

Cullman Bancorp, Inc.  
Form 10-Q  
August 06, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the Quarterly Period ended June 30, 2010**

**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)**

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**Federal**  
(State of Other Jurisdiction of  
Incorporation)

**316 Second Avenue S.W., Cullman, Alabama**  
(Address of Principal Executive Officer)

**256-734-1740**

**63-0052835**  
(I.R.S Employer

Identification Number)

**35055**  
(Zip Code)

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.

2,512,750 of Common Stock, par value \$.01 per share, were issued and outstanding as of August 6, 2010

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**CULLMAN BANCORP, INC.**

Form 10-Q Quarterly Report

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

|   | <b>June 30,<br/>2010<br/>(Unaudited)</b> | <b>December 31,<br/>2009</b> |
|---|--|------------------------------|
| <b>ASSETS</b>   |  |                              |
| Cash and cash equivalents   | \$ 2,084                                 | \$ 2,174                     |
| Federal funds sold  | 7,124                                    | 3,058                        |
| Cash and cash equivalents   | 9,208                                    | 5,232                        |
| Securities available for sale   | 20,173                                   | 18,080                       |
| Loans, net of allowance of \$796 and \$747, respectively  | 173,703                                  | 172,747                      |
| Loans held for sale   | 627                                      | 445                          |
| Premises and equipment, net   | 10,794                                   | 10,324                       |
| Foreclosed real estate  | 1,339                                    | 931                          |
| Accrued interest receivable   | 1,135                                    | 1,027                        |
| Restricted equity securities  | 2,711                                    | 2,711                        |
| Bank owned life insurance   | 2,296                                    | 2,242                        |
| Other assets  | 824                                      | 840                          |
| Total assets  | \$ 222,810                               | \$ 214,579                   |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |  |                              |
| Deposits  |  |                              |
| Non-interest bearing  | \$ 5,476                                 | \$ 1,726                     |
| Interest bearing  | 130,540                                  | 123,393                      |
| Total deposits  | 136,016                                  | 125,119                      |
| Federal Home Loan Bank advances   | 47,114                                   | 51,107                       |
| Long-term debt  | 833                                      | 833                          |
| Accrued interest payable and other liabilities  | 1,139                                    | 1,006                        |
| Total liabilities   | 185,102                                  | 178,065                      |
| Shareholders' equity  |  |                              |
| Common stock, \$0.01 par value; 20,000,000 shares authorized; 2,512,750 shares outstanding at June 30, 2010 and December 31, 2009 | 25                                       | 25                           |
| Additional paid-in capital  | 10,330                                   | 10,330                       |
| Retained earnings   | 28,110                                   | 27,082                       |
| Accumulated other comprehensive income  | 205                                      | 64                           |
| Unearned ESOP shares, at cost   | (911)                                    | (936)                        |
| Amount reclassified on ESOP shares  | (51)                                     | (51)                         |

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|  |            |            |
|--|------------|------------|
| Total shareholders' equity                 | 37,708     | 36,514     |
| Total liabilities and shareholders' equity | \$ 222,810 | \$ 214,579 |

See accompanying notes to the consolidated financial statements

**Table of Contents****Part I****ITEM 1. FINANCIAL STATEMENTS****CULLMAN BANCORP, INC.****CONSOLIDATED INCOME AND COMPREHENSIVE INCOME**

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

|  | <b>Three Months<br/>Ended June 30,</b> |              | <b>Six Months<br/>Ended June 30,</b> |              |
|--|--|--------------|--------------------------------------|--------------|
|  | <b>2010</b>                            | <b>2009</b>  | <b>2010</b>                          | <b>2009</b>  |
| <b>Interest and dividend income:</b>                       |  |              |                                      |              |
| Loans, including fees                                      | \$ 2,813                               | \$ 2,741     | \$ 5,572                             | \$ 5,471     |
| Securities, taxable  | 238                                    | 262          | 465                                  | 543          |
| Federal funds sold and other                               | 4                                      | 1            | 8                                    | 3            |
| <b>Total interest income</b>                               | <b>3,055</b>                           | <b>3,004</b> | <b>6,045</b>                         | <b>6,017</b> |
| <b>Interest expense:</b>                                   |  |              |                                      |              |
| Deposits   | 527                                    | 826          | 1,067                                | 1,736        |
| Federal Home Loan Bank advances and other borrowings       | 514                                    | 539          | 1,025                                | 1,080        |
| <b>Total interest expense</b>                              | <b>1,041</b>                           | <b>1,365</b> | <b>2,092</b>                         | <b>2,816</b> |
| <b>Net interest income</b>                                 | <b>2,014</b>                           | <b>1,639</b> | <b>3,953</b>                         | <b>3,201</b> |
| Provision for loan losses                                  | 76                                     | 106          | 133                                  | 231          |
| <b>Net interest income after provision for loan losses</b> | <b>1,938</b>                           | <b>1,533</b> | <b>3,820</b>                         | <b>2,970</b> |
| <b>Noninterest income:</b>                                 |  |              |                                      |              |
| Service charges on deposit accounts                        | 110                                    | 113          | 220                                  | 229          |
| Income on bank owned life insurance                        | 28                                     | 24           | 54                                   | 49           |
| Gain on sales of mortgage loans                            | 86                                     | 68           | 150                                  | 144          |
| Net gain (loss) on sales of securities                     |  | 1            | 11                                   | (1)          |
| Impairment loss on securities                              |  |              |                                      | (725)        |
| Other  | 13                                     | 6            | 25                                   | 25           |
| <b>Total noninterest income</b>                            | <b>237</b>                             | <b>212</b>   | <b>460</b>                           | <b>(279)</b> |
| <b>Noninterest expense:</b>                                |  |              |                                      |              |
| Salaries and employee benefits                             | 764                                    | 572          | 1,443                                | 1,207        |
| Occupancy and equipment                                    | 165                                    | 161          | 330                                  | 341          |
| Data processing  | 124                                    | 112          | 251                                  | 240          |
| Professional and supervisory fees                          | 118                                    | 59           | 213                                  | 104          |
| Office expense   | 33                                     | 30           | 56                                   | 60           |
| Advertising  | 17                                     | 30           | 30                                   | 50           |
| FDIC deposit insurance                                     | 29                                     | 150          | 66                                   | 187          |
| Losses on foreclosed real estate                           | 90                                     |              | 164                                  |              |
| Other  | 61                                     | 70           | 135                                  | 143          |
| <b>Total noninterest expense</b>                           | <b>1,401</b>                           | <b>1,184</b> | <b>2,688</b>                         | <b>2,332</b> |
| <b>Income before income taxes</b>                          | <b>774</b>                             | <b>561</b>   | <b>1,592</b>                         | <b>359</b>   |

