Cullman Bancorp, Inc.
Form 10-Q
November 05, 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 September 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)

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 x No ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 file	¨	Smaller reporting company	x

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

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 November 5, 2010

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Form 10-Q Quarterly Report

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Part I

ITEM 1. FINANCIAL STATEMENTS

CULLMAN BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

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

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 2,463	$ 2,174
Federal funds sold	3,253	3,058
Cash and cash equivalents	5,716	5,232
Securities available for sale	18,964	18,080
Loans, net of allowance of $725 and $747, respectively	176,135	172,747
Loans held for sale	181	445
Premises and equipment, net	10,726	10,324
Foreclosed real estate	1,480	931
Accrued interest receivable	1,176	1,027
Restricted equity securities	2,517	2,711
Bank owned life insurance	2,322	2,242
Other assets	648	840
Total assets	$ 219,865	$ 214,579
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Non-interest bearing	$ 6,572	$ 1,726
Interest bearing	130,573	123,393
Total deposits	137,145	125,119
Federal Home Loan Bank advances	42,042	51,107
Long-term debt	833	833
Accrued interest payable and other liabilities	1,485	1,006
Total liabilities	181,505	178,065
Shareholders equity		
Common stock, $0.01 par value; 20,000,000 shares authorized; 2,512,750 shares outstanding at September 30, 2010 and December 31, 2009	25	25
Additional paid-in capital	10,330	10,330
Retained earnings	28,647	27,082
Accumulated other comprehensive income	308	64

Unearned ESOP shares, at cost	(899)	(936)
Amount reclassified on ESOP shares	(51)	(51)
Total shareholders equity	38,360	36,514
Total liabilities and shareholders equity	$ 219,865	$ 214,579

See accompanying notes to the consolidated financial statements

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CULLMAN BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Interest and dividend income:				
Loans, including fees	$ 2,825	$ 2,798	$ 8,397	$ 8,269
Securities, taxable	205	256	670	799
Federal funds sold and other	4	7	12	10
Total interest income	3,034	3,061	9,079	9,078
Interest expense:				
Deposits	512	740	1,579	2,476
Federal Home Loan Bank advances and other borrowings	489	647	1,514	1,727
Total interest expense	1,001	1,387	3,093	4,203
Net interest income	2,033	1,674	5,986	4,875
Provision for loan losses	88	109	221	340
Net interest income after provision for loan losses	1,945	1,565	5,765	4,535
Noninterest income:				
Service charges on deposit accounts	118	112	338	341
Income on bank owned life insurance	27	27	81	76
Gain on sales of mortgage loans	94	73	244	217
Net gain on sales of securities		7	11	6
Impairment loss on securities				(725)
Other	38	5	63	30
Total noninterest income	277	224	737	(55)
Noninterest expense:				
Salaries and employee benefits	721	657	2,164	1,864
Occupancy and equipment	162	157	492	498
Data processing	121	115	372	355
Professional and supervisory fees	70	46	283	150
Office expense	29	33	85	93
Advertising	23	28	53	78
FDIC deposit insurance	45	52	111	238
Losses on foreclosed real estate	126	7	290	7
Other	91	71	226	215
Total noninterest expense	1,388	1,166	4,076	3,498
Income before income taxes	834	623	2,426	982
Income tax expense	297	217	861	552
Net income	$ 537	$ 406	$ 1,565	$ 430

