Cullman Bancorp, Inc.
Form 10-Q
November 07, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended September 30, 2011

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	**63-0052835**
(State of Other Jurisdiction of Incorporation)	**(I.R.S Employer Identification Number)**
316 Second Avenue S.W., Cullman, Alabama	**35055**
(Address of Principal Executive Officer)	**(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 x 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	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.

2,561,996 of Common Stock, par value $.01 per share, were issued and outstanding as of November 7, 2011.

Table of Contents

CULLMAN BANCORP, INC.

Form 10-Q Quarterly Report

Table of Contents

Table of Contents

Part I

ITEM 1. FINANCIAL STATEMENTS

CULLMAN BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

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

	September 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 2,276	$ 2,368
Federal funds sold	14,251	174
Cash and cash equivalents	16,527	2,542
Securities available for sale	25,994	24,117
Loans, net of allowance of $1,149 and $854, respectively	170,683	177,317
Loans held for sale	291	320
Premises and equipment, net	10,961	10,612
Foreclosed real estate	2,116	1,997
Accrued interest receivable	1,132	1,157
Restricted equity securities	2,521	2,595
Bank owned life insurance	2,429	2,349
Other assets	908	849
Total assets	$ 233,562	$ 223,855
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 9,955	$ 6,188
Interest bearing	133,664	130,211
Total deposits	143,619	136,399
Federal Home Loan Bank advances	47,000	47,000
Long-term debt	816	816
Accrued interest payable and other liabilities	2,063	1,370
Total liabilities	193,498	185,585
Shareholders equity		
Common stock, $0.01 par value; 20,000,000 shares authorized; 2,561,996 and 2,512,750 shares outstanding, respectively, at September 30, 2011 and December 31, 2010	26	25
Additional paid-in capital	10,418	10,330
Retained earnings	30,268	29,134
Accumulated other comprehensive income (loss)	327	(232)
Unearned ESOP shares, at cost	(850)	(887)
Amount reclassified on ESOP shares	(125)	(100)
Total shareholders equity	40,064	38,270

Total liabilities and shareholders equity	$	233,562	$	223,855

See accompanying notes to the consolidated financial statements

Table of Contents

CULLMAN BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Interest and dividend income:				
Loans, including fees	$ 2,728	$ 2,825	$ 8,211	$ 8,397
Securities, taxable	222	205	671	670
Federal funds sold and other	11	4	25	12
Total interest income	2,961	3,034	8,907	9,079
Interest expense:				
Deposits	373	512	1,236	1,579
Federal Home Loan Bank advances and other borrowings	434	489	1,286	1,514
Total interest expense	807	1,001	2,522	3,093
Net interest income	2,154	2,033	6,385	5,986
Provision for loan losses	201	88	399	221
Net interest income after provision for loan losses	1,953	1,945	5,986	5,765
Noninterest income:				
Service charges on deposit accounts	105	118	306	338
Income on bank owned life insurance	26	27	79	81
Gain on sales of mortgage loans	65	94	164	244
Net gain on sales of securities				11
Other	13	38	41	63
Total noninterest income	209	277	590	737
Noninterest expense:				
Salaries and employee benefits	761	721	2,354	2,164
Occupancy and equipment	164	162	463	492
Data processing	123	121	376	372
Professional and supervisory fees	78	70	311	283
Office expense	33	29	96	85
Advertising	21	23	54	53
FDIC deposit insurance	27	45	97	111
Losses on foreclosed real estate	132	126	268	290
Other	100	91	233	226
Total noninterest expense	1,439	1,388	4,252	4,076
Income before income taxes	723	834	2,324	2,426
Income tax expense	275	297	861	861
Net income	$ 448	$ 537	$ 1,463	$ 1,565

Other comprehensive income, net of tax				
Unrealized gain (loss) on securities available for sale, net of tax	$ 195	$ 103	$ 559	$ 252
Reclassification adjustment for losses (gains) realized in income, net of tax				(8)
Other comprehensive income (loss)	195	103	559	244
Comprehensive income	$ 643	$ 640	$ 2,022	$ 1,809
Earnings per share: (Note 3)				
Basic	$ 0.18	$ 0.22	$ 0.59	$ 0.65
Diluted	$ 0.18	N/A	$ 0.59	N/A
Dividends declared per common share	$ 0.08		$ 0.16	

See accompanying notes to the consolidated financial statements

Table of Contents

CULLMAN BANCORP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Unearned ESOP Shares	Amount Reclassified on ESOP Shares	Total
Balance at January 1, 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, 2011	$ 25	$ 10,330	$ 29,134	$ (232)	$ (887)	$ (100)	$ 38,270
Net income			1,463				1,463
Net change in accumulated other comprehensive income				559			559
ESOP shares earned					37		37
Stock-based compensation expense		89					89
Dividends (1)			(329)				(329)
Issuance of 49,249 shares of restricted stock	1	(1)					
Reclassification of common stock in ESOP subject to repurchase obligation						(25)	(25)
Balance at September 30, 2011	$ 26	$ 10,418	$ 30,268	$ 327	$ (850)	$ (125)	$ 40,064

(1) Cash dividends of $0.08 per share were declared on March 15, 2011 for 1,554,984 of the 2,561,996 shares outstanding at March 31, 2011. Cullman Savings Bank, MHC, the Company s mutual holding company, was granted a dividend payment waiver from the Office of Thrift Supervision for all but 375,000 of the 1,382,012 shares of the Company s stock held by Cullman Savings Bank, MHC. No future dividend waivers are expected to be granted by the Office of Thrift Supervision. Dividends of $0.08 per share were declared on July 19, 2011 on all shares outstanding as of that date.

