

Cullman Bancorp, Inc.
Form 10-Q
November 06, 2009
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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, 2009

Or

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

For transition period from _____ to _____

Commission File Number 000-53801

Cullman Bancorp, Inc.

(Exact Name of Registrant as Specified in Charter)

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Federal
(State of Other Jurisdiction
of Incorporation)

63-0052835
(I.R.S. Employer

Identification Number)

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

35055
(Zip Code)

256-734-1740

Registrant's telephone number, including area code

Not Applicable

(Former name or former address, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

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

2,512,750 shares of Common Stock, par value \$.01 per share, were issued and outstanding as of November 6, 2009.

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CULLMAN BANCORP, INC.

Form 10-Q Quarterly Report

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EXPLANATORY NOTE

On October 8, 2009, Cullman Bancorp, Inc. (the Registrant), headquartered in Cullman, Alabama, became the stock holding company for Cullman Savings Bank following the mutual-to-stock conversion of Cullman Savings Bank. As of September 30, 2009, the conversion had not been completed, and, as of that date, the Registrant had no assets or liabilities, and had not conducted any business other than that of an organizational nature. Accordingly, the information presented in this quarterly report is for Cullman Savings Bank.

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Part I

ITEM 1. FINANCIAL STATEMENTS

CULLMAN SAVINGS BANK

Consolidated Balance Sheets

(Dollars in thousands)

| | September 30, 2009 (Unaudited) | December 31, 2008 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,055 | \$ 1,947 |
| Federal funds sold | 7,990 | 6,979 |
| Cash and cash equivalents | 10,045 | 8,926 |
| Securities available for sale | 21,476 | 24,530 |
| Loans, net of allowance of \$709 and \$472, respectively | 171,506 | 165,243 |
| Loans held for sale | 278 | 245 |
| Premises and equipment | 10,455 | 10,679 |
| Foreclosed real estate | 1,006 | 860 |
| Accrued interest receivable | 1,132 | 1,178 |
| Restricted equity securities | 2,711 | 3,439 |
| Bank-owned life insurance | 2,215 | 2,139 |
| Other assets | 784 | 146 |
| Total assets | \$ 221,608 | \$ 217,385 |
| LIABILITIES AND EQUITY | | |
| Deposits | | |
| Non-interest bearing | \$ 15,186 | \$ 112 |
| Interest bearing | 125,811 | 134,102 |
| Total deposits | 140,997 | 134,214 |
| Federal Home Loan Bank advances | 51,204 | 54,671 |
| Long-term debt | 860 | 860 |
| Accrued interest payable and other liabilities | 1,441 | 1,195 |
| Total liabilities | 194,502 | 190,940 |
| Equity | | |
| Retained earnings, substantially restricted | 26,931 | 26,501 |
| Accumulated other comprehensive income (loss) | 175 | (56) |
| Total equity | 27,106 | 26,445 |
| Total liabilities and equity | \$ 221,608 | \$ 217,385 |

See accompanying notes to the consolidated financial statements

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CULLMAN SAVINGS BANK

Consolidated Statements of Operations

(Unaudited)

(Dollars in thousands)

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|---------------------------------|--------------|--------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Interest and dividend income: | | | | |
| Loans, including fees | \$ 2,798 | \$ 2,876 | \$ 8,269 | \$ 8,542 |
| Securities, taxable | 256 | 342 | 799 | 926 |
| Federal funds sold and other | 7 | 34 | 10 | 196 |
| Total interest income | 3,061 | 3,252 | 9,078 | 9,664 |
| Interest expense: | | | | |
| Deposits | 740 | 1,059 | 2,476 | 3,382 |
| Federal Home Loan Bank advances and other debt | 647 | 597 | 1,727 | 1,790 |
| Total interest expense | 1,387 | 1,656 | 4,203 | 5,172 |
| Net interest income | 1,674 | 1,596 | 4,875 | 4,492 |
| Provision for loan losses | 109 | 30 | 340 | 105 |
| Net interest income after provision for loan losses | 1,565 | 1,566 | 4,535 | 4,387 |
| Noninterest income: | | | | |
| Service charges on deposit accounts | 112 | 135 | 341 | 363 |
| Income on bank-owned life insurance | 27 | 26 | 76 | 62 |
| Gain on sales of mortgage loans | 73 | 90 | 217 | 264 |
| Net gain (loss) on sales of securities | 7 | (16) | 6 | (33) |
| Impairment loss on securities | - | (370) | (725) | (880) |
| Other | 5 | 133 | 30 | 163 |
| | 224 | (2) | (55) | (61) |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 657 | 609 | 1,864 | 1,895 |
| Occupancy and equipment | 157 | 174 | 498 | 520 |
| Data processing | 115 | 135 | 355 | 376 |
| Professional and supervisory fees | 46 | 43 | 150 | 134 |
| Office expense | 33 | 35 | 93 | 99 |
| Advertising | 28 | 33 | 78 | 88 |
| Other | 130 | 166 | 460 | 324 |
| | 1,166 | 1,195 | 3,498 | 3,436 |
| Income before income taxes | 623 | 369 | 982 | 890 |
| Income tax expense | 217 | 177 | 552 | 546 |

