Cheviot Financial Corp.
Form 10-Q
May 10, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from ____________ to _______________

Commission File No. 0-50529

CHEVIOT FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

Maryland	90-0789920
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3723 Glenmore Avenue, Cincinnati, Ohio 45211
(Address of principal executive office)

Registrant's telephone number, including area code: (513) 661-0457

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer o

Small business issuer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of May 10, 2013, the latest practicable date, 7,237,526 shares of the registrant's common stock, $.01 par value, were issued and outstanding.

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 o

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and due from banks	$ 11,559	$ 10,251
Federal funds sold	25,182	12,555
Interest-earning deposits in other financial institutions	11,847	2,308
Cash and cash equivalents	48,588	25,114
Investment securities available for sale – at fair value	167,583	195,963
Mortgage-backed securities available for sale - at fair value	5,576	6,029
Mortgage-backed securities held to maturity - at cost, approximate market value of $3,634 and $3,772 at March 31, 2013 and December 31, 2012, respectively	3,479	3,581
Loans receivable - net	332,513	337,110
Loans held for sale - at lower of cost or market	934	3,304
Real estate acquired through foreclosure - net	4,596	3,980
Office premises and equipment - at depreciated cost	12,895	12,481
Federal Home Loan Bank stock - at cost	8,651	8,651
Accrued interest receivable on loans	1,266	1,303
Accrued interest receivable on mortgage-backed securities	19	20
Accrued interest receivable on investments and interest-earning deposits	557	941
Goodwill	10,309	10,309
Core deposit intangible	681	746
Prepaid expenses and other assets	4,811	4,596
Bank-owned life insurance	15,369	15,249
Prepaid federal income taxes	1,192	1,192
Deferred federal income taxes	1,231	1,413
Total assets	$ 620,250	$ 631,982
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$ 486,207	$ 490,646
Advances from the Federal Home Loan Bank	22,331	24,314
Advances by borrowers for taxes and insurance	1,480	2,331
Accrued interest payable	94	90
Accounts payable and other liabilities	4,952	6,701
Total liabilities	515,064	524,082
Shareholders' equity		
Preferred stock - authorized 5,000,000 shares, $.01 par value; none issued		

Common stock - authorized 30,000,000 shares, $.01 par value; 7,363,326 and 7,596,557 shares issued at March 31, 2013 and December 31, 2012	76	76
Additional paid-in capital	63,227	65,772
Shares acquired by stock benefit plans	(1,992)	(1,992)
Retained earnings - restricted	43,572	43,444
Accumulated comprehensive gain, unrealized gains on securities available for sale, net of related tax expense	303	600
Total shareholders' equity	105,186	107,900
Total liabilities and shareholders' equity	$620,250	$631,982

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

For the three months ended March 31, 2013 and 2012
(In thousands, except per share data)

	2013	2012
Interest income		
Loans	$4,074	$4,832
Mortgage-backed securities	41	60
Investment securities	869	569
Interest-earning deposits and other	97	96
Total interest income	5,081	5,557
Interest expense		
Deposits	967	1,272
Borrowings	193	252
Total interest expense	1,160	1,524
Net interest income	3,921	4,033
Provision for losses on loans	55	150
Net interest income after provision for losses on loans	3,866	3,883
Other income		
Rental	41	37
Gain (loss) on sale of real estate acquired through foreclosure	(3)	29
Gain on sale of loans	238	377
Earnings on bank-owned life insurance	120	80
Service fee income	360	399
Other operating	191	54
Total other income	947	976
General, administrative and other expense		
Employee compensation and benefits	1,683	1,658
Occupancy and equipment	404	426
Property, payroll and other taxes	368	295
Data processing	148	156
Legal and professional	215	169
Advertising	75	75
FDIC expense	108	114
ATM processing expense	89	89
Real estate owned impairment	101	52
Core deposit intangible amortization	65	88
Other operating	431	464
Total general, administrative and other expense	3,687	3,586

Earnings before federal income taxes	1,126	1,273
Federal income taxes		
Current	-	241
Deferred	335	149
Total federal income taxes	335	390
NET EARNINGS	$791	$883
EARNINGS PER SHARE		
Basic	$.11	$.12
Diluted	$.11	$.12
Dividends declared per share	$.09	$.08

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months ended March 31, 2013 and 2012
(In thousands)