See accompanying notes to the consolidated financial statements

Table of Contents

CULLMAN BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

	Nine Months Ended September 30, 2011	2010
Cash Flows From Operating Activities		
Net income	$ 1,463	$ 1,565
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	399	221
Depreciation and amortization, net	237	146
Deferred income tax (benefit) expense	(230)	75
Net gain on sale of securities		(11)
Loss on sale and impairments of foreclosed real estate	268	290
Income on bank owned life insurance	(79)	(81)
ESOP compensation expense	37	37
Stock based compensation expense	89	
Gain on sale of mortgage loans	(164)	(244)
Mortgage loans originated for sale	(7,138)	(11,204)
Mortgage loans sold	7,331	11,712
Net change in operating assets and liabilities		
Accrued interest receivable	25	(149)
Accrued interest payable	(6)	(63)
Other	516	519
Net cash from operating activities	2,748	2,813
Cash Flows From Investing Activities		
Purchases of premises and equipment	(581)	(646)
Purchases of securities	(7,993)	(15,400)
Proceeds from maturities, paydowns and calls of securities	6,998	14,669
Proceeds from sale of securities		250
Proceeds from sales of foreclosed real estate	10	162
Redemptions of restricted equity securities	74	194
Loan originations and payments, net	5,838	(4,519)
Net cash from (used in) investing activities	4,346	(5,290)
Cash Flows from Financing Activities		
Net change in deposits	7,220	12,026
Cash payment of dividends	(329)	
Repayment of Federal Home Loan Bank advances		(9,065)
Net cash from financing activities	6,891	2,961
Change in cash and cash equivalents	13,985	484
Cash and cash equivalents, beginning of period	2,542	5,232
Cash and cash equivalents, end of period	$ 16,527	$ 5,716
Cash paid during the period for:		

Interest paid	$ 2,528	$ 3,156
Income taxes paid	$ 1,078	$ 760
Supplemental noncash disclosures:		
Transfers from loans to foreclosed assets	$ 1,676	$ 1,789
Loans advanced for sales of foreclosed assets	$ 1,279	$

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 or the Company) include the accounts of its wholly owned subsidiary, Cullman Savings Bank (the Bank) and its 99% ownership of Cullman Village Apartments (collectively referred to herein as the Company, we, us, or our). Intercompany transactions and balances are eliminated in the consolidation. The Company is majority owned (53.9%) by Cullman Savings Bank, MHC. These financial statements do not include the transactions and balances of Cullman Savings Bank, MHC.

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

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company s financial position as of September 30, 2011 and December 31, 2010 and the results of operations and cash flows for the interim periods ended September 30, 2011 and 2010. 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, 2010.

(2) NEW ACCOUNTING STANDARDS

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 complied with all disclosure requirements under this update.

In April 2011, FASB issued an update to previously issued accounting to provide additional guidance to clarify when a loan modification or restructuring is considered a troubled debt restructuring (TDR) in order to address current diversity in practice and lead to more consistent application of U.S. GAAP for debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The update clarifies the guidance regarding the evaluation of both considerations above and clarifies that a creditor is precluded from using the effective interest rate test in the debtor s guidance on restructuring of payables when evaluating whether a restructuring constitutes a TDR. This update is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these amendments, we may identify receivables that are newly considered to be troubled debt restructurings. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. The Company has complied with the requirements of this update, which did not have a material effect to the financial statements.

5

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(3) EARNINGS PER SHARE (EPS)

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

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Earnings per share				
Net Income	$ 448	$ 537	$ 1,463	$ 1,565
Less: Distributed earnings allocated to participating securities	(4)		(8)	
Less: (Undistributed income) dividends in excess of earnings allocated to participating securities	(5)		(22)	
Net earnings allocated to common stock	$ 439	$ 537	$ 1,433	$ 1,565
Weighted common shares outstanding including participating securities	2,561,996	2,512,750	2,558,749	2,512,750
Less: Participating securities	(49,249)		(49,249)	
Less: Average Unearned ESOP Shares	(88,650)	(93,575)	(88,650)	(93,575)
Weighted average shares	2,424,097	2,419,175	2,420,850	2,419,175
Basic earnings per share	$ 0.18	$ 0.22	$ 0.59	$ 0.65
Net earnings allocated to common stock	$ 439	$ 537	$ 1,433	$ 1,565
Weighted average shares	2,424,097	2,419,175	2,420,850	2,419,175
Add: dilutive effects of assumed exercises of stock options	14,401		9,627	
Average shares and dilutive potential common shares	2,438,498	2,419,175	2,430,477	2,419,175
Dilutive earnings per share	$ 0.18	N/A	$ 0.59	N/A

Options to purchase 123,124 shares of the Company s common stock at a weighted-average exercise price of $10.30 per share were outstanding during the three and nine months ended September 30, 2011. There were no potential dilutive common shares for the three and nine months ended September 30, 2010.

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(4) SECURITIES AVAILABLE FOR SALE

The fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) at September 30, 2011 and December 31, 2010 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2011				
U.S. Government agencies	$ 15,990	$ 52	$ (6)	$ 16,036
Municipal taxable	5,148	328		5,476
Residential mortgage-backed, GSE	2,241	98		2,339
Residential mortgage-backed, private label	682		(29)	653
Ultra Short mortgage mutual fund	1,414	76		1,490
Total	$ 25,475	$ 554	$ (35)	$ 25,994

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2010				
U.S. Government agencies	$ 13,997	$ 13	$ (478)	$ 13,532
Municipal taxable	5,154	23	(122)	5,055
Residential mortgage-backed, GSE	2,959	92		3,051
Residential mortgage-backed, private label	961	22		983
Ultra Short mortgage mutual fund	1,414	82		1,496
Total	$ 24,485	$ 232	$ (600)	$ 24,117

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, 2011 and December 31, 2010, 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, 2011 and 2010 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Proceeds	$	$	$	$ 250

Gross gains	11

7

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

	September 30, 2011	
	Amortized Cost	Estimated Fair Value
Due from one to five years	$ 1,000	$ 1,001
Due from five to ten years	8,002	8,079
Due after ten years	12,136	12,432
Mutual fund	1,414	1,490
Residential mortgage-backed	2,923	2,992
Total	$ 25,475	$ 25,994

Carrying amounts of securities pledged to secure public deposits, repurchase agreements, and Federal Home Loan Bank advances as of September 30, 2011 and December 31, 2010 were $6,409 and $6,320, respectively. At September 30, 2011 and December 31, 2010, there were no holdings of securities of any one issuer, other than the U.S. Government agencies, in an amount greater than 10% of shareholders equity.