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|   |         |        |          |          |
|---|---------|--------|----------|----------|
| Income tax expense  | 264     | 195    | 564      | 335      |
| Net income  | \$ 510  | \$ 366 | \$ 1,028 | \$ 24    |
| Other comprehensive income, net of tax                            |         |        |          |          |
| Unrealized gain (loss) on securities available for sale, net      | \$ 117  | \$ 68  | \$ 149   | \$ (187) |
| Reclassification adjustment for losses (gains) realized in income | (1)     |        | (8)      | 115      |
| Other comprehensive income (loss)                                 | 116     | 68     | 141      | (72)     |
| Comprehensive income (loss)                                       | \$ 626  | \$ 434 | \$ 1,169 | \$ (48)  |
| Earnings per share:   |         |        |          |          |
| Basic and diluted (Note 3)  | \$ 0.21 | N/A    | \$ 0.43  | N/A      |

See accompanying notes to the consolidated financial statements

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CULLMAN BANCORP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

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

|  | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(loss) | Unearned<br>ESOP<br>Shares | Amount<br>Reclassified<br>on<br>ESOP<br>Shares | Total     |
|--|-----------------|----------------------------------|----------------------|---|----------------------------|--|-----------|
| Balance at January 1, 2010                           | \$ 25           | \$ 10,330                        | \$ 27,082            | \$ 64   | \$ (936)                   | \$ (51)  | \$ 36,514 |
| Net income   |                 |                                  | 1,028                |   |                            |  | 1,028     |
| Net change in accumulated other comprehensive income |                 |                                  |                      | 141   |                            |  | 141       |
| ESOP shares earned                                   |                 |                                  |                      |   | 25                         |  | 25        |
| Balance at June 30, 2010                             | \$ 25           | \$ 10,330                        | \$ 28,110            | \$ 205  | \$ (911)                   | \$ (51)  | \$ 37,708 |
| Balance at January 1, 2009                           | \$              | \$                               | \$ 26,501            | \$ (56)   | \$                         | \$   | \$ 26,445 |
| Net income   |                 |                                  | 24                   |   |                            |  | 24        |
| Net change in accumulated other comprehensive income |                 |                                  |                      | (72)  |                            |  | (72)      |
| Balance at June 30, 2009                             | \$              | \$                               | \$ 26,525            | \$ (128)  | \$                         | \$   | \$ 26,397 |

See accompanying notes to the consolidated financial statements



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## CULLMAN BANCORP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

|  | Six Months Ended<br>June 30, |          |
|--|------------------------------|----------|
|  | 2010                         | 2009     |
| <b>Cash Flows From Operating Activities</b>                                |                              |          |
| Net income   | \$ 1,028                     | \$ 24    |
| Adjustments to reconcile net income to net cash from operating activities: |                              |          |
| Provision for loan losses  | 133                          | 231      |
| Depreciation and amortization, net   | 113                          | 198      |
| Deferred income tax benefit (expense)                                      | 34                           | (156)    |
| Net (gain) loss on sale of securities                                      | (11)                         | 1        |
| Loss from other-than-temporary impairment on securities                    |                              | 725      |
| Loss on sale and impairments of foreclosed real estate                     | 164                          | 3        |
| Income on bank owned life insurance  | (54)                         | (49)     |
| ESOP compensation expense  | 25                           |          |
| Gain on sale of mortgage loans   | (150)                        | (144)    |
| Mortgage loans originated for sale   | (6,866)                      | (7,624)  |
| Mortgage loans sold  | 6,834                        | 7,722    |
| Net change in operating assets and liabilities                             |                              |          |
| Accrued interest receivable  | (108)                        | 95       |
| Accrued interest payable   | (39)                         | (110)    |
| Other  | 72                           | 145      |
| Net cash from operating activities   | 1,175                        | 1,061    |
| <b>Cash Flows From Investing Activities</b>                                |                              |          |
| Purchases of premises and equipment  | (634)                        |          |
| Purchases of securities  | (14,401)                     | (3,000)  |
| Proceeds from maturities, paydowns and calls of securities                 | 12,299                       | 6,030    |
| Proceeds from sale of securities   | 250                          | 500      |
| (Purchases) redemptions of restricted equity securities                    |                              | 117      |
| Proceeds from sales of foreclosed real estate                              | 125                          |          |
| Loan originations and payments, net  | (1,742)                      | (2,838)  |
| Net cash from (used in) investing activities                               | (4,103)                      | 809      |
| <b>Cash Flows from Financing Activities</b>                                |                              |          |
| Net change in deposits   | 10,897                       | (1,728)  |
| Repayment of Federal Home Loan Bank advances                               | (3,993)                      | (3,371)  |
| Net cash from (used in) financing activities                               | 6,904                        | (5,099)  |
| Change in cash and cash equivalents  | 3,976                        | (3,229)  |
| Cash and cash equivalents, beginning of period                             | 5,232                        | 8,926    |
| Cash and cash equivalents, end of period                                   | \$ 9,208                     | \$ 5,697 |

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Cash paid during the period for:

|   |          |          |
|---|----------|----------|
| Interest paid                             | \$ 2,131 | \$ 2,926 |
| Income taxes paid                         | \$ 581   | \$ 493   |
| Supplemental noncash disclosures:         |          |          |
| Transfers from loans to foreclosed assets | \$ 827   | \$ 259   |

See accompanying notes to the consolidated financial statements

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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 Regulation 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 ) 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 (55%) 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 stock 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.

