369</b>	<b>4,032</b>
<b>Noninterest income:</b>				
Service charges on deposit accounts	111	102	223	202
Income on bank owned life insurance	45	27	70	53
Gain on sales of mortgage loans	39	42	114	99
Other	5	13	18	28
<b>Total noninterest income</b>	<b>200</b>	<b>184</b>	<b>425</b>	<b>382</b>
<b>Noninterest expense:</b>				
Salaries and employee benefits	860	826	1,654	1,592
Occupancy and equipment	162	143	321	300
Data processing	130	121	267	253
Professional and supervisory fees	78	92	155	233
Office expense	36	30	71	64
Advertising	24	13	42	34
FDIC deposit insurance	26	38	58	70
Losses (gains) on foreclosed real estate	(13)	86	23	136
Other	86	49	149	131
<b>Total noninterest expense</b>	<b>1,389</b>	<b>1,398</b>	<b>2,740</b>	<b>2,813</b>
<b>Income before income taxes</b>	<b>83</b>	<b>773</b>	<b>1,054</b>	<b>1,601</b>
Income tax expense	7	283	357	586
<b>Net income</b>	<b>\$ 76</b>	<b>\$ 490</b>	<b>\$ 697</b>	<b>\$ 1,015</b>

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

Other comprehensive income, net of tax				
Unrealized gain on securities available for sale	\$ 378	\$ 578	\$ 246	\$ 494
Less income tax effect	140	214	91	183
Reclassification adjustment for losses (gains) realized in income, net of tax				
Other comprehensive income	238	364	155	311
Comprehensive income	\$ 314	\$ 854	\$ 852	\$ 1,326
Earnings per share: (Note 3)				
Basic	\$ 0.03	\$ 0.20	\$ 0.28	\$ 0.41
Diluted	\$ 0.03	\$ 0.20	\$ 0.28	\$ 0.41
Dividends declared per common share	\$ 0.08	\$	\$ 0.16	\$ 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)

				Accumulated	Amount		
	Common	Additional	Retained	Other	Unearned	Reclassified on	Total
	Stock	Paid-In	Earnings	Comprehensive	ESOP	ESOP	
		Capital		Income	Shares	Shares	
				(loss)			
Balance at January 1, 2011	\$ 25	\$ 10,330	\$ 29,134	\$ (232)	\$ (887)	\$ (100)	\$ 38,270
Net income			1,015				1,015
Net change in accumulated other comprehensive income				311			311
ESOP shares earned					25		25
Stock-based compensation expense		60					60
Dividends (1)			(125)				(125)
Issuance of 49,249 shares of restricted stock	1	(1)					
Reclassification of common stock in ESOP subject to repurchase obligation						(25)	(25)
Balance at June 30, 2011	\$ 26	\$ 10,389	\$ 30,024	\$ 79	\$ (862)	\$ (125)	\$ 39,531
Balance at January 1, 2012	\$ 26	\$ 10,461	\$ 30,589	\$ 317	\$ (821)	\$ (179)	\$ 40,393
Net income			697				697
Net change in accumulated other comprehensive income				155			155
ESOP shares earned					24		24
Exercise of 2,462 common stock options		25					25
Stock-based compensation expense		60					60
Dividends			(410)				(410)
Reclassification of common stock in ESOP subject to repurchase obligation						(24)	(24)
Balance at June 30, 2012	\$ 26	\$ 10,546	\$ 30,876	\$ 472	\$ (797)	\$ (203)	\$ 40,920

- (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)

	Six Months Ended June 30,	
	2012	2011
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 697	\$ 1,015
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	1,005	199
Depreciation and amortization, net	38	157
Deferred income tax benefit	(95)	(150)
Loss on sale and impairments of foreclosed real estate	23	136
Income on bank owned life insurance	(70)	(53)
ESOP compensation expense	24	25
Stock based compensation expense	60	60
Gain on sale of mortgage loans	(114)	(99)
Mortgage loans originated for sale	(4,216)	(4,478)
Mortgage loans sold	4,459	4,897
Net change in operating assets and liabilities		
Accrued interest receivable	37	33
Accrued interest payable	2	(6)
Other	(208)	278
Net cash from operating activities	1,642	2,014
<b>Cash Flows From Investing Activities</b>		
Purchases of premises and equipment	(61)	(329)
Purchases of securities	(17,495)	(2,996)
Proceeds from maturities, paydowns and calls of securities	19,441	3,711
Proceeds from sales of foreclosed real estate	611	10
Purchases of bank owned life insurance	(2,000)	
Redemptions of restricted equity securities	145	50
Loan originations and payments, net	2,208	3,463
Net cash from investing activities	2,849	3,909
<b>Cash Flows from Financing Activities</b>		
Net change in deposits	(5,369)	8,478
Exercise of common stock options	25	
Cash payment of dividends	(410)	(125)
Net cash from financing activities	(5,754)	8,353
Change in cash and cash equivalents	(1,263)	14,276
Cash and cash equivalents, beginning of period	9,476	2,542
Cash and cash equivalents, end of period	\$ 8,213	\$ 16,818
Cash paid during the period for:		
Interest paid	\$ 1,284	\$ 1,722

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

Income taxes paid	\$ 656	\$ 720
Supplemental noncash disclosures:		
Transfers from loans to foreclosed assets	\$ 423	\$ 1,051
Loans advanced for sales of foreclosed assets	\$ 272	\$ 1,200