The following table shows securities with unrealized losses at September 30, 2011 and December 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	$00,000	$00,000	$00,000	$00,000	$00,000	$00,000
	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2011						
U.S. Government agencies	$ 1,991	$ (6)	$	$	$ 1,991	$ (6)
Residential mortgage-backed, private label	653	(29)			653	(29)
Total temporarily impaired	$ 2,644	$ (35)	$	$	$ 2,644	$ (35)

	$00,0000	$00,0000	$00,0000	$00,0000	$00,0000	$00,0000
	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2010						
U.S. Government agencies	$ 10,519	$ (478)	$	$	$ 10,519	$ (478)
Municipal taxable	3,589	(122)			3,589	(122)

Total temporarily impaired	$	14,108	$	(600)	$		$		$	14,108	$	(600)

There were two U.S. Government agency securities along with the one private label mortgage-backed security with unrealized losses at September 30, 2011. None of the unrealized losses for these securities have been recognized into net income for the three and nine months ended September 30, 2011 because the issuer s bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach their maturity date or reset date.

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

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(5) LOANS

Loans at September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011	December 31, 2010
Real estate loans:		
One- to four-family	$ 81,988	$ 83,721
Multi-family	5,236	4,837
Commercial real estate	64,539	63,443
Construction	3,190	8,936
Total real estate loans	154,953	160,937
Commercial loans	7,227	7,371
Consumer loans	10,010	10,276
Total loans	172,190	178,584
Net deferred loan fees	(358)	(413)
Allowance for loan losses	(1,149)	(854)
Loans, net	$ 170,683	$ 177,317

9

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The following tables present the activity in the allowance for loan losses for the three and nine months ended September 30, 2011 and the balances of the allowance for loan losses and recorded investment in loans by portfolio class based on impairment method at September 30, 2011 and December 31, 2010. The recorded investment in loans in any of the following tables does not include accrued and unpaid interest or any deferred loan fees or costs, as amounts are not significant.

	Real estate						
Nine months ended September 30, 2011	**One-to-Four Family**	**Multi-family**	**Commercial**	**Construction**	**Commercial**	**Consumer**	**Total**
Allowance for loan losses:							
Beginning balance	$ 332	$ 9	$ 356	$ 9	$ 47	$ 101	$ 854
Charge-offs	(33)		(78)				(111)
Recoveries						7	7
Provisions	301	1	131	(6)	(5)	(23)	399
Ending balance	$ 600	$ 10	$ 409	$ 3	$ 42	$ 85	$ 1,149
Ending allowance attributed to loans:							
Individually evaluated for impairment	240		110		25		375
Collectively evaluted for impairment	360	10	299	3	17	85	774
Total ending allowance balance:	$ 600	$ 10	$ 409	$ 3	$ 42	$ 85	$ 1,149
Loans:							
Loans individually evaluated for impairment:	$ 2,071	$ 1,925	$ 3,516	$	$ 50	$ 122	$ 7,684
Loans collectively evaluated for impairment:	79,917	3,311	61,023	3,190	7,177	9,888	164,506
Total ending loans balance	$ 81,988	$ 5,236	$ 64,539	$ 3,190	$ 7,227	$ 10,010	$ 172,190

	Real estate						
Three months ended September 30, 2011	**One-to-Four Family**	**Multi-family**	**Commercial**	**Construction**	**Commercial**	**Consumer**	**Total**
Allowance for loan losses:							
Beginning balance	$ 448	$ 10	$ 390	$ 5	$ 47	$ 109	$ 1,009
Charge-offs	(31)		(32)				(63)
Recoveries						2	2
Provisions	183		51	(2)	(5)	(26)	201
Ending balance	$ 600	$ 10	$ 409	$ 3	$ 42	$ 85	$ 1,149

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	Real estate						
December 31, 2010	One-to-Four Family	Multi-family	Commercial	Construction	Commercial	Consumer	Total
Allowance for loan losses:							
Ending allowance attributed to loans:							
Individually evaluated for impairment	$	$	$ 95	$	$ 25	$	$ 120
Collectively evaluted for impairment	332	9	261	9	22	101	734
Total ending allowance balance:	$ 332	$ 9	$ 356	$ 9	$ 47	$ 101	$ 854
Loans:							
Loans individually evaluated for impairment:	$ 2,713	$ 1,993	$ 3,724	$	$ 112	$ 165	$ 8,707
Loans collectively evaluated for impairment:	81,008	2,844	59,719	8,936	7,259	10,111	169,877
Total ending loans balance	$ 83,721	$ 4,837	$ 63,443	$ 8,936	$ 7,371	$ 10,276	$ 178,584

The following table presents the activity in the allowance for loan losses for the three and nine months ended September 30, 2010:

	Three months 2010	Nine months 2010
Beginning balance	$ 796	$ 747
Provision for loan losses	88	221
Loans charged off	(159)	(248)
Recoveries		5
Ending balance	$ 725	$ 725

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The following table presents loans individually evaluated for impairment by portfolio class at September 30, 2011 and December 31, 2010, including the average recorded investment balance and interest earned for the nine months ended September 30, 2011:

	September 30, 2011					December 31, 2010		
	Unpaid principal balance	Recorded investment	Related allowance	Average Recorded Investment	Interest Income Recognized	Unpaid principal balance	Recorded investment	Related allowance
With no recorded allowance:								
Real estate loans:								
One- to four-family	$ 856	$ 856	$	$ 1,592	$ 39	$ 2,714	$ 2,714	$
Multi-family	1,925	1,925		1,959	107	1,993	1,993	
Commercial	3,319	3,319		3,513	221	3,445	3,445	
Construction								
Total real estate loans	6,100	6,100		7,064	367	8,152	8,152	
Commercial				43		61	61	
Consumer loans	122	122		142	3	165	165	
Total	$ 6,222	$ 6,222	$	$ 7,249	$ 370	$ 8,378	$ 8,378	$
With recorded allowance:								
Real estate loans:								
One- to four-family	$ 1,215	$ 1,215	$ 240	$ 816	$ 31	$	$	$
Multi-family								
Commercial	197	197	110	200	1	280	280	95
Construction								
Total real estate loans	1,412	1,412	350	1,016	32	280	280	95
Commercial	50	50	25	52		49	49	25
Consumer loans								
Total	$ 1,462	$ 1,462	$ 375	$ 1,068	$ 32	$ 329	$ 329	$ 120
Totals:								
Real estate	$ 7,512	$ 7,512	$ 350	$ 8,080	$ 399	$ 8,432	$ 8,432	$ 95
Commercial and Consumer	172	172	25	237	3	275	275	25
Total	$ 7,684	$ 7,684	$ 375	$ 8,317	$ 402	$ 8,707	$ 8,707	$ 120

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The average balance of loans individually evaluated for impairment for the nine months ended September 30, 2010 was $4,713. Interest income recognized and cash basis interest income recognized during the impairment period ended December 31, 2010 was $197. Interest income recognized was equal to cash collected during the three and nine months ended September 30, 2011.