Other comprehensive income, net of tax				
Unrealized gain on securities available for sale, net	$ 103	$ 307	$ 252	$ 120
Reclassification adjustment for losses (gains) realized in income, net of tax		(4)	(8)	111
Other comprehensive income	103	303	244	231
Comprehensive income	$ 640	$ 709	$ 1,809	$ 661
Earnings per share:				
Basic and diluted (Note 3)	$ 0.22	N/A	$ 0.65	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 Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Unearned ESOP Shares	Amount Reclassified on ESOP Shares	Total
Balance at January 1, 2010	$ 25	$ 10,330	$ 27,082	$ 64	$ (936)	$ (51)	$ 36,514
Net income			1,565				1,565
Net change in accumulated other comprehensive income				244			244
ESOP shares earned					37		37
Balance at September 30, 2010	$ 25	$ 10,330	$ 28,647	$ 308	$ (899)	$ (51)	$ 38,360
Balance at January 1, 2009	$	$	$ 26,501	$ (56)	$	$	$ 26,445
Net income			430				430
Net change in accumulated other comprehensive income				231			231
Balance at September 30, 2009	$	$	$ 26,931	$ 175	$	$	$ 27,106

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)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash Flows From Operating Activities		
Net income	$ 1,565	$ 430
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	221	340
Depreciation and amortization, net	146	120
Deferred income tax benefit (expense)	75	(122)
Net gain on sale of securities	(11)	(6)
Loss from other-than-temporary impairment on securities		725
Loss on sale and impairments of foreclosed real estate	290	7
Income on bank owned life insurance	(81)	(76)
ESOP compensation expense	37	
Gain on sale of mortgage loans	(244)	(217)
Mortgage loans originated for sale	(11,204)	(11,364)
Mortgage loans sold	11,712	11,548
Net change in operating assets and liabilities		
Accrued interest receivable	(149)	46
Accrued interest payable	(63)	(44)
Other	519	(370)
Net cash from operating activities	2,813	1,017
Cash Flows From Investing Activities		
Purchases of premises and equipment	(646)	(21)
Purchases of securities	(15,400)	(4,000)
Proceeds from maturities, paydowns and calls of securities	14,669	6,550
Proceeds from sale of securities	250	750
(Purchases) redemptions of restricted equity securities	194	118
Proceeds from sales of foreclosed real estate	162	120
Loan originations and payments, net	(4,519)	(6,731)
Net cash from (used in) investing activities	(5,290)	(3,214)
Cash Flows from Financing Activities		
Net change in deposits	12,026	6,783
Repayment of Federal Home Loan Bank advances	(9,065)	(3,467)
Net cash from (used in) financing activities	2,961	3,316
Change in cash and cash equivalents	484	1,119
Cash and cash equivalents, beginning of period	5,232	8,926

Cash and cash equivalents, end of period	$ 5,716	$ 10,045
Cash paid during the period for:		
Interest paid	$ 3,156	$ 4,247
Income taxes paid	$ 760	$ 555
Supplemental noncash disclosures:		
Transfers from loans to foreclosed assets	$ 1,789	$ 591

See accompanying notes to the consolidated financial statements

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) 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 s outstanding shares. Cullman Savings Bank, MHC owns 55% or 1,382,012 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 September 30, 2010 and December 31, 2009 and the results of operations and cash flows for the interim periods ended September 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)

In July 2010, FASB issued an update to previously issued accounting standards with regard to disclosures about the credit quality of financing receivables and the allowance for credit losses. This update is intended to provide additional information to assist financial statement users in assessing an entity s credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in this update encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company has evaluated the impact of the adoption of this guidance and intends to comply with the new disclosure requirements, beginning with the annual financial statements as of and for the period ended December 31, 2010.

(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 nine month periods ended September 30, 2010 as there were no potentially dilutive common shares. The factors used in the earnings per common share computation follow:

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Basic		
Net income	$ 537	$ 1,565
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	$ 0.22	$ 0.65

There were no potential dilutive common shares for the period presented. There were no common shares outstanding during the three and nine months ended September 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 September 30, 2010 and December 31, 2009 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2010 (Unaudited)				
U.S. Government sponsored agencies	$ 6,997	$ 75	$	$ 7,072
Municipal taxable	5,157	138		5,295
Residential mortgage-backed, GSE	3,253	114		3,367
Residential mortgage-backed, private label	1,181	36		1,217
Ultra Short mortgage mutual fund	1,887	126		2,013
Total	$ 18,475	$ 489	$	$ 18,964

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2009				
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 September 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 nine months ended September 30, 2010 and 2009 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Unaudited)		(Unaudited)	
Proceeds	$	250	$ 250	750

Gross gains	7	11	8
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.