See accompanying notes to the consolidated financial statements

**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 (54.5%) 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 June 30, 2012 and December 31, 2011 and the results of operations and cash flows for the interim periods ended June 30, 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		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Earnings per share				
Net Income	\$ 76	\$ 490	\$ 697	\$ 1,015
Less: Distributed earnings allocated to participating securities	(3)		(6)	(4)
Less: (Undistributed income) dividends in excess of earnings allocated to participating securities	2	(9)	(4)	(8)
Net earnings available to common stock	\$ 75	\$ 481	\$ 687	\$ 1,003
Weighted common shares outstanding including participating securities	2,564,458	2,561,996	2,564,052	2,557,099
Less: Participating securities	(39,400)	(49,249)	(39,400)	(49,249)
Less: Average Unearned ESOP Shares	(82,140)	(88,650)	(82,128)	(88,650)
Weighted average shares	2,442,918	2,424,097	2,442,524	2,419,200
Basic earnings per share	\$ 0.03	\$ 0.20	\$ 0.28	\$ 0.41
Net earnings available to common stock	\$ 75	\$ 481	\$ 687	\$ 1,003
Weighted average shares	2,442,918	2,424,097	2,442,524	2,419,200
Add: dilutive effects of assumed exercises of stock options	12,608	7,601	13,342	3,837
Average shares and dilutive potential common shares	2,455,526	2,431,698	2,455,866	2,423,037
Dilutive earnings per share	\$ 0.03	\$ 0.20	\$ 0.28	\$ 0.41

Options to purchase 120,662 shares of the Company's common stock at a weighted-average exercise price of \$10.30 per share were outstanding and considered dilutive for the three and six months ended June 30, 2012. There were no options considered antidilutive for the three and six month periods ending June 30, 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)

**(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 at June 30, 2012 and December 31, 2011 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>June 30, 2012</b>				
U.S. Government sponsored entities	\$ 17,992	\$ 82	\$	\$ 18,074
Municipal taxable	5,141	512		5,653
Municipal tax exempt	500		(4)	496
Residential mortgage-backed, GSE	1,700	84		1,784
Residential mortgage-backed, private label	514	4		518
Ultra Short mortgage mutual fund	1,414	72		1,486
Total	\$ 27,261	\$ 754	\$ (4)	\$ 28,011

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>December 31, 2011</b>				
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 June 30, 2012 and December 31, 2011, the Company had only one private label mortgage-backed security.

There were no sales of available for sales securities for the three and six months ended June 30, 2012 and 2011, respectively.

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.

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

	<b>June 30, 2012</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Due from one to five years	\$	\$
Due from five to ten years	12,501	12,612
Due after ten years	11,132	11,611
Mutual fund	1,414	1,486
Residential mortgage-backed	2,214	2,302
 Total	 \$ 27,261	 \$ 28,011



**Table of Contents**

## CULLMAN BANCORP, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Carrying amounts of securities pledged to secure public deposits, repurchase agreements, and Federal Home Loan Bank advances as of June 30, 2012 and December 31, 2011 were \$6,787 and \$6,786, respectively. At June 30, 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 June 30, 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
<b>June 30, 2012</b>						
Municipal tax exempt	\$ 496	\$ (4)	\$	\$	\$ 496	\$ (4)
Total temporarily impaired	\$ 496	\$ (4)	\$	\$	\$ 496	\$ (4)

	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>December 31, 2011</b>						
U.S. Government sponsored entities	\$ 7,970	\$ (25)	\$	\$	\$ 7,970	\$ (25)
Total temporarily impaired	\$ 7,970	\$ (25)	\$	\$	\$ 7,970	\$ (25)

There was one tax exempt municipal security with an unrealized loss at June 30, 2012. None of the unrealized loss for this security has been recognized into net income for the three and six months ended June 30, 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 June 30, 2012 and December 31, 2011 were as follows:

	June 30, 2012	December 31, 2011
Real estate loans:		
One- to four-family	\$ 76,219	\$ 78,869
Multi-family	5,076	5,184
Commercial real estate	62,338	63,336
Construction	2,927	1,667
 Total real estate loans	 146,560	 149,056
Commercial loans	7,467	7,221
Consumer loans:		
Home equity loans and lines of credit	5,147	5,286
Other consumer loans	3,611	4,097
 Total loans	 162,785	 165,660
Net deferred loan fees	(302)	(337)
Allowance for loan losses	(1,509)	(1,108)
 Loans, net	 \$ 160,974	 \$ 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 and six months ended June 30, 2012 and 2011 and the balances of the allowance for loan losses and recorded investment in loans based on impairment method at June 30, 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.

Six months ended June 30, 2012	Real estate						Total
	One-to-Four Family	Multi-family	Commercial	Construction	Commercial	Consumer	
<b>Allowance for loan losses:</b>							
Beginning balance	\$ 540	\$ 10	\$ 413	\$ 2	\$ 18	\$ 125	\$ 1,108
Charge-offs	(330)		(186)		(98)		(614)
Recoveries	8					2	10
Provisions	98	59	634	37	177		1,005
Ending balance	\$ 316	\$ 69	\$ 861	\$ 39	\$ 97	\$ 127	\$ 1,509
Ending allowance attributed to loans:							
Individually evaluated for impairment							
Collectively evaluated for impairment	316	69	861	39	97	127	1,509
Total ending allowance balance:	\$ 316	\$ 69	\$ 861	\$ 39	\$ 97	\$ 127	\$ 1,509
<b>Loans:</b>							
Loans individually evaluated for impairment:	988		1,610			122	2,720
Loans collectively evaluated for impairment:	75,231	5,076	60,728	2,927	7,467	8,636	160,065
Total ending loans balance	\$ 76,219	\$ 5,076	\$ 62,338	\$ 2,927	\$ 7,467	\$ 8,758	\$ 162,785