The following tables present the aging of the recorded investment in past due loans at September 30, 2011 and December 31, 2010 by portfolio class of loans:

September 30, 2011 (Unaudited)	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing loans past due 90 days or more
Real estate loans:							
One- to four-family	$ 524	$ 120	$	$ 644	$ 81,344	$ 81,988	$
Multi-family					5,236	5,236	
Commercial		103		103	64,436	64,539	
Construction					3,190	3,190	
Total real estate loans	524	223		747	154,206	154,953	
Commercial loans		25		25	7,202	7,227	
Consumer loans	14	19	1	34	9,976	10,010	1
Total	$ 538	$ 267	$ 1	$ 806	$ 171,385	$ 172,190	$ 1

December 31, 2010	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing loans past due 90 days or more
Real estate loans:							
One- to four-family	$ 654	$ 118	$ 61	$ 833	$ 82,888	$ 83,721	$
Multi-family	613			613	4,224	4,837	
Commercial		107	156	263	63,180	63,443	
Construction					8,936	8,936	
Total real estate loans	1,267	225	217	1,709	159,228	160,937	
Commercial loans					7,371	7,371	
Consumer loans	82	121	4	207	$ 10,069	10,276	
Total	$ 1,349	$ 346	$ 221	$ 1,916	$ 176,668	$ 178,584	$

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Nonaccrual loans at September 30, 2011 and December 31, 2010 were $190 and $221, respectively. These loans are disclosed by portfolio segment above in the 90 days or more past due column, except for one residential mortgage loan that was not past due at September 30, 2011. Additional required disclosure by class was deemed immaterial to the financial statements. Non-performing loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Troubled Debt Restructurings:

Troubled debt restructurings at September 30, 2011 and December 31, 2010 were $5,152 and $5,459, respectively. The amount of impairment allocated to loans whose loan terms have been modified in troubled debt restructurings at September 30, 2011 and December 31, 2010 was $285 and $35, respectively. The Company has committed to no additional amounts at September 30, 2011 to customers with outstanding loans that are classified as troubled debt restructurings.

During the nine months ended September 30, 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rated of the loans; an extensions of the maturity date at a stated rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risks.

The modifications made during the nine months ended September 30, 2011 involved a short-term change in the payment structure.

The following table presents loans by class modified as troubled debt restructurings that occurred during the nine months ended September 30, 2011:

	Number of Loans	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Troubled Debt Restructurings:			
Real estate loans:			
One- to four-family	2	$ 193	$ 193
Multi-family			
Commercial real estate	1	73	73
Construction			
Total real estate loans	3	266	266
Commercial loans	1	50	50
Consumer loans			
Total	4	$ 316	$ 316

The troubled debt restructurings described above did not have an effect on the allowance for loan losses and there were no charge offs during the nine months ended September 30, 2011. There were no troubled debt restructurings during the three month period September 30, 2011.

There were two residential real estate loans with a recorded investment of $709 that were modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the nine months ended September 30, 2011. A loan is considered to be in payment default once it is 60 days contractually past due under the modified terms. The troubled debt restructurings that subsequently defaulted as described above did not increase the allowance for loans losses but resulted in charge offs of $31 during the three and nine months ended September 30, 2011.

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

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Credit Quality Indicators:

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

The Company uses the following definitions for loan grades:

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

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

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

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

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

At September 30, 2011 and December 31, 2010 and based on the most recent analysis performed, the loan grade for each loan by portfolio class is as follows:

	Real estate													
	One-to-four Family		Multi-family		Commercial		Construction		Commercial		Consumer		Totals	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Pass	$ 77,591	$ 78,909	$ 3,312	$ 2,844	$ 55,601	$ 51,184	$ 3,190	$ 8,936	$ 7,077	$ 7,234	$ 9,855	$ 10,272	$ 156,626	$ 159,379
Special mention	324	955			4,799	6,987							5,123	7,942
Substandard	4,073	3,857	1,924	1,993	4,139	5,272			150	137	155	4	10,441	11,263
Doubtful														
Total	$ 81,988	$ 83,721	$ 5,236	$ 4,837	$ 64,539	$ 63,443	$ 3,190	$ 8,936	$ 7,227	$ 7,371	$ 10,010	$ 10,276	$ 172,190	$ 178,584

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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 foreclosed real estate 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.

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The tables below present the balances of assets and liabilities measured at fair value on a recurring and non-recurring basis by level within the hierarchy as of September 30, 2011 and December 31, 2010:

Assets and Liabilities Measured on a Recurring Basis

Level 1 and 2 assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements			
	(Level 1) September 30, 2011	(Level 2) September 30, 2011	(Level 1) December 31, 2010	(Level 2) December 31, 2010
Financial assets:				
U.S. Government sponsored agencies	$	$ 16,036	$	$ 13,532
Municipal taxable		5,476		5,055
Residential mortgage-backed, GSE		2,339		3,051
Residential mortgage-backed, private label		653		983
Ultra Short mortgage mutual fund	1,490		1,496	
Total investment securities available for sale	$ 1,490	$ 24,504	$ 1,496	$ 22,621

Assets and Liabilities Measured on a Non-Recurring Basis

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

	Fair Value Measurements (Level 3)	
	September 30, 2011	December 31, 2010
Assets:		
Impaired loans, with specific allocations		
Real estate loans:		
One-to four-family	$ 975	$
Multi-family		
Commercial	87	185
Construction		
Total real estate loans	1,062	185
Commercial	25	24
Total loans	$ 1,087	$ 209

Foreclosed real estate:		
One-to four-family	$ 1,600	$ 987
Multi-family		
Commercial	516	1,010
Construction		
Total foreclosed real estate	$ 2,116	$ 1,997

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had carrying amounts of $1,087 and $209, which consists of the unpaid principal balances of $1,462 and $329 less valuation allowances of $375 and $120 at September 30, 2011 and December 31, 2010, respectively. The impact to the provision to loan losses from the change in the valuation allowances was $165 for the three and $255 for the nine months ended September 30, 2011 and an increase in the provision of $24 for the year ended December 31, 2010.