	September 30, 2010 (Unaudited)	
	Amortized Cost	Estimated Fair Value
Due from five to ten years	$ 2,501	$ 2,543
Due after ten years	9,653	9,824
Mutual fund	1,887	2,013
Residential mortgage-backed	4,434	4,584
Total	$ 18,475	$ 18,964

Carrying amounts of securities pledged to secure public deposits, repurchase agreements, and Federal Home Loan Bank advances as of September 30, 2010 and December 31, 2009 were $5,604 and $8,000, respectively. At September 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.

There were no securities with unrealized losses at September 30, 2010. The following table shows securities with unrealized losses at December 31, 2009, 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
December 31, 2009						
U.S. Government sponsered 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.

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.

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 nine months ended

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

September 30, 2009. The Company sold $750 of shares of the mutual fund during the nine months ended September 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 nine months ended September 30, 2009 at a pretax amount of $114 and is included in impairment loss on securities for the nine months ended September 30, 2009. The Company sold $250 of shares during the nine months ended September 30, 2010 and may continue to sell shares of the mutual fund in the future. Therefore, the Company may recognize any future other-than-temporary impairments into earnings.

Restricted Equity Securities

At September 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 nine months ended September 30, 2009.

(5) LOANS

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

	September 30, 2010 (Unaudited)	December 31, 2009
Real estate loans:		
One- to four-family	$ 83,950	$ 81,436
Multi-family	4,762	5,780
Commercial real estate	63,584	60,602
Construction	6,189	6,235
Total real estate loans	158,485	154,053
Commercial loans	8,020	7,506
Consumer loans	10,808	12,479
Total loans	177,313	174,038
Net deferred loan fees	(453)	(544)
Allowance for loan losses	(725)	(747)
Loans, net	$ 176,135	$ 172,747

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 nine months ended was as follows:

	Three months ended September 30, (Unaudited)		Nine months ended September 30, (Unaudited)	
	2010	2009	2010	2009
Beginning balance	$ 796	$ 706	$ 747	$ 472
Provision for loan losses	88	109	221	340
Loans charged off	(159)	(107)	(248)	(107)
Recoveries		1	5	4
Ending balance	$ 725	$ 709	$ 725	$ 709

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

	September 30, 2010 (Unaudited)	December 31, 2009
Loans with no allocated allowance for loan losses	$ 4,909	$ 2,924
Loans with allocated allowance for loan losses	718	815
Total	$ 5,627	$ 3,739
Amount of allowance for loan losses allocated	$ 120	$ 96
Average of individually impaired loans during the period	$ 4,713	$ 3,783

Interest income recognized and cash basis interest income during the impairment period in September 30, 2010 and December 31, 2009 was $150 and $289, respectively.

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

	September 30, 2010 (Unaudited)	December 31, 2009
Loans past due 90 days and still on accrual	$	$
Non-accrual loans	231	
Total non-performing loans	231	
Troubled debt restructurings	2,610	

Total non-performing loans and troubled debt restructurings	$	2,841	$

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.

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CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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 September 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)

	September 30, 2010 (Unaudited)	December 31, 2009
Financial assets:		
U.S. Government sponsored agencies	$ 7,072	$ 9,710
Municipal taxable	5,295	484
Residential mortgage-backed, GSE	3,367	4,194
Residential mortgage-backed, private label	1,217	1,481
Ultra Short mortgage mutual fund	2,013	2,211
Total investment securities available for sale	$ 18,964	$ 18,080

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)

	September 30, 2010 (Unaudited)	December 31, 2009
Assets:		
Impaired loans, with specific allocations	$ 598	$ 719
Other real estate owned	1,480	931