Three months ended June 30, 2012	Real estate						Total
	One-to-Four Family	Multi-family	Commercial	Construction	Commercial	Consumer	
<b>Allowance for loan losses:</b>							
Beginning balance	\$ 623	\$ 10	\$ 366	\$ 1	\$ 116	\$ 120	\$ 1,236
Charge-offs	(330)		(186)		(98)		(614)
Recoveries	8					2	10
Provisions	15	59	681	38	79	5	877
Ending balance	\$ 316	\$ 69	\$ 861	\$ 39	\$ 97	\$ 127	\$ 1,509



**Table of Contents**

## CULLMAN BANCORP, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Six months ended June 30, 2011	Real estate						Total
	One-to-Four Family	Multi-family	Commercial	Construction	Commercial	Consumer	
<b>Allowance for loan losses:</b>							
Beginning balance	\$ 332	\$ 9	\$ 356	\$ 9	\$ 47	\$ 101	\$ 854
Charge-offs	(2)		(47)				(49)
Recoveries						5	5
Provisions	118	1	81	(4)		3	199
Ending balance	\$ 448	\$ 10	\$ 390	\$ 5	\$ 47	\$ 109	\$ 1,009
Ending allowance attributed to loans:							
Individually evaluated for impairment	100		85		25		210
Collectively evaluated for impairment	348	10	305	5	22	109	799
Total ending allowance balance:	\$ 448	\$ 10	\$ 390	\$ 5	\$ 47	\$ 109	\$ 1,009
<b>Loans:</b>							
Loans individually evaluated for impairment:	2,384	1,939	3,409		108	123	7,963
Loans collectively evaluated for impairment:	81,019	3,354	59,659	5,174	7,463	10,552	167,221
Total ending loans balance	\$ 83,403	\$ 5,293	\$ 63,068	\$ 5,174	\$ 7,571	\$ 10,675	\$ 175,184

Three months ended June 30, 2011	Real estate						Total
	One-to-Four Family	Multi-family	Commercial	Construction	Commercial	Consumer	
<b>Allowance for loan losses:</b>							
Beginning balance	\$ 391	\$ 10	\$ 340	\$ 5	\$ 47	\$ 105	\$ 898
Charge-offs							
Recoveries						4	4
Provisions	57		50				107
Ending balance	\$ 448	\$ 10	\$ 390	\$ 5	\$ 47	\$ 109	\$ 1,009

December 31, 2011	Real estate						Total
	One-to-Four Family	Multi-family	Commercial	Construction	Commercial	Consumer	
<b>Allowance for loan losses:</b>							
Ending allowance attributed to loans:							

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

Individually evaluated for impairment	\$ 240	\$	\$ 110	\$	\$	\$	\$ 350
Collectively evaluated for impairment	300	10	303	2	18	125	758
<b>Total ending allowance balance:</b>	<b>\$ 540</b>	<b>\$ 10</b>	<b>\$ 413</b>	<b>\$ 2</b>	<b>\$ 18</b>	<b>\$ 125</b>	<b>\$ 1,108</b>

**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
<b>Total ending loans balance</b>	<b>\$ 78,869</b>	<b>\$ 5,184</b>	<b>\$ 63,336</b>	<b>\$ 1,667</b>	<b>\$ 7,221</b>	<b>\$ 9,383</b>	<b>\$ 165,660</b>

**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 loans individually evaluated for impairment by portfolio class at June 30, 2012 and December 31, 2011 and the respective average balances of impaired loans and interest income recognized for the three and six months ended June 30, 2012 and 2011:

	June 30, 2012			December 31, 2011		
	Unpaid principal balance	Recorded investment	Related allowance	Unpaid principal balance	Recorded investment	Related allowance
<b>With no recorded allowance:</b>						
Real estate loans:						
One- to four-family	\$ 1,228	\$ 988	\$	\$ 1,367	\$ 1,367	\$
Multi-family				1,910	1,910	
Commercial	1,738	1,610		1,515	1,515	
Construction						
Total real estate loans	2,966	2,598		4,792	4,792	
Commercial				99	99	
Consumer:						
Home equity loans and lines of credit	122	122		122	122	
Other consumer loans						
Total	3,088	2,720		5,013	5,013	
<b>With recorded allowance:</b>						
Real estate loans:						
One- to four-family	\$	\$	\$	\$ 1,215	\$ 1,215	\$ 240
Multi-family						
Commercial				197	197	110
Construction						
Total real estate loans				1,412	1,412	350
Commercial						
Consumer:						
Home equity loans and lines of credit						
Other consumer loans						
Total	\$	\$	\$	\$ 1,412	\$ 1,412	\$ 350
<b>Totals:</b>						
Real estate	\$ 2,966	\$ 2,598	\$	\$ 6,204	\$ 6,204	\$ 350
Commercial and Consumer	122	122		221	221	
Total	\$ 3,088	\$ 2,720	\$	\$ 6,425	\$ 6,425	\$ 350