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| | | | | | | | | |
|------------|----|-----|----|-----|----|-----|----|-----|
| Net income | \$ | 406 | \$ | 192 | \$ | 430 | \$ | 344 |
|------------|----|-----|----|-----|----|-----|----|-----|

See accompanying notes to the consolidated financial statements

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CULLMAN SAVINGS BANK

Consolidated Statements of Equity and Comprehensive Income

(Unaudited)

(Dollars in thousands)

| | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|--|----------------------|--|-----------|
| Balance at January 1, 2009 | \$ 26,501 | \$ (56) | \$ 26,445 |
| Comprehensive income: | | | |
| Net income | 430 | | 430 |
| Unrealized holding gains net of tax, \$138 | | 120 | 120 |
| Reclassification adjustment for losses realized in income net of tax, \$2 | | 111 | 111 |
| Total comprehensive income | | | 661 |
| Balance at September 30, 2009 | \$ 26,931 | \$ 175 | \$ 27,106 |
| Balance at January 1, 2008 | \$ 26,205 | \$ (121) | \$ 26,084 |
| Comprehensive income: | | | |
| Net income | 344 | | 344 |
| Unrealized holding losses net of tax, \$12 | | (925) | (925) |
| Reclassification adjustment for losses realized in income net of tax, \$12 | | 925 | 925 |
| Total comprehensive income | | | 344 |
| Balance at September 30, 2008 | \$ 26,549 | \$ (121) | \$ 26,428 |

See accompanying notes to the consolidated financial statements

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CULLMAN SAVINGS BANK

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

| | Nine Months Ended September 30, | |
|--|------------------------------------|----------|
| | 2009 | 2008 |
| Cash Flows From Operating Activities | | |
| Net income | \$ 430 | \$ 344 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Provision for loan losses | 340 | 105 |
| Depreciation and amortization, net | 120 | 64 |
| Deferred income taxes | (122) | - |
| Net (gain) loss on sale of securities | (6) | 33 |
| Impairment loss on securities | 725 | 880 |
| Income on bank-owned life insurance | (76) | (62) |
| Gain on sales of mortgage loans | (217) | (264) |
| Mortgage loans originated for sale | (11,364) | (13,292) |
| Mortgage loans sold | 11,548 | 12,831 |
| Net change in operating assets and liabilities | | |
| Accrued interest receivable | 46 | (26) |
| Accrued interest payable and other liabilities | (44) | (315) |
| Other | (363) | 387 |
| Net cash from operating activities | 1,017 | 685 |
| Cash Flows From Investing Activities | | |
| Purchases of premises and equipment | (21) | (402) |
| Purchases of securities | (4,000) | (11,747) |
| Proceeds from maturities, paydowns and calls of securities | 6,550 | 5,234 |
| Proceeds from sale of securities | 750 | 500 |
| (Purchases) redemptions of restricted equity securities | 118 | (361) |
| Proceeds from sales of foreclosed real estate | 120 | - |
| Purchases of bank-owned life insurance | - | (2,000) |
| Proceeds from redemption of bank-owned life insurance | - | 116 |
| Loan originations and payments, net | (6,731) | (7,285) |
| Net cash used in investing activities | (3,214) | (15,945) |
| Cash Flows from Financing Activities | | |
| Net change in deposits | 6,783 | 6,179 |
| Proceeds from Federal Home Loan Bank Advances | - | 15,000 |
| Repayment of Federal Home Loan Bank Advances | (3,467) | (7,028) |
| Net cash from financing activities | 3,316 | 14,151 |
| Change in cash and cash equivalents | 1,119 | (1,109) |
| Cash and cash equivalents, beginning of year | 8,926 | 4,148 |
| Cash and cash equivalents, end of period | \$ 10,045 | \$ 3,039 |

Supplemental cash flow information:

| | | |
|-------------------|----------|----------|
| Interest paid | \$ 4,247 | \$ 5,487 |
| Income taxes paid | \$ 555 | \$ 634 |

Supplemental noncash disclosures:

| | | |
|---|--------|--------|
| Transfers from loans to foreclosed assets | \$ 591 | \$ 790 |
| Loans advanced for sales of foreclosed assets | \$ 325 | \$ - |

See accompanying notes to the consolidated financial statements

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CULLMAN SAVINGS BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Cullman Savings Bank 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 Savings Bank include the balances and results of operations of Cullman Savings Bank and its 99% ownership of Cullman Village Apartments (referred to herein as the Bank, we, us, or our). Intercompany transactions and balances are eliminated in the consolidation.

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 Bank s financial position as of September 30, 2009 and December 31, 2008 and the results of operations and cash flows for the interim periods ended September 30, 2009 and 2008. 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 Bank s audited consolidated financial statements and notes thereto filed as part of Cullman Bancorp Inc. s Prospectus dated August 12, 2009, as filed with the Securities and Exchange Commission pursuant to Securities Act Rule 424(b)(3) on August 21, 2009.

(2) NEW ACCOUNTING STANDARDS

In June 2009, the FASB issued an accounting standard which will require a qualitative rather than a quantitative analysis to determine the primary beneficiary of a variable interest entity (VIE) for consolidation purposes. The primary beneficiary of a VIE is the enterprise that has: (1) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance, and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits of the VIE that could potentially be significant to the VIE. This accounting standard is effective for periods that end after November 15, 2009. This standard has been incorporated into FASB ASC Topic 810 *Consolidation*. The adoption of this accounting standard will have no impact on the Bank s operating results or financial condition.