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Foreclosed real estate, which is measured at fair value less costs to sell, had a net carrying amount of $2,116 and $1,997 at September 30, 2011 and December 31, 2010, respectively. The net carrying amount consists of the outstanding balance net of a valuation allowance. The outstanding balance and valuation allowance of other real estate owned at September 30, 2011 and December 31, 2010 were $2,537 and $421, and $2,206 and $209, respectively. The resulting write-downs for the three and nine months ended September 30, 2011 were $212 and $116, respectively and $209 for the year ended December 31, 2010

Loans held for sale, which are carried at the lower of cost or fair value, had fair values that approximated costs at September 30, 2011 and December 31, 2010 and were therefore carried at cost with no fair value valuation allowance at both period ends.

The carrying amounts and estimated fair value of the Company s on-balance sheet financial instruments at September 30, 2011 and December 31, 2010 are summarized below:

	September 30,		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 16,527	$ 16,527	$ 2,542	$ 2,542
Securities available for sale	25,994	25,994	24,117	24,117
Loans, net	170,683	182,637	177,317	190,054
Loans held for sale	291	291	320	320
Accrued interest receivable	1,132	1,132	1,157	1,157
Restricted equity securities	2,521	N/A	2,595	N/A
Financial liabilities				
Deposits	143,619	144,912	136,399	137,685
Federal Home Loan Bank Advances	47,000	51,405	47,000	50,801
Long-term debt	816	816	816	816
Accrued interest payable	234	234	247	247

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

Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. The methods for determining the fair values for securities were described previously. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk (including consideration of widening credit spreads). Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of restricted equity securities due to restrictions placed on transferability. The fair value of off-balance sheet items is not consider material.

Table of Contents

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(7) STOCK BASED COMPENSATION

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

On January 18, 2011, the compensation committee of the board of directors approved the issuance of 123,124 options to purchase Company stock and 49,249 shares of restricted stock. Stock options and restricted stock vest over a five year period, and stock options expire ten years after issuance. Apart from the vesting schedule for both stock options and restricted stock, there are no performance-based conditions or any other material conditions applicable to the awards issued. At September 30, 2011 there were no shares available for future grants under this plan.

The following table summarizes stock option activity for the nine months ended September 30, 2011:

	Options	Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding January 1, 2011				
Granted	123,124	10.30		
Exercised				
Forfeited				
Outstanding September 30, 2011	123,124	$ 10.30	9.31	$ 393,997(1)
Fully vested and exercisable at September 30, 2011		$		$
Expected to vest in future periods	123,124			
Fully vested and expected to vest September 30, 2011	123,124	$ 10.30	9.31	$ 393,997(1)

(1) Based on closing price of $13.50 per share on September 30, 2011.
Intrinsic value for stock options is defined as the difference between the current market value and the exercise price.

The fair value for each option grant is estimated on the date of grant using the Black-Scholes option pricing model that uses the following assumptions. The Company uses the U.S. Treasury yield curve in effect at the time of the grant to determine the risk-free interest rate. The expected dividend yield is estimated using the projected annual dividend level and recent stock price of the Company s common stock at the date of grant. Expected stock volatility is based on historical volatilities of the SNL Financial Index of Thrifts. The expected life of the options is calculated based on the simplified method as provided for under Staff Accounting Bulletin No. 110.

CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

There were no options that vested during the three and nine months ended September 30, 2011. Stock-based compensation expense for stock options for the three and nine months ended September 30, 2011 was $4 and $12, respectively. Total unrecognized compensation cost related to nonvested stock options was $71 at September 30, 2011 and is expected to be recognized over a weighted-average period of 4.3 years.

The following table summarizes non-vested restricted stock activity for the nine months ended September 30, 2011:

	2011
Balance beginning of year	
Granted	49,249
Forfeited	
Earned and issued	
Balance end of period	49,249

The fair value of the restricted stock awards is amortized to compensation expense over the vesting period (generally five years) and is based on the market price of the Company s common stock at the date of grant multiplied by the number of shares granted that are expected to vest. The weighted-average grant date fair value of restricted stock granted during the nine months ended September 30, 2011 was $10.30 per share or $507. Stock-based compensation expense for restricted stock included in non-interest expense for the three and nine months ended September 30, 2011 was $25 and $77, respectively. Unrecognized compensation expense for nonvested restricted stock awards was $430 and is expected to be recognized over 4.3 years.

(8) SUBSEQUENT EVENT

On October 18, 2011, the Board of Directors of the Company declared a dividend of $0.08 per share of the Company s common stock. The dividend will be payable to the shareholders of record as of October 31, 2011 and will be paid on November 15, 2011.

Table of Contents

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

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

statements of our goals, intentions and expectations;

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

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

estimates of our risks and future costs and benefits.

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

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

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

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

significant increases in our loan losses, exceeding our allowance;

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

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

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

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

potential increases in deposit assessments;

significantly increased competition among depository and other financial institutions;

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

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

changes in our organization, compensation and benefit plans.+

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Critical Accounting Policies

There are no material changes to the critical accounting policies disclosed in Form 10-K Annual Report of Cullman Bancorp, Inc. for the year ended December 31, 2010.

Table of Contents

Comparison of Financial Condition at September 30, 2011 and December 31, 2010

Our total assets increased to $233.6 million at September 30, 2011 from $223.9 million at December 31, 2010. The increase was primarily attributable to an increase in cash and cash equivalents of $14.0 million, or 550.2%, partially offset by decreases in loans of $6.6 million, or 3.7%. The most significant source of the increase came from an increase in federal funds sold of $14.1 million to $14.3 million from $174,000 at December 31, 2010. The increase in federal funds sold reflected an increase in our deposits of $7.2 million to $143.6 million at September 30, 2011 from $136.4 million at December 31, 2010 and a lower demand for loans.

Total equity increased to $40.1 million at September 30, 2011 from $38.3 million at December 31, 2010. The net increase of $1.8 million, or 4.7%, was primarily attributable to net income of $1.5 million and a net change in accumulated other comprehensive income of $559,000 partially offset by $329,000 of dividends declared during the nine months ended September 30, 2011.