Since the entities are under common control, the reorganization was accounted for at historical cost and presented as if the transaction occurred at the beginning of the latest period shown. A total of 1,080,483 shares were sold in the conversion at \$10 per share, raising \$10.8 million of gross proceeds. Approximately \$900 of conversion expenses were offset against the gross proceeds. Cullman Bancorp, Inc. s common stock began trading on the over-the-counter market under the symbol CULL on October 9, 2009. In addition, the Bank contributed \$100 in cash and 50,255 shares of common stock to a charitable foundation that the Bank established in connection with the reorganization. The contribution of cash and shares of common stock totaled \$603. The shares sold to the public and contributed to the charitable foundation represent 45% of Cullman Bancorp Inc. s outstanding shares. Cullman Savings Bank, MHC owns 55% or 1,382,013 shares.

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, 2010 and December 31, 2009 and the results of operations and cash flows for the interim periods ended June 30, 2010 and 2009. 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, 2009. Balances shown on the consolidated financial statements for periods prior to October 8, 2009 represent the balances of Cullman Savings Bank only.

**(2) NEW ACCOUNTING STANDARDS**

In January 2010, the FASB issued an update to previously issued accounting standards for fair value measurements and disclosures. This update enhances disclosures for recurring and nonrecurring fair value measurements. An entity will be required to disclose the amounts of significant transfers in and out of Levels 1 and 2 and a description of the reasons for the transfers. Additionally, within the reconciliation of assets and liabilities measured at fair value using Level 3 inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements at their gross amounts instead of net. This amendment also provided clarification on the level of disaggregation of each class of assets and liabilities measured at fair value and the level of disclosure required for inputs and valuation techniques used to measure fair value for both recurring and nonrecurring assets and liabilities that fall in either Level 2 or Level 3. This amendment is effective for interim and annual reporting periods beginning after December 31, 2009, except for the disclosures related to the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company adopted the disclosure standards required for periods beginning after December 31, 2009. The effects of adopting this guidance were not significant to the financial statements. The effects of adopting the amended standards effective for fiscal years beginning after December 15, 2010 are not expected to be significant to the financial statements.



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## CULLMAN BANCORP, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

**(3) EARNINGS PER SHARE**

Basic earnings per common share 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 earnings per common share 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. Diluted earnings per common share is equal to basic earnings per common share for the three and six month periods ended June 30, 2010 as there were no potentially dilutive common shares. The factors used in the earnings per common share computation follow:

|  | <b>Three months<br/>ended<br/>June 30, 2010</b> | <b>Six months<br/>ended<br/>June 30,<br/>2010</b> |
|--|---|---|
| Basic                                      |   |   |
| Net income                                 | \$ 510  | \$ 1,028  |
| Weighted average common shares outstanding | 2,512,750                                       | 2,512,750   |
| Less: Average unallocated ESOP shares      | (93,575)  | (93,575)  |
| Average shares                             | 2,419,175                                       | 2,419,175   |
| Basic earnings per common share            | \$ 0.21   | \$ 0.43   |

There were no potential dilutive common shares for the period presented. There were no common shares outstanding during the three and six months ended June 30, 2009.

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## 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 AND RESTRICTED EQUITY SECURITIES**

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, 2010 and December 31, 2009 were as follows:

|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|--|-------------------|------------------------------|-------------------------------|----------------------------|
| <b>June 30, 2010 (Unaudited)</b>           |                   |                              |                               |                            |
| U.S. Government sponsored agencies         | \$ 7,998          | \$ 72                        | \$                            | \$ 8,070                   |
| Municipal - taxable                        | 5,159             | 34                           | (38)                          | 5,155                      |
| Residential mortgage-backed, GSE           | 3,543             | 132                          |                               | 3,675                      |
| Residential mortgage-backed, private label | 1,261             | 21                           |                               | 1,282                      |
| Ultra Short mortgage mutual fund           | 1,887             | 104                          |                               | 1,991                      |
| Total                                      | \$ 19,848         | \$ 363                       | \$ (38)                       | \$ 20,173                  |

|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|--|-------------------|------------------------------|-------------------------------|----------------------------|
| <b>December 31, 2009</b>                   |                   |                              |                               |                            |
| U.S. Government sponsored agencies         | \$ 9,745          | \$ 15                        | \$ (50)                       | \$ 9,710                   |
| Municipal - taxable                        | 506               |                              | (22)                          | 484                        |
| Residential mortgage-backed, GSE           | 4,068             | 126                          |                               | 4,194                      |
| Residential mortgage-backed, private label | 1,531             |                              | (50)                          | 1,481                      |
| Ultra Short mortgage mutual fund           | 2,126             | 85                           |                               | 2,211                      |
| Total                                      | \$ 17,976         | \$ 226                       | \$ (122)                      | \$ 18,080                  |

The Company's mortgage-backed securities are primarily issued by government agencies and government sponsored enterprises (GSEs) such as Fannie Mae and Ginnie Mae as denoted in the table above as GSE. At June 30, 2010 and December 31, 2009, the Company had only one private label mortgage-backed security.

Sales of available for sale securities during the three and six months ended June 30, 2010 and 2009 were as follows:

|              | Three Months Ended<br>June 30,<br>2010 |     | Six Months Ended<br>June 30,<br>2009 |     |
|--------------|--|-----|--------------------------------------|-----|
|              | (Unaudited)                            |     | (Unaudited)                          |     |
| Proceeds     | \$                                     | 250 | \$                                   | 500 |
| Gross gains  |  | 1   |                                      | 1   |
| Gross losses |  |     |                                      | (2) |



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## 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.

|                             | June 30, 2010<br>(Unaudited) |                         |
|-----------------------------|------------------------------|-------------------------|
|                             | Amortized<br>Cost            | Estimated<br>Fair Value |
| Due from one to five years  | \$                           | \$                      |
| Due from five to ten years  | 2,502                        | 2,527                   |
| Due after ten years         | 10,655                       | 10,698                  |
| Mutual fund                 | 1,887                        | 1,991                   |
| Residential mortgage-backed | 4,804                        | 4,957                   |
| Total                       | \$ 19,848                    | \$ 20,173               |