In June 2009, the FASB issued ASU No. 2009-01 (formerly Statement No. 168), Topic 105 - Generally Accepted Accounting Principles - FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. The Codification is the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. The Bank adopted this standard for the interim reporting period ending September 30, 2009. The adoption of this statement did not have a material impact on the Bank s operating results or financial position.

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CULLMAN SAVINGS BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

(3) 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 (loss) at September 30, 2009 and December 31, 2008 were as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--|-------------------|------------------------------|-------------------------------|----------------------------|
| September 30, 2009 (Unaudited) | | | | |
| Debt securities: | | | | |
| U.S. Government and federal agency | \$ 12,746 | \$ 112 | \$ (13) | \$ 12,845 |
| Residential mortgage-backed, GSE | 4,423 | 134 | - | 4,557 |
| Residential mortgage-backed, private label | 1,663 | - | (50) | 1,613 |
| Ultra Short mortgage mutual fund | 2,366 | 95 | - | 2,461 |
| Total | \$ 21,198 | \$ 341 | \$ (63) | \$ 21,476 |
| December 31, 2008 | | | | |
| Debt securities: | | | | |
| U.S. Government and federal agency | \$ 13,845 | \$ 254 | \$ - | \$ 14,099 |
| Residential mortgage-backed, GSE | 5,372 | 73 | (96) | 5,349 |
| Residential mortgage-backed, private label | 2,179 | - | (321) | 1,858 |
| Ultra Short mortgage mutual fund | 3,224 | - | - | 3,224 |
| Total | \$ 24,620 | \$ 327 | \$ (417) | \$ 24,530 |

The Bank's mortgage-backed securities are primarily issued by government sponsored enterprises (GSEs) such as Fannie Mae and Ginnie Mae as denoted in the tables above and below as GSE. At September 30, 2009 and December 31, 2008, the Bank had only one private label mortgage-backed security.

Sales of available for sale securities during the three and nine months ended September 30, 2009 and 2008 were as follows:

| | Three Months Ended September 30, 2009 | | Nine Months Ended September 30, 2009 | |
|--------------|---|---------|--|---------|
| | 2009 | 2008 | 2009 | 2008 |
| | (Unaudited) | | (Unaudited) | |
| Proceeds | \$ 250 | \$ 250 | \$ 750 | \$ 500 |
| Gross gains | 7 | - | 8 | - |
| Gross losses | \$ - | \$ (16) | \$ (2) | \$ (33) |

Tax benefits related to these losses were \$0 and \$6 for the three months ended September 30, 2009 and 2008, respectively, and \$1 and \$12 for the nine months ended September 30, 2009 and 2008, respectively.

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CULLMAN SAVINGS BANK
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

Restricted equity securities at September 30, 2009 and December 31, 2008 consisted of the following:

| | September 30, 2009 (Unaudited) | December 31, 2008 |
|------------------------------|--------------------------------------|----------------------|
| Federal Home Loan Bank Stock | \$ 2,711 | \$ 2,828 |
| Silverton Stock | - | 611 |
| | \$ 2,711 | \$ 3,439 |

The fair value of debt securities by contractual maturity at September 30, 2009 and December 31, 2008 were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

| | Estimated Fair Value | |
|-----------------------------|--------------------------------------|----------------------|
| | September 30, 2009 (Unaudited) | December 31, 2008 |
| Due from one to five years | \$ - | \$ 508 |
| Due from five to ten years | 2,523 | 1,121 |
| Due after ten years | 10,322 | 12,470 |
| Mutual fund | 2,461 | 3,224 |
| Residential Mortgage-backed | 6,170 | 7,207 |
| Total | \$ 21,476 | \$ 24,530 |

Carrying amounts of securities pledged to secure public deposits, repurchase agreements, and Federal Home Loan Bank advances as of September 30, 2009 and December 31, 2008 were \$8,393 and \$8,188, respectively. At September 30, 2009 and December 31, 2008, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies and the mutual fund investment, in an amount greater than 10% of retained earnings.

Securities with unrealized losses at September 30, 2009 and December 31, 2008, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

| | Less than 12 months Estimated | | 12 Months or More Estimated | | Total Estimated | |
|---------------------------|----------------------------------|--------------------|--------------------------------|--------------------|--------------------|--------------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| <u>September 30, 2009</u> | | | | | | |

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(Unaudited)

| | | | | | | |
|--|---------------|----------------|-----------------|----------------|-----------------|----------------|
| US Government and federal agency | \$ 984 | \$ (13) | \$ - | \$ - | \$ 984 | \$ (13) |
| Residential mortgage-backed, private label | - | - | 1,613 | (50) | 1,613 | (50) |
| Total temporarily impaired | \$ 984 | \$ (13) | \$ 1,613 | \$ (50) | \$ 2,597 | \$ (63) |

December 31, 2008

| | | | | | | |
|--|-----------------|-----------------|---------------|---------------|-----------------|-----------------|
| Residential mortgage-backed, GSE | 1,851 | (90) | 334 | (6) | 2,185 | (96) |
| Residential mortgage-backed, private label | 1,858 | (321) | - | - | 1,858 | (321) |
| Total temporarily impaired | \$ 3,709 | \$ (411) | \$ 334 | \$ (6) | \$ 4,043 | \$ (417) |

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CULLMAN SAVINGS BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

Unrealized losses on securities backed by the US Government or its agencies have not been recognized into net income because the issuer's bonds are of high credit quality, management has the intent and ability to hold for the foreseeable future, 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 private label mortgage-backed security carries a AAA credit rating and consists of fully amortizing ARMs of 1-4 family, owner occupied homes. Management has the intent and ability to hold this security for the foreseeable future, and the decline in fair value is largely due to the overall lack of liquidity in the market. The fair value is expected to recover as liquidity in the market improves.