Table of Contents

Non-Performing Assets

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

	September 30, 2011	December 31, 2010
	(Dollars in thousands)	
Non-Accrual:		
Real estate loans:		
One- to four-family	$ 189	$ 61
Multi-family		
Commercial real estate		156
Construction		
Total real estate loans	189	217
Commercial loans		
Consumer loans		4
Total nonaccrual loans	$ 189	$ 221
Accruing loans past due 90 days or more:		
Real estate loans:		
One- to four-family	$	$
Multi-family		
Commercial real estate		
Construction		
Total real estate loans		
Commercial loans		
Consumer loans	1	
Total accruing loans past due 90 days or more	1	
Total of nonaccrual and 90 days or more past due loans	$ 190	$ 221
Foreclosed real estate		
One- to four-family	$ 1,600	$ 1,559
Commercial	516	438
Other nonperforming assets		
Total nonperforming assets	2,306	2,218
Troubled debt restructurings	5,152	5,459
Troubled debt restructurings and total nonperforming assets	$ 7,458	$ 7,677
Total nonperforming loans to gross loans	0.11%	0.12%
Total nonperforming assets to total assets	0.99%	0.99%
Total nonperforming assets and troubled debt restructurings to total assets	3.19%	3.43%

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 September 30,					
	2011			2010		
	Average Balance	Interest and Dividends	Yield Cost	Average Balance	Interest and Dividends	Yield Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$ 173,598	$ 2,728	6.23%	$ 175,366	$ 2,825	6.39%
Securities available for sale	23,972	222	3.67	18,802	205	4.33
Other interest-earning assets	17,781	11	0.25	5,928	4	0.29
Total interest-earning assets	215,351	2,961	5.46	200,096	3,034	6.01
Noninterest earning assets	18,273			17,875		
Total average assets	$ 233,624			$ 217,971		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$ 27,994	20	0.28	$ 24,043	36	0.59
Regular savings and other deposits	17,729	14	0.32	16,816	30	0.71
Money market deposits	8,416	8	0.36	10,167	22	0.86
Certificates of deposit	79,743	331	1.65	78,719	424	2.14
Total interest-bearing deposits	133,882	373	1.11	129,745	512	1.57
FHLB advances	47,000	431	3.64	42,145	486	4.58
Other borrowings	815	3	1.46	833	3	1.44
Total interest-bearing liabilities	181,697	807	1.76	172,723	1,001	2.30
Noninterest-bearing demand deposits	10,177			5,719		
Other noninterest-bearing liabilities	1,692			1,641		
Total liabilities	193,566			180,083		
Equity	40,058			37,888		
Total liabilities and equity	$ 233,624			$ 217,971		
Net interest income		$ 2,154			$ 2,033	
Interest rate spread			3.69%			3.71%
Net interest margin			3.97%			4.03%
Average interest-earning assets to average interest-bearing liabilities	1.19X			1.16X		

25

Table of Contents

	For The Nine Months Ended September 30,					
	2011			2010		
	Average Balance	Interest and Dividends	Yield Cost	Average Balance	Interest and Dividends	Yield Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$ 175,275	$ 8,211	6.26%	$ 174,573	$ 8,397	6.43%
Securities available for sale	23,522	671	3.81	19,431	670	4.61
Other interest-earning assets	10,961	25	0.30	7,614	12	0.21
Total interest-earning assets	209,758	8,907	5.68	201,618	9,079	6.02
Noninterest earning assets	18,224			16,892		
Total average assets	$ 227,982			$ 218,510		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$ 25,913	85	0.44	$ 25,884	118	0.61
Regular savings and other deposits	17,109	59	0.46	15,283	91	0.80
Money market deposits	8,071	31	0.52	10,794	78	0.97
Certificates of deposit	80,253	1,061	1.77	76,561	1,292	2.26
Total interest-bearing deposits	131,346	1,236	1.26	128,522	1,579	1.64
FHLB advances	47,000	1,277	3.63	46,844	1,505	4.30
Other borrowings	815	9	1.48	833	9	1.44
Total interest-bearing liabilities	179,161	2,522	1.88	176,199	3,093	2.35
Noninterest-bearing demand deposits	8,136			3,580		
Other noninterest-bearing liabilities	1,454			1,366		
Total liabilities	188,751			181,145		
Equity	39,231			37,365		
Total liabilities and equity	$ 227,982			$ 218,510		
Net interest income		$ 6,385			$ 5,986	
Interest rate spread			3.80%			3.67%
Net interest margin			4.07%			3.97%
Average interest-earning assets to average interest-bearing liabilities	1.17X			1.14X		

26

Table of Contents

Comparison of Operating Results for the Three Months Ended September 30, 2011 and 2010

General. We recorded net income of $448,000 for the three months ended September 30, 2011 compared to net income of $537,000 for the three months ended September 30, 2010. The decrease in net income was primarily attributable to a $68,000 decrease in noninterest income and an increase in noninterest expense of $51,000 for the three months ended September 30, 2011, offset partially by an increase of $8,000 in net interest income after the provision for loan losses.

Interest Income. Interest income decreased by $73,000 for the three months ended September 30, 2011 from $3.0 million for the three months ended September 30, 2010, reflecting a decrease in the yield on interest earning assets to 5.46% from 6.01%, offsetting the increase in the average balance of interest earning assets to $215.3 million for the three months ended September 30, 2011 compared to $200.1 million for the three months ended September 30, 2010. The decrease in market interest rates contributed to the downward re-pricing of a portion of our existing assets and lower rates for new assets.

Interest income on loans decreased slightly by $97,000 for the three months ended September 30, 2011 from $2.8 million for the three months ended September 30, 2010, reflecting a decrease in the average yield on loans to 6.23% from 6.39% and a decrease the average balance of our loans to $173.6 million from $175.4 million. 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 increased slightly to $222,000 for the three months ended September 30, 2011 from $205,000 for the three months ended September 30, 2010. The decrease in the yield on securities to 3.67% for the three months ended September 30, 2011 from 4.33% for the three months ended September 30, 2010 was more than offset by the increase in the average balance of securities of $5.2 million for the period.

Interest Expense. Interest expense decreased $194,000, or 19.4%, to $807,000 for the three months ended September 30, 2011 from $1.0 million for the three months ended September 30, 2010. The decrease reflected a decrease in the average rate paid on deposits and borrowings to 1.8% in the 2011 period from 2.3% in the 2010 period. The decrease in the average rate paid on deposits and borrowings more than offset the increase in their average balances of $9.0 million for the three months ended September 30, 2011 over the three months ended September 30, 2010. The decrease in the average cost deposits reflected the re-pricing in response to interest rate cuts initiated by the Federal Reserve Board during 2010 and the lower market interest rates resulting from such cuts.