**Table of Contents**

## CULLMAN BANCORP, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	Six months ended June 30, 2012		Three months ended June 30, 2012		Six months ended June 30, 2011		Three months ended June 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>With no recorded allowance:</b>								
Real estate loans:								
One- to four-family	\$ 1,178	\$ 53	\$ 1,202	\$ 47	\$ 1,837	\$ 34	\$ 1,638	\$ 15
Multi-family	955		951		1,971	71	1,976	34
Commercial	1,563	76	1,638	47	3,577	150	3,826	102
Construction								
Total real estate loans	3,696	129	3,791	94	7,385	255	7,440	151
Commercial	50				57		58	
Consumer:								
Home equity loans and lines of credit	122	3	122	1	149	3	153	2
Other consumer loans								
Total	\$ 3,868	\$ 132	\$ 3,913	\$ 95	\$ 7,591	\$ 258	\$ 7,651	\$ 153
<b>With recorded allowance:</b>								
Real estate loans:								
One- to four-family	\$ 608	\$	\$ 620	\$	\$ 683	\$ 22	\$ 854	\$ 9
Multi-family								
Commercial	99		99		200	1	162	
Construction								
Total real estate loans	707		719		883	23	1,016	9
Commercial			49		52		51	
Consumer:								
Home equity loans and lines of credit								
Other consumer loans								
Total	\$ 707	\$	\$ 768	\$	\$ 935	\$ 23	\$ 1,067	\$ 9
<b>Totals:</b>								
Real estate	\$ 4,401	\$ 129	\$ 4,401	\$ 94	\$ 8,268	\$ 278	\$ 8,456	\$ 160
Commercial and Consumer	172	3	172	1	258	3	262	2
Total	\$ 4,573	\$ 132	\$ 4,573	\$ 95	\$ 8,526	\$ 281	\$ 8,718	\$ 162

Interest income recognized was equal to cash collected during the three and six months ended June 30, 2012 and June 30, 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 June 30, 2012 and December 31, 2011 by portfolio class of loans:

June 30, 2012	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
Real estate loans:							
One- to four-family	\$ 144	\$ 607	\$ 149	\$ 900	\$ 75,319	\$ 76,219	\$ 48
Multi-family					5,076	5,076	
Commercial	280	458	212	950	61,388	62,338	
Construction					2,927	2,927	
Total real estate loans	424	1,065	361	1,850	144,710	146,560	48
Commercial loans		25		25	7,442	7,467	
Consumer loans:							
Home equity loans and lines of credit	35			35	5,112	5,147	
Other consumer loans	61	15	5	81	3,530	3,611	
Total	\$ 520	\$ 1,105	\$ 366	\$ 1,991	\$ 160,794	\$ 162,785	\$ 48

December 31, 2011	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
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	\$

Nonaccrual loans at June 30, 2012 and December 31, 2011 were \$3,635 and \$1,572, respectively. Nonaccrual loans consisted of \$1,589 of one-to four-family, \$1,884 of commercial real estate, \$157 of commercial, and \$5 of consumer loans at June 30, 2012. Nonaccrual loans at December 31, 2011 consisted of one-to four-family loans. Non-performing loans and loans past due 90 days still on accrual include both smaller

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

balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

### Troubled Debt Restructurings:

Troubled debt restructurings at June 30, 2012 and December 31, 2011 were \$2,508 and \$3,033, respectively. The amount of impairment allocated to loans whose loan terms have been modified in troubled debt restructurings at June 30, 2012 and December 31, 2011 was \$0 and \$260, respectively. The decrease in the impairment was the result of charge-offs and partial charge-offs of these troubled loans. The Company has committed to lend no additional amounts at June 30, 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 and six months ended June 30, 2012.

**Table of Contents**

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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 and six months ended June 30, 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 and six months ended June 30, 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.

**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 June 30, 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	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Pass	\$ 73,187	\$ 74,761	\$ 4,495	\$ 3,274	\$ 54,933	\$ 54,291	\$ 2,927	\$ 1,667
Special mention	264	1,041			2,463	7,223		
Substandard	2,768	3,067	581	1,910	4,942	1,822		
Doubtful								
<b>Total</b>	<b>\$ 76,219</b>	<b>\$ 78,869</b>	<b>\$ 5,076</b>	<b>\$ 5,184</b>	<b>\$ 62,338</b>	<b>\$ 63,336</b>	<b>\$ 2,927</b>	<b>\$ 1,667</b>

	Home Equity Loans and							
	Commercial		Lines of Credit		Other Consumer Loans		Totals	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Pass	\$ 6,802	\$ 7,122	\$ 4,990	\$ 5,164	\$ 3,576	\$ 4,066	\$ 150,910	\$ 150,345
Special mention						25	2,727	8,289
Substandard	665	99	157	122	35	6	9,148	7,026
Doubtful								
<b>Total</b>	<b>\$ 7,467</b>	<b>\$ 7,221</b>	<b>\$ 5,147</b>	<b>\$ 5,286</b>	<b>\$ 3,611</b>	<b>\$ 4,097</b>	<b>\$ 162,785</b>	<b>\$ 165,660</b>

**(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.

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

### 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.

**Table of Contents**

## CULLMAN BANCORP, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

**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.

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 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.

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 June 30, 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) June 30, 2012	(Level 2) June 30, 2012	(Level 3) June 30, 2012	(Level 1) December 31, 2011	(Level 2) December 31, 2011	(Level 3) December 31, 2011
Financial assets:						
U.S. Government sponsored entities	\$	\$ 18,074	\$	\$	\$ 19,993	\$
Municipal taxable		1,988	3,665		1,914	3,559



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

Municipal tax exempt	496					
Residential mortgage-backed, GSE	1,784				2,125	
Residential mortgage-backed, private label	518				631	
Ultra Short mortgage mutual fund	1,486			1,484		
Total investment securities available for sale	\$ 1,486	\$ 22,860	\$ 3,665	\$ 1,484	\$ 24,663	\$ 3,559

There were no significant transfers between Level 1 and Level 2 during 2012 or 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 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 and six months ended June 30, 2012:

	Municipals	Taxable
	2012	
Balance of recurring level 3 assets at January 1	\$	3,559
Unrealized gain		40
Balance at March 31		3599
Transfers into Level 3		
Unrealized gain		66
Balance of recurring Level 3 assets at June 30	\$	3,665

There were no municipal securities that were considered level 3 for the six months ended June 30, 2011.