Carrying amounts of securities pledged to secure public deposits, repurchase agreements, and Federal Home Loan Bank advances as of June 30, 2010 and December 31, 2009 were \$9,562 and \$8,000, respectively. At June 30, 2010 and December 31, 2009, there were no holdings of securities of any one issuer, other than the U.S. Government sponsored agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses at June 30, 2010 and December 31, 2009, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

|  | Less than 12<br>months |                    | 12 Months or More |                    | Total         |                    |
|--|------------------------|--------------------|-------------------|--------------------|---------------|--------------------|
|  | Fair<br>Value          | Unrealized<br>Loss | Fair<br>Value     | Unrealized<br>Loss | Fair<br>Value | Unrealized<br>Loss |
| <b>June 30, 2010 (Unaudited)</b>           |                        |                    |                   |                    |               |                    |
| Municipal - taxable                        | 2,162                  | (38)               |                   |                    | 2,162         | (38)               |
| Total                                      | \$ 2,162               | \$ (38)            | \$                | \$                 | \$ 2,162      | \$ (38)            |
| <b>December 31, 2009</b>                   |                        |                    |                   |                    |               |                    |
| U.S. Government sponsored agencies         | \$ 5,696               | \$ (50)            | \$                | \$                 | \$ 5,696      | \$ (50)            |
| Municipal - taxable                        | 484                    | (22)               |                   |                    | 484           | (22)               |
| Residential mortgage-backed, private label |                        |                    | 1,481             | (50)               | 1,481         | (50)               |
| Total                                      | \$ 6,180               | \$ (72)            | \$ 1,481          | \$ (50)            | \$ 7,661      | \$ (122)           |

The unrealized loss on the private label mortgage-backed security at December 31, 2009 recovered in value and was not recognized into income during 2010. Additionally, management considered the unrealized losses on three municipal securities, and based on the length of time that the securities' fair values had been below amortized cost, the severity of the unrealized losses and the belief that these securities' fair values would recover in the near term, no other-than-temporary impairments were recorded.



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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 it will be 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 agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

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## CULLMAN BANCORP, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The Company's mutual fund consists of investment in shares of Shay Ultra Short Mortgage Fund. As required by accounting standards, when a decline in fair value below cost is deemed to be other-than-temporary, the unrealized loss must be recognized as a charge to earnings. The Company considered the length of time this mutual fund had been impaired, the unpredictability for recovery to cost, and losses on sales of shares of the mutual fund during the first quarter of 2009. The Company sold \$500 of shares of the mutual fund during the six months ended June 30, 2009 and had the intent to continue selling shares of the mutual fund. Therefore, the unrealized losses for other-than-temporary impairment were recorded in earnings for the three months ended March 31, 2009 at a pretax amount of \$114 and is included in impairment loss on securities for the six months ended June 30, 2009. The Company will continue to sell shares of the mutual fund in the future and may, therefore, recognize any future other-than-temporary impairments into earnings.

**Restricted Equity Securities**

At June 30, 2010 and December 31, 2009, restricted equity securities consisted of shares of Federal Home Loan Bank (FHLB) Stock, which is carried at cost, less any impairment charges and classified as restricted equity securities. Similar to available for sale securities, the Company periodically evaluates these shares of stock for impairment based on ultimate recovery of par value.

On May 1, 2009, Silverton Bank, N.A. was closed by the Office of the Comptroller of the Currency ( OCC ) and the Federal Deposit Insurance Corporation ( FDIC ) and was placed into receivership. The Company concluded that its investments in common stock of Silverton Bank's Holding Company, Silverton Financial Services, Inc. were impaired and accordingly recorded an estimated other-than-temporary impairment charge of \$611 during the first quarter of 2009 and is included in impairment loss on securities for the six months ended June 30, 2009.

**(5) LOANS**

The components of loans receivable at June 30, 2010 and December 31, 2009 were as follows:

|                           | June 30,<br>2010<br>(Unaudited) | December 31,<br>2009 |
|---------------------------|---------------------------------|----------------------|
| Real estate loans:        |                                 |                      |
| One- to four-family       | \$ 83,734                       | \$ 81,436            |
| Multi-family              | 5,548                           | 5,780                |
| Commercial real estate    | 60,787                          | 60,602               |
| Construction              | 5,774                           | 6,235                |
| Total real estate loans   | 155,843                         | 154,053              |
| Commercial loans          | 7,343                           | 7,506                |
| Consumer loans            | 11,813                          | 12,479               |
| Total loans               | 174,999                         | 174,038              |
| Net deferred loan fees    | (500)                           | (544)                |
| Allowance for loan losses | (796)                           | (747)                |
| Loans, net                | \$ 173,703                      | \$ 172,747           |



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## CULLMAN BANCORP, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Activity in the allowance for loan losses for the three and six months ended was as follows:

|                           | Three months ended June 30,<br>(Unaudited) |        | Six months ended June 30,<br>(Unaudited) |        |
|---------------------------|--|--------|--|--------|
|                           | 2010                                       | 2009   | 2010                                     | 2009   |
| Beginning balance         | \$ 802                                     | \$ 599 | \$ 747                                   | \$ 472 |
| Provision for loan losses | 76   | 106    | 133                                      | 231    |
| Loans charged off         | (86)                                       | (1)    | (89)                                     | (1)    |
| Recoveries                | 4  | 2      | 5  | 4      |
| Ending balance            | \$ 796                                     | \$ 706 | \$ 796                                   | \$ 706 |

Individually impaired loans at June 30, 2010 and December 31, 2009 were as follows:

|   | June 30,<br>2010<br>(Unaudited) | December 31,<br>2009 |
|---|---------------------------------|----------------------|
| Loans with no allocated allowance for loan losses | \$ 3,524                        | \$ 2,924             |
| Loans with allocated allowance for loan losses    | 916                             | 815                  |
| Total   | \$ 4,440                        | \$ 3,739             |

|   |          |          |
|---|----------|----------|
| Amount of allowance for loan losses allocated             | \$ 152   | \$ 96    |
| Average of individuality impaired loans during the period | \$ 4,467 | \$ 3,783 |

Interest income recognized and cash basis interest income during the impairment period in the three and six month periods ended June 30, 2010 and 2009 were considered immaterial.