The Bank evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Bank may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

The Bank's mutual fund consists of investment in shares of Shay Ultra Short Mortgage Fund. As required by GAAP, 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 Bank has been selling \$250 per quarter and has intent to sell more, therefore any unrealized losses are shown as other-than-temporary impairment. The pre-tax impairment loss on its mutual fund was \$114 for the nine months ended September 30, 2009. In 2008 the impairment charges were and \$370 and \$880 for the three and nine months ended September 30, 2008, respectively. These amounts are reported in impairment loss on investments.

Restricted Equity Securities

The Bank invests in both Federal Home Loan Bank (FHLB) Stock and Silverton Bank Stock, both carried at cost, less any impairment charges, and classified as restricted equity securities. Similar to available for sale securities, the Bank 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 Bank concluded that its investments of 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, which is reported in impairment loss on securities for the nine months ended September 30, 2009.

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CULLMAN SAVINGS BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

(4) LOANS

The components of loans receivable at September 30, 2009 and December 31, 2008 were as follows:

| | September 30, 2009 (Unaudited) | December 31, 2008 |
|---------------------------|--------------------------------------|----------------------|
| Real estate loans: | | |
| One- to four-family | \$ 82,762 | \$ 80,454 |
| Multi-family | 5,834 | 3,722 |
| Commercial real estate | 59,347 | 59,655 |
| Construction | 4,594 | 3,263 |
| Total real estate loans | 152,537 | 147,094 |
| Commercial loans | 7,402 | 6,592 |
| Consumer loans | 12,852 | 12,732 |
| Total loans | 172,791 | 166,418 |
| Net deferred loan fees | (576) | (703) |
| Allowance for loan losses | (709) | (472) |
| Loans, net | \$ 171,506 | \$ 165,243 |

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

| | Three months ended September 30, 2009 (Unaudited) | | Nine months ended September 30, 2009 (Unaudited) | |
|---------------------------|---|--------|--|--------|
| | 2009 (Unaudited) | 2008 | 2009 (Unaudited) | 2008 |
| Beginning balance | \$ 706 | \$ 415 | \$ 472 | \$ 430 |
| Provision for loan losses | 109 | 30 | 340 | 105 |
| Loans charged off | (107) | (4) | (107) | (97) |
| Recoveries | 1 | 1 | 4 | 4 |
| Ending balance | \$ 709 | \$ 442 | \$ 709 | \$ 442 |

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CULLMAN SAVINGS BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

Non-performing loans and troubled debt restructuring at September 30, 2009 and December 31, 2008 were as follows:

| | September 30, 2009 (Unaudited) | December 31, 2008 |
|--|--------------------------------------|----------------------|
| Loans past due 90 days and still on accrual | \$ - | \$ 4 |
| Non-accrual loans | 513 | 124 |
| Total non-performing loans | 513 | 128 |
| Troubled debt restructurings | - | 1,271 |
| Total non-performing loans and troubled debt restructurings | \$ 513 | \$ 1,399 |

Non-performing loans and loans past due 90 days still on accrual include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified impaired loans.

At September 30, 2009 and December 31, 2008, loans individually identified as impaired were \$4,222 and \$4,060, respectively. Average balances of these impaired loans were \$4,263 and \$ 3,922, respectively, for the periods then ended. The allowance for loan loss allocated for impaired loans for September 30, 2009 and December 31, 2008 was \$252 and \$69, respectively. Interest income recognized and cash basis interest income during the impairment period in September 30, 2009 and December 31, 2008 was \$252 and \$200, respectively.

(5) FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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 to 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).

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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.

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CULLMAN SAVINGS BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

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, 2009 and December 31, 2008:

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
at September 30, 2009 Using

| | Significant Other Observable Inputs (Level 2) |
|--|---|
| Assets: | |
| Available for sale securities | |
| U.S. Government and federal agency | \$ 12,845 |
| Residential mortgage-backed, GSE | 4,557 |
| Residential mortgage-backed, private label | 1,613 |
| Ultra Short mortgage mutual fund | 2,461 |
| Total | \$ 21,476 |

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
at September 30, 2009 Using

| | Significant Unobservable Inputs (Level 3) |
|------------------------|---|
| Assets: | |
| Impaired loans | \$ 4,142 |
| Foreclosed real estate | 1,006 |

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$4,222 with a valuation allowance of \$80, resulting in an increase to the provision for loan losses of \$10 for the nine months ended

September 30, 2009.