Interest expense on certificates of deposit decreased to $331,000 for the three months ended September 30, 2011 from $424,000 for the three months ended September 30, 2010, reflecting a decrease in the average cost of certificates of deposit to 1.6% for the three months ended September 30, 2011 compared with 2.1% for the three months ended September 30, 2010. The decrease in the average cost of certificates of deposits more than offset the increase in their average balances of $1.0 million for the three months ended September 30, 2011.

Interest expense on NOW and demand deposits, along with savings deposits and money market deposits decreased to $42,000 for the three months ended September 30, 2011 from $88,000 for the three months ended September 30, 2010, reflecting a decrease of $3.1 million in the average balance of such deposits as well as a decrease in the average cost of such deposits to 0.31% from 0.70%.

Interest expense on borrowings, primarily advances from the Federal Home Loan Bank, decreased to $434,000 for the three months ended September 30, 2011 from $489,000 for the three months ended September 30, 2010, reflecting a decrease in the average rate paid on such borrowings to 3.7% from 4.6%.

Net Interest Income. Net interest income increased to $2.1 million for the three months ended September 30, 2011 from $2.0 million for the three months ended September 30, 2010. The increase reflected an increase in our ratio of average interest-earning assets to average interest-bearing liabilities to 1.19X for the three months ended September 30, 2011 from 1.16X for the three months ended September 30, 2010. Our interest rate spread and net interest margin remained relatively unchanged for the three months ended September 30, 2011 from the same period in 2010.

Provision for Loan Losses. We recorded a provision for loan losses of $201,000 for the three months ended September 30, 2011 compared to $88,000 for the three months ended September 30, 2010. The allowance for loan losses was $1.1 million or 0.67% of total loans at September 30, 2011 compared to $854,000, or 0.48% of total loans at December 31, 2010. The increase in our provision was attributed to the slight increase in historical losses over the previous four quarters ended September 30, 2011 compared to September 30, 2010, an increase in qualitative factor adjustments for one-to-four family residential and consumer loan portfolios, and an increase in the provision as a result of an increase in the valuation allowance related to impaired loans of $165,000. We had $5.2 million in troubled debt restructurings at September 30, 2011 compared

with $5.4 million at December 31, 2010. Our non-accrual loans decreased slightly to $190,000 at September 30, 2011 from $221,000 at December 31, 2010. Our foreclosed real estate has increased slightly to $2.1 million at September 30, 2011 from $2.0 million at December 31, 2010. We used the same methodology in assessing the allowance for both periods. To the best of our knowledge, we have recorded all losses that are both probable and reasonably estimable for the three months ended September 30, 2011 and 2010.

***Noninterest Income*.** Noninterest income decreased to $209,000 for the three months ended September 30, 2011 from $277,000 for the three months ended September 30, 2010. The decrease in noninterest income was due primarily to a decrease in the gain on sales of mortgage loans of $29,000 and a decrease in service charges on deposit accounts of $13,000 for the three months ended September 30, 2011 compared with the three months ended September 30, 2010.

***Noninterest Expense*.** Noninterest expense increased slightly by $51,000 for the three months ended September 30, 2011 over the three months ended September 30, 2010. The increase reflected an increase in salaries and employee benefits of $40,000, or 5.55%, for the three months ended September 30, 2011 over the three months ended September 30, 2010 arising from the addition of our stock based compensation plans during 2011. The increase in salaries and employee benefits was offset partially by a decrease in our FDIC insurance premiums of $18,000, or 40.00%, for the same periods.

Income Tax Expense. The provision for income taxes was $275,000 for the three months ended September 30, 2011 compared to $297,000 for the three months ended September 30, 2010. Our effective tax rate increased to 38.04% for three months ended September 30, 2011 from 35.61% for the three months ended September 30, 2010.

Comparison of Operating Results for the Nine Months Ended September 30, 2011 and 2010

General. Net income for the nine months ended September 30, 2011 decreased to $1.5 million from $1.6 million for the nine months ended September 30, 2010. The decrease in net income was primarily attributable to a decrease in noninterest income of $147,000, or 19.95%, and an increase in noninterest expense of $176,000, or 4.32% for the nine months ended September 30, 2011 over the nine months ended September 30, 2010. The decrease in noninterest income and increase in noninterest expense more than offset the modest increase in net interest income after the provision for loan losses of $221,000, or 3.83%.

Interest Income. Interest income decreased by $172,000 for the nine months ended September 30, 2011 from $9.1 million for the nine months ended September 30, 2010, reflecting a decrease in yields on interest earning assets to 5.68%, which more than offset the increase in the average balance of interest earning assets of $8.1 million to $209.7 million for the nine months ended September 30, 2011 from $201.6 million for the nine months ended September 30, 2010 perid. The decrease in market interest rates contributed to the downward re-pricing of a portion of our existing assets and lower rates for new assets.

Interest income on loans decreased $186,000 for the nine months ended September 30, 2011 from $8.4 million for the nine months ended September 30, 2010, reflecting a decrease in the average yield on loans to 6.26% from 6.43%, which offset the increase in the average balance of our loans to $175.3 million from $174.6 million. 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 remained relatively the same for the nine months ended September 30, 2011 as compared with September 30, 2010. The decrease in the yield on securities available for sale to 3.81% for the nine months ended September 30, 2011 from 4.61% for the nine months ended September 30, 2010 more than offset the increase of $4.1 million in their average balances.

Interest Expense. Interest expense decreased $571,000, or 18.46%, to $2.5 million for the nine months ended September 30, 2011 from $3.1 million for the nine months ended September 30, 2010. The decrease reflected a decrease in the average rate paid on deposits and borrowings to 1.88% in the 2011 period from 2.35% in 2010, which more than offset the increase in the average balances of deposits and borrowings of $2.9 million for the period ended September 30, 2011. The decrease in the average cost of deposits reflected the re-pricing in response to interest rate cuts initiated by the Federal Reserve Board during 2010 and the lower market interest rates resulting from such cuts.