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. The significant unobservable inputs used in the fair value measurement of the Company's taxable municipal securities are discount rates and credit spreads that the market would require for taxable municipal securities with similar maturities and risk characteristics. Significant increases/(decreases) in any of those inputs in isolation would result in a significantly lower/(higher) fair value measurement.

**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)	
	June 30, 2012	December 31, 2011
Assets:		
Impaired loans, with specific allocations		
Real estate loans:		
One-to four-family	\$ 811	\$ 975
Commercial	86	87
Total loans	\$ 897	\$ 1,062
Foreclosed real estate:		
One-to four-family	\$ 160	\$ 1,025

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

Commercial	371	516
Total foreclosed real estate	\$ 531	\$ 1,541

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had carrying amounts of \$897 and \$1,062, which consists of the unpaid principal balances of \$1,265 and \$1,412 less partial charge-offs of \$368 at June 30, 2012 and less valuation allowance of \$350 at December 31, 2011. The impact to the provision to loan losses from the changes in the valuation allowances were \$0 and \$127 for the three and six months ended June 30, 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 \$531 and \$1,541 at June 30, 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 June 30, 2012 and December 31, 2011 were \$854 and \$1,963, and \$323 and \$422, respectively. The resulting write-downs for the three and six months ended June 30, 2012 were \$0 and \$75, respectively, and \$212 for 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)

Loans held for sale, which are carried at the lower of cost or fair value, had fair values that approximated costs at June 30, 2012 and December 31, 2011 and were therefore carried at cost with no fair value valuation allowance at both period ends.

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 June 30, 2012:

Level 3 Quantitative Information at June 30, 2012				
	Fair Value	Valuation Technique(s)	Unobservable Inputs(s)	Range (Weighted Average)
<b>Assets:</b>				
Impaired loans, with specific allocations				
Real estate loans:				
			Adjustment for differences between the comparable sales	10% to 16%(13%)
One-to four-family	\$ 811	Sales comparison approach	adjustment for differences between the comparable sales	0% to 20%(10%)
Commercial	86	Sales comparison approach	Management adjustment for differences between the comparable sales	0% to 20%(10%)
Total loans	\$ 897			
<b>Foreclosed real estate:</b>				
			Adjustment for differences between the comparable sales	0% to 20%(10%)
One-to four-family	\$ 160	Sales comparison approach	adjustment for differences between the comparable sales	0% to 20%(10%)
Commercial	371	Sales comparison approach	Management adjustment for differences between the comparable sales	0% to 20%(10%)
Total foreclosed real estate	\$ 531			

**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 June 30, 2012 and December 31, 2011:

	Carrying Amount	June 30, 2012			Total
		(Level 1)	(Level 2)	(Level 3)	
<b>Financial assets</b>					
Cash and cash equivalents	\$ 8,213	\$ 8,213	\$	\$	\$ 8,213
Securities available for sale	28,011	1,486	22,860	3,665	28,011
Loans, net	160,974			173,848	173,848
Loans held for sale	312		312		312
Accrued interest receivable	1,019	2	148	869	1,019
Restricted equity securities	2,265	N/A	N/A	N/A	N/A
<b>Financial liabilities</b>					
Deposits	132,778	57,161	75,616		132,777
Federal Home Loan Bank Advances	42,000		46,413		46,413
Long-term debt	787		787		787
Accrued interest payable	225	3	222		225

	December 31, 2011	
	Carrying Amount	Fair Value
<b>Financial assets</b>		
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
<b>Financial liabilities</b>		
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



**Table of Contents**

## CULLMAN BANCORP, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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 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.

**(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 June 30, 2012 there were no shares available for future grants under this plan.

The following table summarizes stock option activity for the six months ended June 30, 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)	10.30		
Forfeited				
Outstanding June 30, 2012	120,662	\$ 10.30	8.50	\$ 356(1)
Fully vested and exercisable at June 30, 2012	22,162	\$		\$
Expected to vest in future periods	98,500			
Fully vested and expected to vest June 30, 2012	120,662	\$ 10.30	8.50	\$ 356(1)
Intrinsic value of options exercised	\$ 7.00			
Cash received from options exercised	\$ 25.00			

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

(1) Based on closing price of \$13.25 per share on June 30, 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 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:

	<b>2011</b>
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 six months ended June 30, 2012. Stock-based compensation expense for stock options for the three and six months ended June 30, 2012 and 2011 was \$5 and \$5, and \$10 and \$10, respectively. Total unrecognized compensation cost related to nonvested stock options was \$58 at June 30, 2012 and is expected to be recognized over a weighted-average period of 3.5 years.

The following table summarizes non-vested restricted stock activity for the six months ended June 30, 2012:

	<b>2012</b>
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 on the grant date was \$507. Stock-based compensation expense for restricted stock included in non-interest expense for the three and six months ended June 30, 2012 and 2011 was \$25 and \$25, and \$50 and \$50, respectively. Unrecognized compensation expense for nonvested restricted stock awards was \$355 at June 30, 2012 and is expected to be recognized over 3.5 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.

#### **Comparison of Financial Condition at June 30, 2012 and December 31, 2011**

Our total assets decreased to \$218.2 million at June 30, 2012 from \$223.0 million at December 31, 2011. The decrease was primarily attributable to decreases in loans of \$3.2 million, or 2.0%, securities available for sale of \$1.7 million, or 5.7%, and a decrease in cash and cash equivalents of \$1.3 million, or 13.3%. These decreases were partially offset by an increase in our investment of bank owned life insurance of \$2.1 million. The decrease in total assets is reflective of an overall decrease in total deposits of \$5.4 million, or 4.0%.