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CULLMAN SAVINGS BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

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
at December 31, 2008 Using

| | Significant Other Observable Inputs (Level 2) |
|--|---|
| Assets: | |
| Available for sale securities | |
| U.S. Government and federal agency | \$ 14,099 |
| Residential mortgage-backed, GSE | 5,349 |
| Residential mortgage-backed, private label | 1,858 |
| Ultra Short mortgage mutual fund | 3,224 |
| Total | \$ 24,530 |

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
at December 31, 2008 Using

| | Significant Unobservable Inputs (Level 3) |
|----------------|---|
| Assets: | |
| Impaired loans | \$ 3,991 |

Impaired loans, which are required to be measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$4,060, with a valuation allowance of \$69, resulting in an additional provision for loan losses of \$37 for the period ended December 31, 2008.

Fair value measurements for assets measured on a non-recurring basis at September 30, 2009 and December 31, 2008 included impaired loans and foreclosed real estate. Impaired loans with specific reserve allocations are measured and reported at fair value. GAAP requires foreclosed

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real estate to be measured and reported at the lower of the carrying value of the related loan or the fair value of the collateral value less costs to sell.

The Bank estimated the fair values of impaired loans based upon the fair value of the underlying real estate collateral. The fair value of the real estate was based upon recent real estate appraisals that incorporate assumptions about what a willing investor would pay to acquire these real estate assets. These assumptions are largely derived from an analysis of comparable real estate sales in close proximity to the real estate being valued. The fair value of the foreclosed real estate was determined in the same manner as for impaired loans and includes the Bank's estimate of costs to sell.

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CULLMAN SAVINGS BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

Many of the Bank's assets and liabilities are short-term 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. The estimated fair values of the Bank's remaining on-balance sheet financial instruments at September 30, 2009 and December 31, 2008 are summarized below:

| | September 30, 2009 | | December 31, 2008 | |
|---------------------------------|-----------------------|---------------|----------------------|---------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (Unaudited) | | | |
| Financial assets | | | | |
| Securities available for sale | \$ 21,476 | \$ 21,476 | \$ 24,530 | \$ 24,350 |
| Loans, net | 171,506 | 182,726 | 165,243 | 173,516 |
| Loans held for sale | 278 | 278 | 245 | 245 |
| Restricted equity securities | 2,711 | N/A | 3,439 | N/A |
| Financial liabilities | | | | |
| Deposits | 140,997 | 142,553 | 134,214 | 136,986 |
| Federal Home Loan Bank Advances | 51,204 | 54,655 | 54,671 | 59,477 |
| Long-term debt | 860 | 860 | 860 | 860 |

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CULLMAN SAVINGS BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

(6) SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 6, 2009, the issue date of the financial statements.

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 recognition, 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. 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 will be 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.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
OF CULLMAN SAVINGS BANK**

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 Cullman Bancorp Inc. s Prospectus dated August 12, 2009, as filed with the Securities and Exchange Commission pursuant to Securities Act Rule 424(b)(3) on August 21, 2009.

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Comparison of Financial Condition at September 30, 2009 and December 31, 2008

Our total assets increased to \$221.6 million at September 30, 2009 from \$217.4 million at December 31, 2008. The increase was primarily attributable to an increase in loans of \$6.3 million or 3.8% to \$171.5 million and an increase in cash and cash equivalents of \$1.1 million or 12.5% to \$10.0 million at September 30, 2009, partially offset by a decrease in securities available-for-sale of \$3.1 million or 12.7%. Loan demand has remained steady in our target market area, aided by the continued low interest rate environment. We have deployed cash resources from pay downs and maturities of available-for-sale securities to meet the demand for new loans. Other-than-temporary impairment losses during the nine month period ended September 30, 2009 on available-for-sale securities and restricted equity securities had a combined effect of offsetting our increase in total assets by \$725,000.

Deposits increased to \$141.0 million at September 30, 2009 from \$134.2 million at December 31, 2008. The increase in deposits reflected a \$15.1 million increase in non-interest bearing deposits, offset by an \$8.3 million decrease in interest bearing deposits. The increase in non-interest bearing deposits was primarily attributable to the effect of subscriptions for common stock that was issued in our recent public stock offering of \$10.8 million. The decrease in interest bearing deposits resulted from a decrease of \$5.8 million or 7.3% of total certificates of deposits to \$74.2 million from \$80.0 million at December 31, 2008, reflecting our strategy to reduce this higher-costing funding source for our lending. Federal Home Loan Bank advances decreased to \$51.2 million at September 30, 2009 from \$54.7 million at December 31, 2008, reflecting the anticipated decreased need for this alternative funding source given the proceeds recently received from our public stock offering.

Total equity increased to \$27.1 million at September 30, 2009 from \$26.4 million at December 31, 2008. The net increase of \$661,000 or 2.5% reflected accumulated other comprehensive income of \$175,000 at September 30, 2009, an increase of \$231,000 in other comprehensive income from the accumulated other comprehensive loss of \$56,000 at December 31, 2008 and net income of \$430,000 for the nine months ended September 30, 2009.