Non-performing loans at June 30, 2010 and December 31, 2009 were as follows:

|   | June 30,<br>2010<br>(Unaudited) | December 31,<br>2009 |
|---|---------------------------------|----------------------|
| Loans past due 90 days and still on accrual                 | \$                              | \$                   |
| Non-accrual loans   | 403                             |                      |
| Total non-performing loans                                  | 403                             |                      |
| Troubled debt restructurings                                |                                 |                      |
| Total non-performing loans and troubled debt restructurings | \$ 403                          | \$                   |

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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.

### **(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:

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## CULLMAN BANCORP, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally 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 appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

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, 2010 and December 31, 2009:

**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****Using Significant Other Observable Inputs****(Level 2)**

|  | <b>June 30,<br/>2010<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2009</b> |
|--|--|----------------------------------|
| <b>Financial assets:</b>                   |  |                                  |
| U.S. Government sponsored agencies         | \$ 8,070                                 | \$ 9,710                         |
| Municipal - taxable                        | 5,155                                    | 484                              |
| Residential mortgage-backed, GSE           | 3,675                                    | 4,194                            |
| Residential mortgage-backed, private label | 1,282                                    | 1,481                            |

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|  |           |           |
|--|-----------|-----------|
| Ultra Short mortgage mutual fund               | 1,991     | 2,211     |
| Total investment securities available for sale | \$ 20,173 | \$ 18,080 |

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## 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**

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

**Fair Value Measurements****Using Significant Unobservable Inputs****(Level 3)**

|   | <b>June 30,<br/>2010<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2009</b> |
|---|--|----------------------------------|
| <b>Assets:</b>                            |  |                                  |
| Impaired loans, with specific allocations | \$ 764                                   | \$ 719                           |
| Other real estate owned                   | 1,339                                    | 931                              |

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$916 and \$815, with a valuation allowance of \$152 and \$96 at June 30, 2010 and December 31, 2009, respectively. The resulting addition to the provision for loan losses from these impairments was \$56 and \$27 for the six months ended June 30, 2010 and for the year ended December 31, 2009.

Other real estate owned, which is measured at fair value less costs to sell, had a net carrying amount of \$1,339 and \$931 at June 30, 2010 and December 31, 2009, respectively. The net carrying amount is made up of the outstanding balance net of a valuation allowance. The outstanding balance and valuation allowance of other real estate owned at June 30, 2010 and December 31, 2009 were \$1,430 and \$91, and \$992 and \$61, respectively. The resulting write-downs for the six months ended June 30, 2010 and for the year ended December 31, 2009 were \$91 and \$61, respectively.

Many of the Bank's assets and liabilities are financial instruments whose carrying amounts reported in the balance sheet approximate fair value. These items include cash and cash equivalents, accrued interest receivable and payable balances, variable rate loan and deposits that re-price frequently and fully. It was not practicable to determine the fair value of restricted equity securities due to restrictions placed on its transferability. Fair value of debt is based on current rates for similar financing. The estimated fair values of the Bank's remaining on-balance sheet financial instruments at June 30, 2010 and December 31, 2009 are summarized below:

|                               | <b>June 30, 2010</b>       |                       | <b>December 31, 2009</b>   |                       |
|-------------------------------|----------------------------|-----------------------|----------------------------|-----------------------|
|                               | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> |
|                               | <b>(Unaudited)</b>         |                       |                            |                       |
| <b>Financial assets</b>       |                            |                       |                            |                       |
| Cash and cash equivalents     | \$ 2,084                   | \$ 2,084              | \$ 2,174                   | \$ 2,174              |
| Securities available for sale | 20,173                     | 20,173                | 18,080                     | 18,080                |
| Loans, net                    | 173,703                    | 186,658               | 172,747                    | 182,434               |
| Loans held for sale           | 627                        | 627                   | 445                        | 445                   |



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|                                 |         |         |         |         |
|---------------------------------|---------|---------|---------|---------|
| Accrued interest receivable     | 1,135   | 1,135   | 1,027   | 1,027   |
| Restricted equity securities    | 2,711   | N/A     | 2,711   | N/A     |
| Financial liabilities           |         |         |         |         |
| Deposits                        | 136,016 | 137,602 | 125,119 | 130,979 |
| Federal Home Loan Bank Advances | 47,114  | 50,777  | 51,107  | 53,992  |
| Long-term debt                  | 833     | 833     | 833     | 833     |
| Accrued interest payable        | 265     | 265     | 300     | 300     |

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**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 economic recession;

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;

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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, 2009.

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**Comparison of Financial Condition at June 30, 2010 and December 31, 2009**

Our total assets increased to \$222.8 million at June 30, 2010 from \$214.6 million at December 31, 2009. The increase was primarily attributable to an increase in cash and cash equivalents of \$3.9 million, or 75.0%, to \$9.2 million at June 30, 2010 and an increase in securities available for sale of \$2.1 million, or 11.6%, to \$20.2 million. Increases in cash and cash equivalents and securities available for sale resulted from increases in deposits of \$10.9 million, or 8.7%, to \$136.0 million at June 30, 2010 from \$125.1 million at December 31, 2009.

The \$10.9 million increase in deposits reflected a \$7.1 million increase in interest bearing deposits and a \$3.8 million increase in non-interest bearing deposits. The increase in interest bearing deposits resulted from an increase of \$6.1 million, or 8.4%, of total Certificates of Deposit to \$78.8 million from \$72.7 million at December 31, 2009 and an increase in savings and money market accounts of \$4.6 million, or 20.8%, from \$22.1 million to \$26.8 million at June 30, 2010.

Total equity increased to \$37.7 million at June 30, 2010 from \$36.5 million at December 31, 2009. The increase of \$1.2 million, or 3.2%, was primarily attributable to net income of \$1.0 million for the six months ended June 30, 2010 and an increase in accumulated other comprehensive income of \$141,000.