Total equity increased to \$40.9 million at June 30, 2012 from \$40.4 million at December 31, 2011. The net increase of \$527,000, or 1.3%, was primarily attributable to net income of \$697,000, partially offset by \$410,000 of dividends paid during the six months ended June 30, 2012.

**Table of Contents****Non-Performing Assets**

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

	June 30, 2012	December 31, 2011
	(Dollars in thousands)	
<b>Non-Accrual:</b>		
Real estate loans:		
One- to four-family	\$ 1,589	\$ 1,572
Multi-family		
Commercial real estate	1,884	
Construction		
<b>Total real estate loans</b>	<b>3,473</b>	<b>1,572</b>
Commercial loans	157	
Consumer loans	5	
<b>Total nonaccrual loans</b>	<b>\$ 3,635</b>	<b>\$ 1,572</b>
<b>Accruing loans past due 90 days or more:</b>		
Real estate loans:		
One- to four-family	48	
Multi-family		
Commercial real estate		
Construction		
<b>Total real estate loans</b>	<b>48</b>	
Commercial loans		
Consumer loans		
<b>Total accruing loans past due 90 days or more</b>	<b>48</b>	
<b>Total of nonaccrual and 90 days or more past due loans</b>	<b>\$ 3,683</b>	<b>\$ 1,572</b>
Foreclosed real estate		
One- to four-family	\$ 160	\$ 1,025
Commercial	371	516
Other nonperforming assets		
<b>Total nonperforming assets</b>	<b>4,214</b>	<b>3,113</b>
<b>Troubled debt restructurings, accruing</b>	<b>206</b>	<b>2,008</b>
<b>Troubled debt restructurings and total nonperforming assets</b>	<b>\$ 4,420</b>	<b>\$ 5,121</b>
<b>Total nonperforming loans to gross loans</b>	<b>2.26%</b>	<b>0.95%</b>
<b>Total nonperforming assets to total assets</b>	<b>1.93%</b>	<b>1.40%</b>
<b>Total nonperforming assets and troubled debt restructurings to total assets</b>	<b>2.03%</b>	<b>2.30%</b>

**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 June 30,					
	Average Balance	2012 Interest and Dividends	Yield Cost	Average Balance	2011 Interest and Dividends	Yield Cost
(Dollars in thousands)						
<b>Assets:</b>						
Interest-earning assets:						
Loans	\$ 163,032	\$ 2,539	6.25%	\$ 175,150	\$ 2,715	6.22%
Securities available for sale	31,832	232	2.92	23,118	222	3.85
Other interest-earning assets	5,990	10	0.67	10,524	8	0.30
Total interest-earning assets	200,854	2,781	5.55	208,792	2,945	5.66
Noninterest earning assets	19,120			18,208		
Total average assets	\$ 219,974			\$ 227,000		
<b>Liabilities and equity:</b>						
Interest-bearing liabilities:						
NOW and demand deposits	\$ 27,865	13	0.19	\$ 25,551	31	0.49
Regular savings and other deposits	16,895	10	0.24	16,862	21	0.49
Money market deposits	7,097	4	0.23	7,702	11	0.57
Certificates of deposit	75,370	236	1.26	80,834	359	1.78
Total interest-bearing deposits	127,227	263	0.83	130,949	422	1.29
FHLB advances and other borrowings	42,832	369	3.46	47,815	429	3.60
Total interest-bearing liabilities	170,059	632	1.49	178,764	851	1.91
Noninterest-bearing demand deposits	6,959			7,563		
Other noninterest-bearing liabilities	1,685			1,394		
Total liabilities	178,703			187,721		
Equity	41,271			39,279		
Total liabilities and equity	219,974			227,000		
Net interest income		\$ 2,149			\$ 2,094	
Interest rate spread			4.06%			3.75%
Net interest margin			4.29%			4.02%
Average interest-earning assets to average interest-bearing liabilities	1.18 X			1.17 X		

**Table of Contents**

	For The Six Months Ended June 30,					
	Average Balance	2012 Interest and Dividends	Yield Cost	Average Balance	2011 Interest and Dividends	Yield Cost
<b>Assets:</b>						
Interest-earning assets:						
Loans	\$ 163,813	\$ 5,171	6.33%	\$ 176,127	\$ 5,484	6.28%
Securities available for sale	31,074	468	3.02	23,293	449	3.89
Other interest-earning assets	8,297	21	0.51	7,494	14	0.38
Total interest-earning assets	203,184	5,660	5.59	206,914	5,947	5.80
Noninterest earning assets	18,375			18,351		
Total average assets	\$ 221,559			\$ 225,265		
<b>Liabilities and equity:</b>						
Interest-bearing liabilities:						
NOW and demand deposits	\$ 27,415	26	0.19	\$ 24,855	65	0.52
Regular savings and other deposits	16,877	20	0.24	16,794	44	0.53
Money market deposits	7,371	9	0.24	7,896	24	0.60
Certificates of deposit	76,039	494	1.30	80,513	730	1.83
Total interest-bearing deposits	127,702	549	0.86	130,058	863	1.34
FHLB advances and other borrowings	42,832	737	3.45	47,815	853	3.60
Total interest-bearing liabilities	170,534	1,286	1.51	177,873	1,716	1.95
Noninterest-bearing demand deposits	8,343			7,023		
Other noninterest-bearing liabilities	1,582			1,333		
Total liabilities	180,459			186,229		
Equity	41,100			39,036		
Total liabilities and equity	\$ 221,559			\$ 225,265		
Net interest income		\$ 4,374			\$ 4,231	
Interest rate spread			4.07%			3.85%
Net interest margin			4.32%			4.12%
Average interest-earning assets to average interest-bearing liabilities	1.19 X			1.16 X		

**Comparison of Operating Results for the Three Months Ended June 30, 2012 and 2011**

**General.** We recorded net income of \$76,000 for the three months ended June 30, 2012 compared to net income of \$490,000 for the three months ended June 30, 2011. The decrease in net income was attributable to an increase in our provision for loan losses of \$770,000, or 720.0%, which was partially offset by an increase in net interest income of \$55,000, or 2.6%, resulting in an overall decrease in net interest income after the provision for loan losses of \$715,000, or 36.0%.