Table of Contents**Average Balance and Yields**

The following tables set forth average balances, 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, discounts and premiums that are amortized or accreted to income.

| (Dollars in thousands) | For The Three Months Ended September | | | | | |
|---|--------------------------------------|-----------------------------------|----------------|--------------------|-----------------------------------|----------------|
| | Average Balance | 2009 Interest and Dividends | Yield/ Cost | Average Balance | 2008 Interest and Dividends | Yield/ Cost |
| Assets: | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans | \$ 169,678 | \$ 2,798 | 6.54% | \$ 171,022 | \$ 2,876 | 6.67% |
| Securities available for sale | 20,804 | 256 | 4.88% | 26,772 | 342 | 5.07% |
| Other interest-earning assets | 5,800 | 7 | 0.48% | 5,429 | 34 | 2.48% |
| Total interest-earning assets | 196,282 | 3,061 | 6.19% | 203,223 | 3,252 | 6.35% |
| Noninterest earning assets | 17,546 | | | 18,438 | | |
| Total average assets | \$ 213,828 | | | \$ 221,661 | | |
| Liabilities and equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Total interest-bearing deposits | \$ 133,669 | \$ 740 | 2.20% | \$ 138,473 | \$ 1,059 | 3.03% |
| FHLB advances | 51,284 | 643 | 4.97% | 54,294 | 592 | 4.33% |
| Other borrowings | 860 | 4 | 1.85% | 925 | 5 | 2.14% |
| Total interest-bearing liabilities | 185,813 | 1,387 | 2.96% | 193,692 | 1,656 | 3.39% |
| Noninterest-bearing liabilities | 1,298 | | | 1,388 | | |
| Total liabilities | 187,111 | | | 195,080 | | |
| Total equity | 26,717 | | | 26,581 | | |
| Total liabilities and equity | \$ 213,828 | | | \$ 221,661 | | |
| Net interest income | | \$ 1,674 | | | \$ 1,596 | |
| Interest rate spread | | | 3.23% | | | 2.96% |
| Net interest margin | | | 3.38% | | | 3.12% |
| Average interest-earning assets to average interest-bearing liabilities | 1.06x | | | 1.05x | | |

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| (Dollars in thousands) | For The Nine Months Ended September | | | | | |
|---|-------------------------------------|-----------------------------------|----------------|--------------------|-----------------------------------|----------------|
| | Average Balance | 2009 Interest and Dividends | Yield/ Cost | Average Balance | 2008 Interest and Dividends | Yield/ Cost |
| Assets: | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans | \$ 167,746 | \$ 8,269 | 6.59% | \$ 168,366 | \$ 8,542 | 6.78% |
| Securities available for sale | 21,379 | 799 | 5.00% | 24,801 | 926 | 4.99% |
| Other interest-earning assets | 6,335 | 10 | 0.21% | 7,877 | 196 | 3.33% |
| Total interest-earning assets | 195,460 | 9,078 | 6.21% | 201,044 | 9,664 | 6.43% |
| Noninterest earning assets | 17,986 | | | 16,638 | | |
| Total average assets | \$ 213,446 | | | \$ 217,682 | | |
| Liabilities and equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Total interest-bearing deposits | \$ 133,256 | \$ 2,476 | 2.48% | \$ 136,443 | \$ 3,382 | 3.31% |
| FHLB advances | 51,581 | 1,715 | 4.45% | 52,470 | 1,775 | 4.52% |
| Other borrowings | 860 | 12 | 1.87% | 925 | 15 | 2.17% |
| Total interest-bearing liabilities | 185,697 | 4,203 | 3.03% | 189,838 | 5,172 | 3.64% |
| Noninterest-bearing liabilities | 1,158 | | | 1,308 | | |
| Total liabilities | 186,855 | | | 191,146 | | |
| Total equity | 26,591 | | | 26,536 | | |
| Total liabilities and equity | \$ 213,446 | | | \$ 217,682 | | |
| Net interest income | | \$ 4,875 | | | \$ 4,492 | |
| Interest rate spread | | | 3.18% | | | 2.79% |
| Net interest margin | | | 3.33% | | | 2.99% |
| Average interest-earning assets to average interest-bearing liabilities | 1.05x | | | 1.06x | | |

Table of Contents**Comparison of Operating Results for the Three Months Ended September 30, 2009 and 2008**

General. We recorded net income of \$406,000 for the three months ended September 30, 2009 compared to net income of \$192,000 for the three months ended September 30, 2008. The increase in net income was primarily attributable to an other-than-temporary impairment loss of \$370,000 during the three months ended September 30, 2008 on securities available-for-sale.

Interest Income. Interest income decreased to \$3.1 million for the three months ended September 30, 2009 from \$3.3 million for the three months ended September 30, 2008, reflecting a slight decrease in average interest-earning assets to \$196.3 million for the 2009 period compared to \$203.2 million for the 2008 period. In addition, the average yield on interest-earning assets decreased to 6.19% from 6.35%. The decrease in market interest rates contributed to the downward re-pricing of a portion of our existing assets and to lower rates for new assets.

Interest income on loans decreased to \$2.8 million for the three months ended September 30, 2009 from \$2.9 million for the three months ended September 30, 2008, reflecting a decrease in the average balance of our loans to \$169.7 million from \$171.0 million and a decrease in the average yield on such loans, to 6.54% from 6.67%. 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 \$256,000 for the three months ended September 30, 2009 from \$342,000 for the three months ended September 30, 2008, reflecting a decrease in the average balance of such securities to \$20.8 million from \$26.8 million, as well as a decrease in the average yield on such securities to 4.88% from 5.07%.