**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 |          |       |            |          |       |
|---|------------------------------------|----------|-------|------------|----------|-------|
|   | 2010                               |          |       | 2009       |          |       |
|   | Average                            | Interest | Yield | Average    | Interest | Yield |
|   | Balance                            | and      | Cost  | Balance    | and      | Cost  |
|   | (Dollars in thousands)             |          |       |            |          |       |
| <b>Assets:</b>  |                                    |          |       |            |          |       |
| Interest-earning assets:  |                                    |          |       |            |          |       |
| Loans   | \$ 174,648                         | \$ 2,813 | 6.46% | \$ 168,117 | \$ 2,741 | 6.54% |
| Securities available for sale   | 20,155                             | 238      | 4.74  | 21,480     | 262      | 4.89  |
| Other interest-earning assets   | 8,187                              | 4        | 0.20  | 5,760      | 1        | 0.07  |
| Total interest-earning assets   | 202,990                            | 3,055    | 6.04  | 195,357    | 3,004    | 6.17  |
| Noninterest earning assets  | 16,547                             |          |       | 17,126     |          |       |
| Total average assets  | \$ 219,537                         |          |       | \$ 212,483 |          |       |
| <b>Liabilities and equity:</b>  |                                    |          |       |            |          |       |
| Interest-bearing liabilities:   |                                    |          |       |            |          |       |
| NOW and demand deposits   | \$ 26,284                          | 38       | 0.58  | \$ 31,234  | 71       | 0.91  |
| Regular savings and other deposits                                      | 15,140                             | 29       | 0.77  | 12,416     | 39       | 1.26  |
| Money market deposits   | 11,306                             | 27       | 0.96  | 8,446      | 35       | 1.66  |
| Certificates of deposit   | 76,938                             | 433      | 2.26  | 79,072     | 681      | 3.45  |
| Total interest-bearing deposits   | 129,668                            | 527      | 1.63  | 131,168    | 826      | 2.53  |
| FHLB advances   | 47,419                             | 511      | 4.32  | 51,409     | 535      | 4.17  |
| Other borrowings  | 833                                | 3        | 1.44  | 860        | 4        | 1.87  |
| Total interest-bearing liabilities                                      | 177,920                            | 1,041    | 2.35  | 183,437    | 1,365    | 2.96  |
| Noninterest-bearing demand deposits                                     | 7,384                              |          |       | 1,529      |          |       |
| Other noninterest-bearing liabilities                                   | 1,134                              |          |       | 1,253      |          |       |
| Total liabilities   | 186,438                            |          |       | 186,219    |          |       |
| Equity  | 33,099                             |          |       | 26,264     |          |       |
| Total liabilities and equity  | \$ 219,537                         |          |       | \$ 212,483 |          |       |
| Net interest income   |                                    | \$ 2,014 |       |            | \$ 1,639 |       |
| Interest rate spread  |                                    |          | 3.69% |            |          | 3.21% |
| Net interest margin   |                                    |          | 3.98% |            |          | 3.36% |
| Average interest-earning assets to average interest-bearing liabilities | 1.14 X                             |          |       | 1.06 X     |          |       |

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|   | For The Six Months Ended June 30 |           |       |            |           |       |
|---|----------------------------------|-----------|-------|------------|-----------|-------|
|   | 2010                             |           |       | 2009       |           |       |
|   | Average                          | Interest  | Yield | Average    | Interest  | Yield |
|   | Balance                          | and       | Cost  | Balance    | and       | Cost  |
|   |                                  | Dividends |       |            | Dividends |       |
|   | (Dollars in thousands)           |           |       |            |           |       |
| <b>Assets:</b>  |                                  |           |       |            |           |       |
| Interest-earning assets:  |                                  |           |       |            |           |       |
| Loans   | \$ 174,170                       | \$ 5,572  | 6.45% | \$ 167,321 | \$ 5,471  | 6.59% |
| Securities available for sale   | 19,752                           | 465       | 4.75  | 21,872     | 543       | 5.01  |
| Other interest-earning assets   | 8,470                            | 8         | 0.19  | 6,608      | 3         | 0.09  |
| Total interest-earning assets   | 202,392                          | 6,045     | 6.02  | 195,801    | 6,017     | 6.23  |
| Noninterest earning assets  | 16,390                           |           |       | 17,568     |           |       |
| Total average assets  | \$ 218,782                       |           |       | \$ 213,369 |           |       |
| <b>Liabilities and equity:</b>  |                                  |           |       |            |           |       |
| Interest-bearing liabilities:   |                                  |           |       |            |           |       |
| NOW and demand deposits   | \$ 26,819                        | 82        | 0.62  | \$ 32,152  | 168       | 1.05  |
| Regular savings and other deposits                                      | 14,503                           | 61        | 0.85  | 11,691     | 78        | 1.35  |
| Money market deposits   | 11,112                           | 56        | 1.02  | 9,359      | 86        | 1.85  |
| Certificates of deposit   | 75,464                           | 868       | 2.32  | 78,960     | 1,404     | 3.59  |
| Total interest-bearing deposits   | 127,898                          | 1,067     | 1.68  | 132,162    | 1,736     | 2.65  |
| FHLB advances   | 49,232                           | 1,020     | 4.18  | 51,732     | 1,070     | 4.17  |
| Other borrowings  | 833                              | 5         | 1.21  | 860        | 10        | 2.34  |
| Total interest-bearing liabilities                                      | 177,963                          | 2,092     | 2.37  | 184,754    | 2,816     | 3.07  |
| Noninterest-bearing demand deposits                                     | 6,925                            |           |       | 884        |           |       |
| Other noninterest-bearing liabilities                                   | 1,068                            |           |       | 1,203      |           |       |
| Total liabilities   | 185,956                          |           |       | 186,841    |           |       |
| Equity  | 32,826                           |           |       | 26,528     |           |       |
| Total liabilities and equity  | \$ 218,782                       |           |       | \$ 213,369 |           |       |
| Net interest income   |                                  | \$ 3,953  |       |            | \$ 3,201  |       |
| Interest rate spread  |                                  |           | 3.65% |            |           | 3.16% |
| Net interest margin   |                                  |           | 3.94% |            |           | 3.32% |
| Average interest-earning assets to average interest-bearing liabilities | 1.14 X                           |           |       | 1.05 X     |           |       |

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**Table of Contents****Comparison of Operating Results for the Three Months Ended June 30, 2010 and 2009**

**General.** We recorded net income of \$510,000 for the three months ended June 30, 2010 compared to a net income of \$366,000 for the three months ended June 30, 2009. The increase in net income was primarily attributable to a decrease of \$299,000 in interest expense on deposits for the three months ended June 30, 2010.