**Interest Income.** Interest income decreased by \$164,000 for the three months ended June 30, 2012 from \$2.9 million for the three months ended June 30, 2011, reflecting a decrease in the yield on interest earning assets to 5.6% from 5.7% and a decrease in the average balance of interest earning assets to \$200.9 million for the three months ended June 30, 2012 compared to \$208.8 million for the three months ended June 30, 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 and the decrease in the average balance of interest earning assets primarily resulted from a decrease in loan demand from the three months ended June 30, 2011.

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

Interest income on loans decreased by \$176,000 for the three months ended June 30, 2012 from \$2.7 million for the three months ended June 30, 2011, reflecting a decrease in the average balance of our loans to \$163.0 million for the three months ended June 30, 2012 from \$175.2 million for the three months ended June 30, 2011, which offset the slight increase in the average yield on loans to 6.3% from 6.2% for the same periods ended. The decrease in the average balances of our loans reflects the continued decline in market demand.

**Table of Contents**

Interest income on investment securities increased slightly to \$232,000 for the three months ended June 30, 2012 from \$222,000 for the three months ended June 30, 2011. The decrease in the yield on securities to 2.9% for the three months ended June 30, 2012 from 3.9% for the three months ended June 30, 2011 was more than offset by the increase in the average balance of securities of \$8.7 million for the period.

**Interest Expense.** Interest expense decreased \$219,000, or 25.7%, to \$632,000 for the three months ended June 30, 2012 from \$851,000 for the three months ended June 30, 2011. The decrease reflected a decrease in the average rate paid on deposits and borrowings to 1.5% in for the three months ended June 30, 2012 from 1.9% for the three months ended June 30, 2011 and a decrease in the average balances of interest-bearing deposits and borrowings of \$8.7 million for the period.

Interest expense on certificates of deposit decreased to \$236,000 for the three months ended June 30, 2012 from \$359,000 for the three months ended June 30, 2011, reflecting a decrease in the average cost of certificates of deposit to 1.3% for the three months ended June 30, 2012 compared with 1.8% for the three months ended June 30, 2011 and a decrease in their average balances of \$5.5 million for the period.

Interest expense on NOW and demand deposits, along with savings deposits and money market deposits decreased to \$27,000 for the three months ended June 30, 2012 from \$63,000 for the three months ended June 30, 2011, reflecting a decrease in the average cost of such deposits to 0.21% for the three months ended June 30, 2012 from 0.50% for the three months ended June 30, 2011, which offset the increase in the average balance of such deposits of \$1.7 million for the three months ended June 30, 2012.

Interest expense on borrowings, primarily advances from the Federal Home Loan Bank, decreased to \$369,000 for the three months ended June 30, 2012 from \$429,000 for the three months ended June 30, 2011, reflecting a decrease in the average rate paid on such borrowings to 3.5% from 3.6%.

**Net Interest Income.** Net interest increased slightly for the three months ended June 30, 2012 as compared to the same period in 2011, reflecting the increase in our interest rate spread to 4.1% for the three months ended June 30, 2012 from 3.8% for the three months ended June 30, 2011 and an increase in our net interest margin to 4.3% from 4.0% for the same periods ended.

**Provision for Loan Losses.** We recorded a provision for loan losses of \$877,000 for the three months ended June 30, 2012 compared to \$107,000 for the three months ended June 30, 2011. The allowance for loan losses was \$1.5 million, or 0.93%, of total loans at June 30, 2012 compared to \$1.1 million, or 0.67% of total loans at December 31, 2011. The increase in our provision reflected net charge offs for the three months ended June 30, 2012 of \$604,000. We had \$2.5 million in troubled debt restructurings at June 30, 2012 compared with \$3.0 million at December 31, 2011. Our non-accrual loans increased to \$3.6 million at June 30, 2012 from \$1.6 million at December 31, 2011. The increase in the provision was partially due to an increase in substandard commercial real estate loans and the associated credit risk related to these loans. 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 June 30, 2012 and 2011.

**Noninterest Income.** Noninterest income increased to \$200,000 for the three months ended June 30, 2012 from \$184,000 for the three months ended June 30, 2011. The increase in noninterest income was due to an increase in service charges on deposit accounts of \$9,000, an increase in income from bank owned life insurance of \$18,000, and an increase in other noninterest income of \$6,000.

**Noninterest Expense.** Noninterest expense decreased only slightly by \$9,000 for the three months ended June 30, 2012 over the three months ended June 30, 2011. The increase reflected increases of salaries and employee benefits of \$34,000, occupancy and equipment expenses of \$19,000 and advertising of \$11,000. These increases were offset partially by decreases in FDIC deposit insurance of \$12,000 and a decrease in losses on sales of foreclosed real estate of \$99,000.

**Income Tax Expense.** The provision for income taxes was \$7,000 for the three months ended June 30, 2012 compared to \$283,000 for the three months ended June 30, 2011. Our effective tax rate decreased to 8.43% for three months ended June 30, 2012 from 36.6% for the three months ended June 30, 2011. The significant decline in net income before taxes with the same or increasing levels of tax exempt income was the primary factor for the decline in the effective tax rate for the three months ended June 30, 2012.