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $718 and $815, with a valuation allowance of $120 and $96 at September 30, 2010 and December 31, 2009, respectively. The resulting addition to the provision for loan losses from these impairments was $24 and $27 for the nine months ended September 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 $1,480 and $931 at September 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 September 30, 2010 and December 31, 2009 were $1,690 and $210, and $992 and $61, respectively. The resulting write-downs for the nine months ended September 30, 2010 and for the year ended December 31, 2009 were $210 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 September 30, 2010 and December 31, 2009 are summarized below:

	September 30, 2010 (Unaudited)		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 5,716	$ 5,716	$ 5,232	$ 5,232
Securities available for sale	18,964	18,964	18,080	18,080
Loans, net	176,135	188,738	172,747	182,434

Loans held for sale	181	181	445	445
Accrued interest receivable	1,176	1,176	1,027	1,027
Restricted equity securities	2,517	N/A	2,711	N/A
Financial liabilities				
Deposits	137,145	138,774	125,119	130,979
Federal Home Loan Bank Advances	42,042	46,463	51,107	53,992
Long-term debt	833	833	833	833
Accrued interest payable	234	234	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;

- 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 September 30, 2010 and December 31, 2009

Our total assets increased to $219.9 million at September 30, 2010 from $214.6 million at December 31, 2009. The increase was primarily attributable to an increase in net loans of $3.4 million, stemming mainly from increases in one-to-four family and commercial real estate loans.

The $12.0 million increase in deposits reflected a $7.2 million increase in interest bearing deposits and a $4.8 million increase in non-interest bearing deposits. The increase in interest bearing deposits reflected an increase of $5.7 million, or 7.8%, of total Certificates of Deposit to $78.4 million from $72.7 million at December 31, 2009 and an increase in savings accounts of $6.4 million, or 48.4%, from $13.3 million to $19.7 million at September 30, 2010.

Total equity increased to $38.4 million at September 30, 2010 from $36.5 million at December 31, 2009. The net increase of $1.9 million, or 5.2%, was primarily attributable to net income of $1.6 million for the nine months ended September 30, 2010 and an increase in accumulated other comprehensive income of $244,000.

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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 September 30					
	2010			2009		
	Average Balance	Interest and Dividends	Yield Cost	Average Balance	Interest and Dividends	Yield Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$ 175,366	$ 2,825	6.39%	$ 169,678	$ 2,798	6.54%
Securities available for sale	18,802	205	4.33	20,804	256	4.88
Other interest-earning assets	5,928	4	0.29	5,800	7	0.48
Total interest-earning assets	200,096	3,034	6.01	196,282	3,061	6.19
Noninterest earning assets	17,875			17,546		
Total average assets	$ 217,971			$ 213,828		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$ 24,043	36	0.59	$ 30,576	57	0.74
Regular savings and other deposits	16,816	30	0.71	12,966	32	0.98
Money market deposits	10,167	22	0.86	8,941	33	1.46
Certificates of deposit	78,719	424	2.14	76,965	618	3.19
Total interest-bearing deposits	129,745	512	1.57	129,448	740	2.27
FHLB advances	42,145	486	4.58	51,284	643	4.97
Other borrowings	833	3	1.44	860	4	1.87
Total interest-bearing liabilities	172,723	1,001	2.30	181,592	1,387	3.03
Noninterest-bearing demand deposits	5,719			4,221		
Other noninterest-bearing liabilities	1,641			1,298		
Total liabilities	180,083			187,111		
Equity	37,888			26,717		
Total liabilities and equity	$ 217,971			$ 213,828		
Net interest income		$ 2,033			$ 1,674	
Interest rate spread			3.71%			3.16%
Net interest margin			4.03%			3.38%
Average interest-earning assets to average interest-bearing liabilities	1.16 X			1.08 X		