	2013	2012
Net earnings for the period	$791	$883
Other comprehensive loss, net of related tax benefits:		
Unrealized holding losses on securities during the period, net of tax benefits of $153 and $297 for the periods ended March 31, 2013 and 2012, respectively	(297)	(576)
Comprehensive income	$494	$307
Accumulated comprehensive gain (loss)	$303	$(298)

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the three months ended March 31, 2013 and 2012
(In thousands)

	2013	2012
Cash flows from operating activities:		
Net earnings for the period	$791	$883
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Amortization of premiums and discounts on investment and mortgage-backed securities, net	(7)	(21)
Depreciation	185	186
Charitable donation of real estate owned property	32	-
Amortization of deferred loan origination costs - net	(3)	1
Proceeds from sale of loans in the secondary market	16,590	17,158
Loans originated for sale in the secondary market	(13,877)	(18,382)
Gain on sale of loans	(238)	(377)
Amortization of expense related to stock benefit plans	(1)	(16)
Provision for losses on loans	55	150
Amortization of fair value adjustments	(277)	(208)
(Gain) loss on real estate acquired through foreclosure	3	(29)
Impairment on real estate acquired through foreclosure	101	52
Net increase in cash surrender value of bank-owned life insurance	(120)	(80)
Increase (decrease) in cash, due to changes in:		
Accrued interest receivable on loans	37	108
Accrued interest receivable on mortgage-backed securities	1	1
Accrued interest receivable on investments and interest-earning deposits	384	24
Prepaid expenses and other assets	(215)	853
Accrued interest payable	4	(6)
Accounts payable and other liabilities	(1,774)	(786)
Federal income taxes		
Current	-	181
Deferred	335	149
Net cash flows provided by (used in) operating activities	2,006	(159)
Cash flows provided by (used in) investing activities:		
Principal repayments on loans	18,406	22,678
Loan disbursements	(14,942)	(9,192)
Purchase of investment securities – available for sale	(31,273)	(77,155)
Proceeds from maturity of investment securities – available for sale	61,175	39,350
Purchase of corporate securities	(1,920)	-
Principal repayments on mortgage-backed securities – available for sale	408	336
Principal repayments on mortgage-backed securities – held to maturity	102	136
Proceeds from the sale of real estate acquired through foreclosure	413	1,106
Purchase of office premises and equipment	(599)	(333)
Net cash flows provided by (used in) investing activities	31,770	(23,074)

Cash flows provided by (used in) financing activities:		
Net increase (decrease) in deposits	(4,283)	7,440
Repayments on Federal Home Loan Bank advances	(1,961)	(2,804)
Advances by borrowers for taxes and insurance	(851)	(810)
Stock option expense, net	5	5
Proceeds from stock conversion	-	22,151
Shares acquired by stock benefit plans	-	(1,496)
Common stock repurchased	(2,549)	-
Dividends paid on common stock	(663)	(607)
Net cash flows provided by (used in) financing activities	(10,302)	23,879
Net increase in cash and cash equivalents	23,474	646
Cash and cash equivalents at beginning of period	25,114	45,140
Cash and cash equivalents at end of period	$48,588	$45,786

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

For the three months ended March 31, 2013 and 2012
(In thousands)

	2013	2012
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	$-	$52
Interest on deposits and borrowings	$1,156	$1,530
Supplemental disclosure of non-cash investing activities:		
Transfer from loans to real estate acquired through foreclosure	$1,165	$1,261
Recognition of mortgage servicing rights	$126	$127
Deferred gain on real estate acquired through foreclosure	$-	$13

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2013 and 2012

1. Basis of Presentation

Cheviot Financial Corp. ("Cheviot Financial" or the "Corporation") is a financial holding company, the principal asset of which consists of its ownership of Cheviot Savings Bank (the "Savings Bank"). The Savings Bank conducts a general banking business in southwestern Ohio which consists of attracting deposits and applying those funds primarily to the origination of real estate loans. The Savings Bank's profitability is significantly dependent on net interest income, which is the difference between interest income from interest-earning assets and the interest expense paid on interest-bearing liabilities. Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances.

On January 18, 2012 we completed our second step reorganization and sale of common stock. Prior to the completion of the second step conversion, Cheviot Financial was a federal corporation and mid-tier holding company. Following the reorganization Cheviot Financial is the Maryland chartered holding company of the Savings Bank.

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Cheviot Financial included in the Annual Report on Form 10-K for the year ended December 31, 2012. However, in the opinion of management, all adjustments (consisting of only normal recurring accruals) which are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three month period ended March 31, 2013 are not necessarily indicative of the results which may be expected for the entire year.