Interest Expense. Interest expense decreased \$269,000, or 16.24%, to \$1.4 million for the three months ended September 30, 2009 from \$1.7 million for the three months ended September 30, 2008. The decrease reflected a decrease in the average rate paid on deposits and borrowings to 2.96% in the 2009 period from 3.39% in the 2008 period, as well as a decrease in the average balance of such deposits and borrowings to \$185.8 million for the 2009 period from \$193.7 million for the 2008 period.

Interest expense on certificates of deposit decreased to \$620,000 for the three months ended September 30, 2009 from \$803,000 for the three months ended September 30, 2008, reflecting a decrease in the average balance of such certificates to \$77.0 million from \$79.5 million as well as a decrease in the average cost of such certificates to 3.20% from 4.01%. 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 2008 and the lower market interest rates resulting from such cuts.

Interest expense on NOW and demand deposits decreased to \$122,000 for the three months ended September 30, 2009 from \$260,000 for the three months ended September 30, 2008, reflecting a decrease of \$2.2 million in the average balance of such deposits as well as a decrease in the average cost of such deposits to 0.90% from 1.75%.

Interest expense on borrowings, primarily advances from the Federal Home Loan Bank, increased to \$647,000 for the three months ended September 30, 2009 from \$597,000 for the three months ended September 30, 2008, as the average rate paid on such borrowings increased to 4.92% from 4.29%, which more than offset a decrease in the average balance of such borrowings to \$52.1 million from \$55.2 million.

Net Interest Income. Net interest income increased to \$1.7 million for the three months ended September 30, 2009 from \$1.6 million for the three months ended September 30, 2008. The increase reflected an increase in our interest rate spread to 3.23% from 2.96%. The ratio of our interest-earning assets to average interest-bearing liabilities increased to 1.06X for the three months ended September 30, 2009 from 1.05X for the three months ended September 30, 2008. Our net interest margin also increased to 3.38% from 3.12%. 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 \$109,000 for the three months ended September 30, 2009 compared to \$30,000 for the three months ended September 30, 2008. The allowance for loan losses was \$709,000 or 0.41% of total loans at September 30, 2009 compared to \$442,000, or 0.26% of total loans at September 30, 2008. Total nonperforming loans were \$513,000 at September 30, 2009 compared to \$532,000 at September 30, 2008. While we used the same methodology in assessing the allowances for both periods, we increased the impact of qualitative factors in the 2009 period to reflect further deterioration in the economy. This resulted in a higher provision and allowance for loan losses during the period. 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, 2009 and 2008.

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Noninterest Income. Noninterest income increased to \$224,000 for the three months ended September 30, 2009 from (\$2,000) for the three months ended September 30, 2008. The increase in noninterest income was due to \$370,000 of pretax other-than-temporary impairment losses on available-for-sale securities in the 2008 period compared to no such losses in the 2009 period.

Noninterest Expense. Noninterest expense remained relatively static at \$1.2 million for the three months ended September 30, 2009 and 2008. The increase in salaries and employee benefits of \$48,000 was offset by decreases in data processing of \$20,000 and other expenses by \$36,000 for the three months ended September 30, 2009 from the three months ended September 30, 2008. The decreases in other noninterest expenses were mainly attributable to decreases in training and seminar expenses of approximately \$11,000 and decreases in charitable contributions of approximately \$60,000, offset slightly by an increase in FDIC deposit insurance premiums of approximately \$46,000 for the three months ended September 30, 2009 from the three months ended September 30, 2008.

Income Tax Expense. The provision for income taxes was \$217,000 for the three months ended September 30, 2009 compared to \$177,000 for the three months ended September 30, 2008. Our effective tax rate was 35.0% for the three months ended September 30, 2009 compared to 48.0% for the three months ended September 30, 2008. The higher effective tax rate for the three months ended September 30, 2008 reflected the increase in pretax other-than-temporary impairment losses on available-for-sale securities. The impairment losses on 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.

Comparison of Operating Results for the Nine Months Ended September 30, 2009 and September 30, 2008

General. Net income increased to \$430,000 for the nine months ended September 30, 2009 from \$344,000 for the nine months ended September 30, 2008. The \$86,000 increase was primarily attributable to an increase in net interest income after provision for loan losses of \$148,000, partially offset by an increase in noninterest expenses of \$62,000 for the nine months ended September 30, 2009 from the nine months ended September 30, 2008. The increase in noninterest expenses was primarily attributable to an increase of approximately \$225,000 in FDIC deposit insurance premiums, partially offset by a decrease in charitable contribution of approximately \$69,000 for the nine months ended September 30, 2009 from the nine months ended September 30, 2008.

Interest Income. Interest income decreased to \$9.1 million for the nine months ended September 30, 2009 from \$9.7 million for the nine months ended September 30, 2008, reflecting a decrease in average interest-earning assets to \$195.5 million for the 2009 period compared to \$201.0 million for the 2008 period. In addition, the average yield on interest-earning assets decreased to 6.21% from 6.43%. The decrease in market interest rates contributed to the downward re-pricing of a portion of our existing assets and to lower rates for new assets.

Interest income on loans decreased to \$8.3 million for the nine months ended September 30, 2009 from \$8.5 million for the nine months ended September 30, 2008, reflecting a decrease in the average balance of our loans to \$167.7 million from \$168.4 million and a decrease in the average yield on such loans, to 6.59% from 6.78%. 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 \$799,000 for the nine months ended September 30, 2009 from \$926,000 for the nine months ended September 30, 2008, reflecting a decrease in the average balance of such securities to \$21.4 million from \$24.8 million, partially offset by an increase in the average yield on such securities to 5.00% from 4.99%.