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	For The Nine Months Ended September 30					
	2010			2009		
	Average Balance	Interest and Dividends	Yield Cost	Average Balance	Interest and Dividends	Yield Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$ 174,573	$ 8,397	6.43%	$ 167,746	$ 8,269	6.59%
Securities available for sale	19,431	670	4.61	21,379	799	5.00
Other interest-earning assets	7,614	12	0.22	6,335	10	0.21
Total interest-earning assets	201,618	9,079	6.02	195,460	9,078	6.21
Noninterest earning assets	16,892			17,986		
Total average assets	$ 218,510			$ 213,446		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$ 25,884	118	0.61	$ 31,367	224	0.95
Regular savings and other deposits	15,283	91	0.80	12,120	109	1.20
Money market deposits	10,794	78	0.97	9,472	119	1.68
Certificates of deposit	76,561	1,292	2.26	78,288	2,024	3.46
Total interest-bearing deposits	128,522	1,579	1.64	131,247	2,476	2.52
FHLB advances	46,844	1,505	4.30	51,581	1,715	4.45
Other borrowings	833	9	1.44	860	12	1.87
Total interest-bearing liabilities	176,199	3,093	2.35	183,688	4,203	3.06
Noninterest-bearing demand deposits	3,580			2,009		
Other noninterest-bearing liabilities	1,366			1,158		
Total liabilities	181,145			186,855		
Equity	37,365			26,591		
Total liabilities and equity	$ 218,510			$ 213,446		
Net interest income		$ 5,986			$ 4,875	
Interest rate spread			3.67%			3.15%
Net interest margin			3.97%			3.33%
Average interest-earning assets to average interest-bearing liabilities	1.14 X			1.06 X		

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Comparison of Operating Results for the Three Months Ended September 30, 2010 and 2009

General. We recorded net income of $537,000 for the three months ended September 30, 2010 compared to a net income of $406,000 for the three months ended September 30, 2009. The increase in net income was primarily attributable to a $359,000 increase in net interest income for the three months ended September 30, 2010.

Interest Income. Interest income decreased slightly by $27,000 for the three months ended September 30, 2010 from $3.1 million for the three months ended September 30, 2009, reflecting decrease in average yield to 6.01% for the three months ended September 30, 2010 from 6.19% for the three months ended September 30, 2009. The decrease in yield offset the increase in the average balance of interest earning assets of $3.8 million. 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 slightly by $27,000 for the three months ended September 30, 2010 from $2.8 million for the three months ended September 30, 2009, reflecting the increase in the average balance of our loans to $175.4 million from $169.7 million, which more than offset the decrease in the average yield on loans to 6.39% 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 $205,000 for the three months ended September 30, 2010 from $256,000 for the three months ended September 30, 2009, reflecting a decrease in the average balance of such securities to $18.8 million from $20.8 million, as well as a decrease in the average yield on such securities to 4.33% from 4.88%.

Interest Expense. Interest expense decreased $386,000, or 27.83%, to $1.0 million for the three months ended September 30, 2010 from $1.4 million for the three months ended September 30, 2009. The decrease reflected a decrease in the average rate paid on deposits and borrowings to 2.30% in the 2010 period from 3.03% in the 2009 period, as well as a decrease in the average balance of such deposits and borrowings to $172.7 million for the 2010 period from $181.6 million for the 2009 period.

Interest expense on certificates of deposit decreased to $424,000 for the three months ended September 30, 2010 from $618,000 for the three months ended September 30, 2009, reflecting an increase in the average balance of such certificates to $78.7 million from $77.0 million offset by a decrease in the average cost of such certificates to 2.14% from 3.19%. 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 $88,000 for the three months ended September 30, 2010 from $122,000 for the three months ended September 30, 2009, reflecting a decrease of $1.5 million in the average balance of such deposits as well as a decrease in the average cost of such deposits to 0.69% from 0.93% for the same periods ended.

Interest expense on borrowings, primarily advances from the Federal Home Loan Bank, decreased to $489,000 for the three months ended September 30, 2010 from $647,000 for the three months ended September 30, 2009, reflecting a decrease in the average rate paid on such borrowings to 4.51% from 4.92% and a decrease in the average balance of $9.1 million for the same periods ended.