**Interest Income.** Interest income increased slightly by \$51,000 for the three months ended June 30, 2010 from \$3.0 million for the three months ended June 30, 2009, reflecting an increase in the average balance of the earning assets to \$203.0 million from \$195.4 million, which more than offset the decrease in the average yield to 6.04% from 6.17%. 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 increased to \$2.8 million for the three months ended June 30, 2010 from \$2.7 million for the three months ended June 30, 2009, reflecting the increase in the average balance of our loans to \$174.6 million from \$168.1 million, which more than offset the decrease in the average yield on loans to 6.46% from 6.54%. The lower average yield on our loan portfolio reflected the impact of decreases in market interest rates on our adjustable-rate loan products, as well as decreased rates on newly originated loans with interest rates based on lower market interest rates.

Interest income on investment securities decreased to \$238,000 for the three months ended June 30, 2010 from \$262,000 for the three months ended June 30, 2009, reflecting a decrease in the average balance of such securities to \$20.2 million from \$21.5 million, as well as a decrease in the average yield on such securities to 4.75% from 4.89%.

**Interest Expense.** Interest expense decreased \$324,000, or 23.70%, to \$1.0 million for the three months ended June 30, 2010 from \$1.4 million for the three months ended June 30, 2009. The decrease reflected a decrease in the average rate paid on deposits and borrowings to 2.35% in the 2010 period from 2.96% in the 2009 period, as well as a decrease in the average balance of such deposits and borrowings to \$177.9 million for the 2010 period from \$183.4 million for the 2009 period.

Interest expense on certificates of deposit decreased to \$433,000 for the three months ended June 30, 2010 from \$681,000 for the three months ended June 30, 2009, reflecting a decrease in the average balance of such certificates to \$76.9 million from \$79.1 million as well as a decrease in the average cost of such certificates to 2.26% from 3.45%. The decrease in the average cost of such certificates reflected the re-pricing in response to interest rate cuts initiated by the Federal Reserve Board during 2009 and the lower market interest rates resulting from such cuts.

Interest expense on NOW and demand deposits, along with savings deposits and money market deposits decreased to \$94,000 for the three months ended June 30, 2010 from \$145,000 for the three months ended June 30, 2009, reflecting a decrease of \$634,000 in the average balance of such deposits as well as a decrease in the average cost of such deposits to 0.72% from 1.13% for the same periods ended.

Interest expense on borrowings, primarily advances from the Federal Home Loan Bank, decreased to \$511,000 for the three months ended June 30, 2010 from \$535,000 for the three months ended June 30, 2009, as the average rate paid on such borrowings increased to 4.32% from 4.17% and the average balance of such borrowings decreased to \$47.4 million from \$51.4 million.

**Net Interest Income.** Net interest income increased to \$2.0 million for the three months ended June 30, 2010 from \$1.6 million for the three months ended June 30, 2009. The increase reflected an increase in our interest rate spread to 3.69% from 3.21%. The ratio of our interest-earning assets to average interest-bearing liabilities increased to 1.14X for the three months ended June 30, 2010 from 1.06X for the three months ended June 30, 2009. Our net interest margin also increased to 3.98% from 3.36%. The increases in our interest rate spread and net interest margin reflected the continued re-pricing of our deposits at lower rates in the decreasing interest rate environment.

**Provision for Loan Losses.** We recorded a provision for loan losses of \$76,000 for the three months ended June 30, 2010 compared to \$106,000 for the three months ended June 30, 2009. The allowance for loan losses was \$796,000 or 0.46% of total loans at June 30, 2010 compared to \$706,000, or 0.42% of total loans at June 30, 2009. Total nonperforming loans were \$403,000 at June 30, 2010 compared to \$797,000 at June 30, 2009. The non-performing loans decreased significantly during the three months ended June 30, 2010 to \$403,000 from \$1.4 million at the end of the first quarter, but remained higher than the December 31, 2009 total of \$0. We used the same methodology in assessing the allowances 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, 2010 and 2009.

**Noninterest Income.** Noninterest income increased to \$237,000 for the three months ended June 30, 2010 from \$212,000 for the three months ended June 30, 2009. The increase in noninterest income was due primarily to an increase of \$18,000, or 26.5%, on gains on the sale of mortgage loans in 2010 compared to the same period in 2009.





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**Noninterest Expense.** Noninterest expense increased to \$1.4 million for the three months ended June 30, 2010 from \$1.2 million for the three months ended June 30, 2009. The increases were in salaries and employee benefits of \$192,000, professional and supervisory fees of \$59,000, and other noninterest expenses of \$7,000, and net losses on foreclosed real estate of \$90,000, offset partially by decreases in advertising and FDIC deposit insurance expenses. During the three months ended June 30, 2009 the FDIC imposed a special assessment of \$94,000; no such assessment was made in 2010.

**Income Tax Expense.** The provision for income taxes was \$264,000 for the three months ended June 30, 2010 compared to \$195,000 for the three months ended June 30, 2009. Our effective tax rate remained relatively flat at 34.1% and 34.8% for the three months ended June 30, 2010 and 2009, respectively.

**Comparison of Operating Results for the Six Months Ended June 30, 2010 and 2009**

**General.** We recorded net income of \$1.0 million for the six months ended June 30, 2010 compared to net income of \$24,000 for the six months ended June 30, 2009. The increase in net income was primarily attributable to an other-than-temporary impairment loss of \$725,000 recognized during the six months ended June 30, 2009 on securities available-for-sale and a decrease in interest expense of \$724,000 during the six months ended June 30, 2010.

**Interest Income.** Interest income increased slightly by \$28,000 for the six months ended June 30, 2010 from \$6.0 million for the six months ended June 30, 2009, reflecting a \$5.8 million increase in the average balance of interest earning assets.