**Comparison of Operating Results for the Six Months Ended June 30, 2012 and 2011**

**General.** We recorded net income of \$697,000 for the six months ended June 30, 2012 compared to net income of \$1.0 million for the six months ended June 30, 2011. The decrease in net income was attributable to a modest increase in net interest income of \$143,000, or 3.4%, which was more than offset by an increase in our provision for loan losses of \$806,000, resulting in a decrease in net interest income after the provision for loan losses of \$663,000 or 16.4%.





**Table of Contents**

**Interest Income.** Interest income decreased by \$287,000 for the six months ended June 30, 2012 from \$5.9 million for the six months ended June 30, 2011, reflecting a decrease in the yield on interest earning assets to 5.6% from 5.8% and a decrease in the average balance of interest earning assets to \$203.2 million for the six months ended June 30, 2012 compared to \$206.9 million for the six months ended June 30, 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 and the decrease in the average balance of interest earning assets primarily resulted from a decrease in loan demand from the six months ended June 30, 2011.

Interest income on loans decreased by \$313,000 for the six months ended June 30, 2012 from \$5.5 million for the six months ended June 30, 2011, primarily reflecting a decrease in the average balance of our loans to \$163.8 million for the six months ended June 30, 2012 from \$176.1 million for the six months ended June 30, 2011. The decrease in the average balances of our loans reflects the continued decline in market demand.

Interest income on investment securities increased slightly to \$468,000 for the six months ended June 30, 2012 from \$449,000 for the six months ended June 30, 2011. The decrease in the yield on securities to 3.0% for the six months ended June 30, 2012 from 3.9% for the six months ended June 30, 2011 was more than offset by the increase in the average balance of securities of \$7.8 million for the period.

**Interest Expense.** Interest expense decreased \$430,000, or 25.1%, to \$1.3 million for the six months ended June 30, 2012 from \$1.7 million for the six months ended June 30, 2011. The decrease reflected a decrease in the average rate paid on deposits and borrowings to 1.5% in for the six months ended June 30, 2012 from 2.0% for the six months ended June 30, 2011 and a decrease in the average balances of interest-bearing deposits and borrowings of \$7.4 million for the period.

Interest expense on certificates of deposit decreased to \$494,000 for the six months ended June 30, 2012 from \$730,000 for the six months ended June 30, 2011, reflecting a decrease in the average cost of certificates of deposit to 1.3% for the six months ended June 30, 2012 compared with 1.8% for the six months ended June 30, 2011 and a decrease in their average balances of \$4.5 million for the period.

Interest expense on NOW and demand deposits, along with savings deposits and money market deposits decreased to \$55,000 for the six months ended June 30, 2012 from \$133,000 for the six months ended June 30, 2011, reflecting a decrease of \$2.1 million in the average balance of such deposits as well as a decrease in the average cost of such deposits to 0.21% from 0.54%.

Interest expense on borrowings, primarily advances from the Federal Home Loan Bank, decreased to \$737,000 for the six months ended June 30, 2012 from \$853,000 for the six months ended June 30, 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 \$4.4 million for the six months ended June 30, 2012 from \$4.2 million for the six months ended June 30, 2011. The increase reflected an increase in our interest rate spread to 4.1% for the six months ended June 30, 2012 from 3.9% for the six months ended June 30, 2011 and an increase in our net interest margin to 4.3% from 4.1% for the same periods ended.

**Provision for Loan Losses.** We recorded a provision for loan losses of \$1.0 million for the six months ended June 30, 2012 compared to \$199,000 for the six months ended June 30, 2011. The allowance for loan losses was \$1.5 million, or 0.93%, of total loans at June 30, 2012 compared to \$1.1 million, or 0.67% of total loans at December 31, 2011. The increase in our provision reflected net charge offs for the six months ended June 30, 2012 of \$604,000. We had \$2.5 million in troubled debt restructurings at June 30, 2012 compared with \$3.0 million at December 31, 2011. Our non-accrual loans increased to \$3.6 million at June 30, 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 June 30, 2012 and 2011.

**Noninterest Income.** Noninterest income increased to \$425,000 for the six months ended June 30, 2012 from \$382,000 for the six months ended June 30, 2011. The increase in noninterest income was due to an increase in service charges on deposit accounts of \$21,000, an increase in income from bank owned life insurance of \$17,000, and an increase in gains on sales of mortgage loans of \$15,000, offset partially by a decrease in other noninterest income of \$10,000.

**Noninterest Expense.** Noninterest expense decreased by \$73,000 for the six months ended June 30, 2012 over the six months ended June 30, 2011. The decrease reflected a decrease in professional and supervisory fees of \$78,000, a decrease in FDIC deposit insurance of \$12,000 and a decrease in losses on foreclosed real estate of \$113,000. These decreases were offset partially by increases in salaries and employee benefits of \$62,000 and occupancy and equipment expense of \$21,000.

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

**Income Tax Expense.** The provision for income taxes was \$357,000 for the six months ended June 30, 2012 compared to \$586,000 for the six months ended June 30, 2011. Our effective tax rate decreased to 33.9% for six months ended June 30, 2012 from 36.3% for the six months ended June 30, 2011.

## **Table of Contents**

### **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 June 30, 2012, we had \$42.0 million in advances from the Federal Home Loan Bank of Atlanta and an available borrowing limit of an additional \$44.6 million.

**Common Stock Dividend Policy.** During the six months ended, the Company declared a dividend of \$0.16 per share, or \$410,000 on all outstanding shares. 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.**

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.

**Table of Contents**

**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 June 30, 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: August 8, 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 June 30, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income and Comprehensive Income, (ii) the Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows and (iv) Consolidated Statements of Shareholders Equity, and (v) Notes to the Consolidated Financial Statements.