Net Interest Income. Net interest income increased to $2.0 million for the three months ended September 30, 2010 from $1.7 million for the three months ended September 30, 2009. The increase reflected an increase in our interest rate spread to 3.71% from 3.16%. The ratio of our interest-earning assets to average interest-bearing liabilities increased to 1.16X for the three months ended September 30, 2010 from 1.08X for the three months ended September 30, 2009. Our net interest margin also increased to 4.03% from 3.38%. 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 $88,000 for the three months ended September 30, 2010 compared to $109,000 for the three months ended September 30, 2009. The allowance for loan losses was $725,000 or 0.41% of total loans at September 30, 2010 compared to $709,000, or 0.41% of total loans at September 30, 2009. The decrease in our provision was attributed to the decrease in our nonperforming loans of $282,000 to $231,000 at September 30, 2010 from $513,000 at September 30, 2009 and a decrease in the allowance allocated to individually impaired loans to $120,000 from $252,000 for the same periods. We had $2.6 million in troubled debt restructurings at September 30, 2010 and no troubled debt restructures at September 30, 2009. Our non-performing loans decreased significantly from the total at the end of the first quarter of 2010 of $1.4 million but still remains higher than our total of $0 at December 31, 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 three months ended September 30, 2010 and 2009.

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***Noninterest Income*.** Noninterest income increased to $277,000 for the three months ended September 30, 2010 from $224,000 for the three months ended September 30, 2009. The increase in noninterest income was due primarily to an increase of $21,000 or 28.7%, on gains on the sale of mortgage loans and an increase of other noninterest income of $33,000 primarily from profit on sale of foreclosed real estate properties in 2010 compared to the same period in 2009.

***Noninterest Expense*.** Noninterest expense increased $222,000, or 18.2%, for the three months ended September 30, 2010 from $1.2 million for the three months ended September 30, 2009. The increase was primarily attributable to an increase in losses on foreclosed real estate sales. There were $126,000 of losses for the three months ended September 30, 2010 and $7,000 of losses for the three months ended September 30, 2009. The higher noninterest expense also reflected an increase in salaries and employee benefits of $64,000, or 9.7%, as a result of increased bonus accruals stemming from increased profitability of the Company.

Income Tax Expense. The provision for income taxes was $297,000 for the three months ended September 30, 2010 compared to $217,000 for the three months ended September 30, 2009. Our effective tax rate remained relatively flat at 35.6% and 34.8% for the three months ended September 30, 2010 and 2009, respectively.

Comparison of Operating Results for the Nine Months Ended September 30, 2010 and 2009

General. We recorded net income of $1.6 million for the nine months ended September 30, 2010 compared to net income of $430,000 for the nine months ended September 30, 2009. The increase in net income was primarily attributable to an other-than-temporary impairment loss of $725,000, partially offset by an increase in income tax expense, recognized during the nine months ended September 30, 2009 on securities available-for-sale and an increase of $1.1 million of net interest income during the nine months ended September 30, 2010.

Interest Income. Interest income remained relatively the same at $9.1 million for the nine months ended September 30, 2010 and 2009. A decrease in the average yield on earning assets to 6.02% for the nine months ended September 30, 2010 from 6.21% for the nine months ended September 30, 2009 was offset by an increase in the average balances of earning assets of $6.1 million for the nine months ended September 30, 2010.

Interest income on loans increased to $8.4 million for the nine months ended September 30, 2010 from $8.3 million for the nine months ended September 30, 2009, reflecting the increase in the average balance of our loans to $174.6 million from $167.7 million, which more than offset the decrease in the average yield on loans to 6.43% 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 $670,000 for the nine months ended September 30, 2010 from $799,000 for the nine months ended September 30, 2009, reflecting a decrease in the average balance of such securities to $19.4 million from $21.4 million, as well as a decrease in the average yield on such securities to 4.61% from 5.00%.