Interest income on loans increased to \$5.6 million for the six months ended June 30, 2010 from \$5.5 million for the six months ended June 30, 2009, reflecting the increase in the average balance of our loans to \$174.2 million from \$167.3 million, which more than offset the decrease in the average yield on loans to 6.48% from 6.59%. The lower average yield on our loan portfolio reflected the impact of decreases in market interest rates on our adjustable-rate loan products, as well as decreased rates on newly originated loans with interest rates based on lower market interest rates.

Interest income on investment securities decreased to \$465,000 for the six months ended June 30, 2010 from \$543,000 for the six months ended June 30, 2009, reflecting a decrease in the average balance of such securities to \$19.8 million from \$21.9 million, as well as a decrease in the average yield on such securities to 4.75% from 5.01%.

**Interest Expense.** Interest expense decreased \$724,000, or 25.7%, to \$2.1 million for the six months ended June 30, 2010 from \$2.8 million for the six months ended June 30, 2009. The decrease reflected a decrease in the average rate paid on deposits and borrowings to 2.37% in the 2010 period from 3.07% in the 2009 period, as well as a decrease in the average balance of such deposits and borrowings to \$178.0 million for the 2010 period from \$184.8 million for the 2009 period.

Interest expense on certificates of deposit decreased to \$868,000 for the six months ended June 30, 2010 from \$1.4 million for the six months ended June 30, 2009, reflecting a decrease in the average balance of such certificates to \$75.5 million from \$79.0 million as well as a decrease in the average cost of such certificates to 2.32% from 3.59%. The decrease in the average cost of such certificates reflected the re-pricing in response to interest rate cuts initiated by the Federal Reserve Board during 2009 and the lower market interest rates resulting from such cuts.

Interest expense on NOW and demand deposits, along with savings deposits and money market deposits decreased to \$199,000 for the six months ended June 30, 2010 from \$332,000 for the six months ended June 30, 2009, reflecting a decrease of \$768,000 in the average balance of such deposits as well as a decrease in the average cost of such deposits to 0.77% from 2.53% for the period ended June 30, 2009.

Interest expense on borrowings, primarily advances from the Federal Home Loan Bank, decreased to \$1.0 million for the six months ended June 30, 2010 from \$1.1 million for the six months ended June 30, 2009, as the average rate paid on such borrowings increased to 4.20% from 4.17% and the average balance of such borrowings decreased to \$49.2 million from \$51.7 million.

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**Net Interest Income.** Net interest income increased to \$4.0 million for the six months ended June 30, 2010 from \$3.2 million for the six months ended June 30, 2009. The increase reflected an increase in our interest rate spread to 3.65% from 3.16%. The ratio of our interest-earning assets to average interest-bearing liabilities increased to 1.14X for the six months ended June 30, 2010 from 1.05X for the six months ended June 30, 2009. Our net interest margin also increased to 3.94% from 3.32%. The increases in our interest rate spread and net interest margin reflected the continued re-pricing of our deposits at lower rates in the decreasing interest rate environment.

**Provision for Loan Losses.** We recorded a provision for loan losses of \$133,000 for the six months ended June 30, 2010 compared to \$231,000 for the six months ended June 30, 2009. The allowance for loan losses was \$796,000 or 0.46% of total loans at June 30, 2010 compared to \$706,000, or 0.42% of total loans at June 30, 2009. Total nonperforming loans were \$403,000 at June 30, 2010 compared to \$797,000 at June 30, 2009. We used the same methodology in assessing the allowances for both periods. To the best of our knowledge, we have recorded all losses that are both probable and reasonably estimable for the six months ended June 30, 2010 and 2009.

**Noninterest Income.** Noninterest income increased to \$460,000 for the six months ended June 30, 2010 from (\$279,000) for the six months ended June 30, 2009. The increase in noninterest income was due to \$725,000 of pretax other-than-temporary impairment losses on available-for-sale securities in the 2009 period compared to no such losses in the 2010 period.

**Noninterest Expense.** Noninterest expense increased to \$2.7 million for the six months ended June 30, 2010 from \$2.3 million for the six months ended June 30, 2009. The increases were in salaries and employee benefits of \$236,000, professional and supervisory fees of \$109,000, and net losses on foreclosed real estate of \$164,000, offset partially by decreases in advertising, FDIC deposit insurance, and occupancy and equipment expenses.

**Income Tax Expense.** The provision for income taxes was \$564,000 for the six months ended June 30, 2010 compared to \$335,000 for the six months ended June 30, 2009. Our effective tax rate was 35.5% for the six months ended June 30, 2010 compared to 93.3% for the six months ended June 30, 2009. The higher effective tax rate for the six months ended June 30, 2009 was not meaningful due to other-than-temporary impairment losses on available-for-sale securities. This resulted in income tax expense even though we had a pre-tax loss. Impairment losses on equity securities are considered capital losses, and can only be used as a tax deduction for federal income tax purposes to the extent of capital gains.

**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 4T. CONTROLS AND PROCEDURES**

An evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of June 30, 2010. 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.

During the quarter ended June 30, 2010, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**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 six months ended June 30, 2010.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

On May 18, 2010, the Company's annual meeting of shareholders was held. At the meeting, the shareholders ratified the selection of Crowe Horwath LLP as the Company's independent registered public accounting firm for the year ended December 31, 2010, and John A. Riley, III and Dr. William F. Peinhardt were elected to serve as directors with terms expiring in 2013. Continuing as directors until 2011 are Kim J. Chaney and Nancy McClellan. Continuing as a director until 2012 is Dr. Paul D. Bussman.

**Election of Directors:**

|                          | For       | Withheld | Non-Votes |
|--------------------------|-----------|----------|-----------|
| John A. Riley, III       | 1,919,480 | 1,100    | 190,094   |
| Dr. William F. Peinhardt | 1,919,580 | 1,100    | 190,094   |

**Ratification of Independent Registered Public Accounting Firm:**

|                   | For       | Against | Abstain | Non-Votes |
|-------------------|-----------|---------|---------|-----------|
| Crowe Horwath LLP | 2,109,238 | 1,000   | 1,000   |           |

**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.

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**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 6, 2010

*/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

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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).  |
| 32.1 | 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. |