Interest Expense. Interest expense decreased \$969,000, or 18.74%, to \$4.2 million for the nine months ended September 30, 2009 from \$5.2 million for the nine months ended September 30, 2008. The decrease reflected a decrease in the average rate paid on deposits and borrowings to 3.03% in the 2009 period from 3.64% in the 2008 period, as well as a decrease in the average balance of such deposits and borrowings to \$185.7 million for the 2009 period from \$189.8 million for the 2008 period.

Interest expense on certificates of deposit decreased to \$2.0 million for the nine months ended September 30, 2009 from \$2.6 million for the nine months ended September 30, 2008, reflecting a decrease in the average cost of such certificates to 3.46% from 4.36% as well as a decrease in the average balance of certificate of deposits to \$78.3 million from \$79.1 million. The decrease in the average cost of such certificates reflected the repricing in response to interest rate cuts initiated by the Federal Reserve Board during 2008 and the lower market interest rates resulting from such cuts.

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Interest expense on NOW and demand deposits decreased to \$456,000 for the nine months ended September 30, 2009 from \$811,000 for the nine months ended September 30, 2008, reflecting a decrease of \$2.4 million in the average balance of such deposits as well as a decrease in the average cost of such deposits to 1.11% from 1.90%.

Interest expense on borrowings, primarily advances from the Federal Home Loan Bank, decreased to \$1.7 million for the nine months ended September 30, 2009 from \$1.8 million for the nine months ended September 30, 2008, as the average rate paid on such borrowings decreased to 4.40% from 4.48%. There was also a small decrease in the average balance of such borrowings to \$52.4 million from \$53.4 million.

Net Interest Income. Net interest income increased to \$4.9 million for the nine months ended September 30, 2009 from \$4.5 million for the nine months ended September 30, 2008. The increase reflected an increase in our interest rate spread to 3.18% from 2.79%. The ratio of our interest-earning assets to average interest-bearing liabilities decreased slightly to 1.05X from 1.06X, partially offset by a decrease in our total cost of funding to 3.03% for the nine months ended September 30, 2009 from 3.64% for the nine months ended September 30, 2008. Our net interest margin also increased to 3.33% from 2.99%. The increases in our interest rate spread and net interest margin reflected the continued repricing of our deposits at lower rates in the decreasing interest rate environment.

Provision for Loan Losses. We recorded a provision for loan losses of \$340,000 for the nine months ended September 30, 2009 compared to \$105,000 for the nine months ended September 30, 2008. The allowance for loan losses was \$709,000 or 0.41% of total loans at September 30, 2009 compared to \$442,000, or 0.26% of total loans at September 30, 2008. Total nonperforming loans were \$513,000 at September 30, 2009 compared to \$532,000 at September 30, 2008. While we used the same methodology in assessing the allowances for both periods, we increased the impact of qualitative factors in the 2009 period to reflect further deterioration in the economy. This resulted in a higher provision and allowance for loan losses during the period. 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, 2009 and 2008.

Noninterest Income. Noninterest income was (\$55,000) for the nine months ended September 30, 2009 and (\$61,000) for the nine months ended September 30, 2008. The results reflected \$725,000 and \$880,000 in pretax other-than-temporary impairment losses on available-for-sale and restricted equity securities in the 2009 period and the 2008 period, respectively. In addition, there was a decrease of \$47,000 in gains on sales of mortgage loans and a decrease in other noninterest income of \$133,000 for the nine months ended September 30, 2009 from the nine months ended September 30, 2008, primarily attributed to \$90,000 of death benefit received on a bank owned life insurance policy for a Bank director.

Noninterest Expense. Noninterest expense increased to \$3.5 million for the nine months ended September 30, 2009 from \$3.4 million for the nine months ended September 30, 2008. The increase in noninterest expense was primarily attributable to an increase to \$460,000 from \$324,000 in other expenses, attributable in part to an increase in FDIC deposit insurance premiums to \$238,000 from \$13,000 (including a \$94,000 special assessment at September 30, 2009). This increase was partially offset by slight decreases in salaries and employee benefits, occupancy and equipment, and data processing.

Income Tax Expense. The provision for income taxes was \$552,000 for the nine months ended September 30, 2009 compared to \$546,000 for the nine months ended September 30, 2008. Our effective tax rate was 56.2% for the nine months ended September 30, 2009 compared to 61.4% for the nine months ended September 30, 2008. The higher effective tax rate for the nine months ended September 30, 2009 reflected the increase in pretax other-than-temporary impairment losses on available for sale and restricted equity securities during those periods. Our effective tax rate is high in both periods because the 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.

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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 Bank.

ITEM 4T. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Bank'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 Bank'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, 2009. Based on that evaluation, the Bank's management, including the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer, concluded that the Bank's disclosure controls and procedures were effective. It should be noted that the design of any system of controls is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

During the quarter ended September 30, 2009, there have been no changes in the Bank's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Bank'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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

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

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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 6, 2009

/s/ JOHN A. RILEY III
John A. Riley III
President and 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. |