Interest expense on certificates of deposit decreased to $1.1 million for the nine months ended September 30, 2011 from $1.3 million for the nine months ended September 30, 2010, reflecting a decrease in the average cost of certificates of deposit to 1.77% for the nine months ended September 30, 2011 compared with 2.26% for the nine months ended September 30, 2010. The decrease in the average cost of certificates of deposits more than offset the increase in their average balances of $3.6 million for the nine months ended September 30, 2011.

Table of Contents

Interest expense on NOW and demand deposits, along with savings deposits and money market deposits decreased to $175,000 for the nine months ended September 30, 2011 from $287,000 for the nine months ended September 30, 2010, reflecting a decrease of $868,000 in the average balance of such deposits as well as a decrease in the average cost of such deposits to 0.46% from 0.74%.

Interest expense on borrowings, primarily advances from the Federal Home Loan Bank, decreased to $1.3 million for the nine months ended September 30, 2011 from $1.5 million for the nine months ended September 30, 2010, reflecting a decrease in the average rate paid on such borrowings to 3.60% from 4.25%, which more than offset the increase in the average balance of borrowings of $138,000 for the nine months ended September 30, 2011.

Net Interest Income. Net interest income increased to $6.4 million for the nine months ended September 30, 2011 from $6.0 million for the nine months ended September 30, 2010. The increase reflected an increase in our interest rate spread to 3.80% from 3.67%. The ratio of our average interest-earning assets to average interest-bearing liabilities increased to 1.17X for the nine months ended September 30, 2011 from 1.14X for the nine months ended September 30, 2010. Our net interest margin also increased to 4.07% from 3.97%. 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 $399,000 for the nine months ended September 30, 2011 compared to $221,000 for the nine months ended September 30, 2010. The allowance for loan losses was $1.1 million or 0.67% of total loans at September 30, 2011 compared to $854,000, or 0.48% of total loans at December 31, 2010. The increase in our provision was attributed to the slight increase in historical losses over the previous four quarters ended September 30, 2011 compared to September 30, 2010, an increase in qualitative factor adjustments for one-to-four family residential and consumer loan portfolios, and an increase in our provision as a result of an increase in our valuation allowance for impaired loans of $255,000. We had $5.2 million in troubled debt restructurings at September 30, 2011 compared with $5.4 million at December 31, 2010. Our non-accrual loans decreased slightly to $190,000 at September 30, 2011 from $221,000 at December 31, 2010. Our foreclosed real estate has increased slightly to $2.1 million at September 30, 2011 from $2.0 million at December 31, 2010. We used the same methodology in assessing the allowance for both periods. To the best of our knowledge, we have recorded all losses that are both probable and reasonably estimable for the nine months ended September 30, 2011 and 2010.

Noninterest Income. Noninterest income decreased to $590,000 for the nine months ended September 30, 2011 from $737,000 for the nine months ended September 30, 2010. The decrease in noninterest income was due primarily to a decrease in service charges on deposit accounts of $32,000, or 9.47%, and a decrease in the gain on sales of mortgage loans of $80,000, or 32.79%, for the nine months ended September 30, 2011. The decrease in the volume of mortgage loans sold has contributed to declines in gains.

Noninterest Expense. Noninterest expense increased $176,000, or 4.32%, for the nine months ended September 30, 2011 from $4.1 million for the nine months ended September 30, 2010. The increase was primarily attributable to an increase in salaries and employee benefits of $190,000, or 8.78%, offset mostly by a decrease in occupancy and equipment expense of $29,000, or 5.89%, and a decrease in the losses on sales of foreclosed real estate of $22,000, or 7.59%. The increase in salaries and employee benefits was the result of increased compensation expense related to our stock based compensation plans related to stock options and restricted stock awarded during the nine months ended September 30, 2011.

Income Tax Expense. The provision for income taxes was $861,000 for the nine months ended September 30, 2011 and 2010. The effective tax rates increased modestly to 37.05% from 35.49% for the same periods.

Table of Contents

Liquidity and Capital Resources

Our primary sources of funds are deposits and the proceeds from principal and interest payments on loans and investment securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. We generally manage the pricing of our deposits to be competitive within our market and to increase core deposit relationships.

Liquidity management is both a daily and long-term responsibility of management. We adjust our investments in liquid assets based upon management s assessment of (i) expected loan demand, (ii) expected deposit flows, (iii) yields available on interest-earning deposits and investment securities, and (iv) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning overnight deposits, federal funds sold, and short and intermediate-term U.S. Government sponsored agencies and mortgage-backed securities of short duration. If we require funds beyond our ability to generate them internally, we have additional borrowing capacity with the Federal Home Loan Bank of Atlanta. At September 30, 2011, we had $47.0 million in advances from the Federal Home Loan Bank of Atlanta and an available borrowing limit of an additional $46.2 million.

Common Stock Dividend Policy. During the quarter ended March 31, 2011, the Company declared a dividend of $0.08 per share, or $125,000 on all outstanding shares, except for 1,007,012 of the 1,382,012 shares of the Company s common stock held by Cullman Savings Bank, MHC. The OTS granted the Cullman Savings Bank, MHC a waiver on payment of the dividend on that portion of the shares. No future dividend waivers are expected to be granted by the OTS. Dividends of $0.08 per share were declared on July 19, 2011 on all shares outstanding as of that date.

On October 18, 2011, the Board of Directors of the Company declared a dividend of $0.08 per share of the Company s common stock. The dividend will be payable to the shareholders of record as of October 31, 2011 and will be paid on November 15, 2011.

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

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures.

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

b) Changes in Internal Control over Financial Reporting.

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

Table of Contents

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

(a) Not applicable.

(b) Not applicable.

(c) The Company did not repurchase any shares of common stock during the three months ended September 30, 2011.

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.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Cullman Bancorp, Inc.

Date: November 7, 2011

/s/ John A. Riley III
John A. Riley III
President & Chief Executive Officer

/s/ Michael Duke
Michael Duke
Senior Vice President and Chief Financial Officer

Table of Contents

INDEX TO EXHIBITS

Exhibit number	Description
31.1	Certification of John A. Riley III, President and Chief Executive Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
31.2	Certification of Michael Duke, Chief Financial Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
32	Certification of John A. Riley III, President and Chief Executive Officer, and Michael Duke, Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Cullman Bancorp, Inc. Form 10-Q for the quarter ended September 30, 2011, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Cash Flows and (iv) related notes, tagged as blocks of text.