Interest Expense. Interest expense decreased $1.1 million, or 26.4%, to $3.1 million for the nine months ended September 30, 2010 from $4.2 million for the nine months ended September 30, 2009. The decrease reflected a decline in the average cost of deposits and borrowings to 2.35% in the 2010 period from 3.06% in the 2009 period, as well as a decrease in the average balance of such deposits and borrowings to $176.2 million for the 2010 period from $183.7 million for the 2009 period.

Interest expense on certificates of deposit decreased to $1.3 million for the nine months ended September 30, 2010 from $2.0 million for the nine months ended September 30, 2009, reflecting a decrease in the average balance of such certificates to $76.6 million from $78.3 million as well as a decrease in the average cost of such certificates to 2.26% from 3.46%. 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 $287,000 for the nine months ended September 30, 2010 from $452,000 for the nine months ended September 30, 2009, reflecting a decrease of $998,000 in the average balance of such deposits as well as a decrease in the average cost of such deposits to 0.74% from 1.14% for the period ended September 30, 2009.

Interest expense on borrowings, primarily advances from the Federal Home Loan Bank, decreased to $1.5 million for the nine months ended September 30, 2010 from $1.7 million for the nine months ended September 30, 2009, as the average rate paid on such borrowings decreased to 4.25% from 4.40% and the average balance of such borrowings decreased to $47.7 million from $52.4 million.

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Net Interest Income. Net interest income increased to $6.0 million for the nine months ended September 30, 2010 from $4.9 million for the nine months ended September 30, 2009. The increase reflected an increase in our interest rate spread to 3.67% from 3.15%. The ratio of our interest-earning assets to average interest-bearing liabilities increased to 1.14X for the nine months ended September 30, 2010 from 1.06X for the nine months ended September 30, 2009. Our net interest margin also increased to 3.97% from 3.33%. 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 $221,000 for the nine months ended September 30, 2010 compared to $340,000 for the nine months ended September 30, 2009. The allowance for loan losses was $725,000 or 0.41% of total loans at September 30, 2010 compared to $709,000, or 0.41% of total loans at September 30, 2009. The decrease in our provision was attributed to the decrease in our nonperforming loans of $282,000 to $231,000 at September 30, 2010 from $513,000 at September 30, 2009 and a decrease in the allowance allocated to individually impaired loans to $120,000 from $252,000 for the same periods. We had $2.6 million in troubled debt restructurings at September 30, 2010 and no troubled debt restructurings at September 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 nine months ended September 30, 2010 and 2009.

Noninterest Income. Noninterest income increased to $737,000 for the nine months ended September 30, 2010 from ($55,000) for the nine months ended September 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 $4.1 million for the nine months ended September 30, 2010 from $3.5 million for the nine months ended September 30, 2009. The increases were primarily in salaries and employee benefits of $300,000, professional and supervisory fees of $133,000, and net losses on foreclosed real estate of $283,000, offset partially by a $127,000, or 53.4%, decrease in the FDIC deposit insurance premium. The increase in salaries and employee benefits was attributable to increases in bonus accruals as a result of increased profitability of the Company for the nine months ended September 30, 2010 as compared with the same period ended in 2009. Professional and supervisory fee increases were attributed to the increased costs associated with a public company, and the decrease in the FDIC deposit insurance premium was primarily attributed to a one-time special assessment recorded during the nine month period ended September 30, 2009 of $94,000 not recognized during the same period of 2010.

Income Tax Expense. The provision for income taxes was $861,000 for the nine months ended September 30, 2010 compared to $552,000 for the nine months ended September 30, 2009. Our effective tax rate was 35.5% for the nine months ended September 30, 2010 compared to 56.2% for the nine months ended September 30, 2009. The higher effective tax rate for the nine months ended September 30, 2009 was not meaningful due to other-than-temporary impairment losses on available-for-sale securities. 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 September 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 September 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 nine months ended September 30, 2010.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. [REMOVED AND RESERVED]

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: November 5, 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.