Cheviot Financial evaluates subsequent events through the date of filing with the Securities and Exchange Commission.

2. Principles of Consolidation

The accompanying consolidated financial statements as of and for the three months ended March 31, 2013 and 2012 include the accounts of the Corporation and its wholly-owned subsidiary, the Savings Bank. All significant intercompany items have been eliminated.

3. Liquidity and Capital Resources

Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, scheduled amortization and prepayments of loan principal and mortgage-backed securities, maturities and calls of securities and funds provided by our operations. In addition, we may borrow from the Federal Home Loan Bank of Cincinnati. At March 31, 2013 and December 31, 2012, we had $22.3 million and $24.3 million, respectively, in outstanding borrowings from the Federal Home Loan Bank of Cincinnati and had the capacity to increase such borrowings at those dates by approximately $132.6 million and $136.6 million, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

3. Liquidity and Capital Resources (continued)

Loan repayments and maturing securities are a relatively predictable source of funds. However, deposit flows, calls of securities and prepayments of loans and mortgage-backed securities are strongly influenced by interest rates, general and local economic conditions and competition in the marketplace. These factors reduce the predictability of these sources of funds.

Our primary investing activities are the origination of one- to four-family real estate loans, commercial real estate, construction and consumer loans, and the purchase of securities. For the three months ended March 31, 2013, loan originations totaled $28.8 million, compared to $27.6 million for the three months ended March 31, 2012.

Total deposits decreased $4.4 million during the three months ended March 31, 2013, while total deposits increased $7.4 million during the three months ended March 31, 2012, respectively. Deposit flows are affected by the level of interest rates, the interest rates and products offered by competitors and other factors.

The following table sets forth information regarding the Corporation's obligations and commitments to make future payments under contracts as of March 31, 2013.

	Payments due by period				
	Less than 1 year	More than 1-3 years	More than 4-5 years	More than 5 years	Total
	(In thousands)				
Contractual obligations:					
Advances from the Federal Home Loan Bank	$-	$4,511	$14,181	$3,639	$22,331
Certificates of deposit	122,119	88,270	41,764	6	252,159
Lease obligations	182	358	114	248	902
Amount of loan commitments and expiration per period:					
Commitments to originate one- to four-family loans	4,842	-	-	-	4,842
Home equity lines of credit	27,569	-	-	-	27,569
Commercial lines of credit	1,433	-	-	-	1,433
Undisbursed loans in process	1,398	-	-	-	1,398
Total contractual obligations	$157,543	$93,139	$56,059	$3,893	$310,634

We are committed to maintaining a strong liquidity position and we monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Based on our deposit retention experience and current pricing strategy, we anticipate that a significant portion of maturing time deposits will be retained.

At March 31, 2013 and 2012, we exceeded all of the applicable regulatory capital requirements. Our core (Tier 1) capital was $77.4 million and $76.3 million, or 12.8% and 12.1% of total assets at March 31, 2013 and 2012, respectively. In order to be classified as “well-capitalized” under federal banking regulations, we were required to have core capital of at least $37.1 million, or 6.0% of assets as of March 31, 2013. To be classified as a well-capitalized bank, we must also have a ratio of total risk-based capital to risk-weighted assets of at least 10.0%. At March 31, 2013 and 2012, we had a total risk-based capital ratio of 25.3% and 24.7%, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

4. Earnings Per Share

Basic earnings per share is computed based upon the weighted-average common shares outstanding during the period, less shares in the ESOP that are unallocated and not committed to be released plus shares in the ESOP that have been allocated. Weighted-average common shares deemed outstanding gives effect to 208,251 and 248,206 unallocated shares held by the ESOP for the three months ended March 31, 2013 and 2012, respectively.

	For the three months ended March 31,	
	2013	2012
Weighted-average common shares outstanding (basic)	7,300,012	7,618,322
Dilutive effect of assumed exercise of stock options	6,688	7,391
Weighted-average common shares outstanding (diluted)	7,306,700	7,625,713

5. Stock Option Plan

On April 26, 2005, the Corporation approved a Stock Incentive Plan that provides for grants of up to 416,517 stock options. During 2012, 2011 and 2010 approximately 5,600, 3,771 and 7,593 stock options were granted subject to a five year vesting period. The shares in the plan and the shares granted have been adjusted to reflect the exchange ratio of 0.857.

The Corporation follows FASB Accounting Standard Codification Topic 718 (ASC 718), “Compensation – Stock Compensation,” for its stock option plans, and accordingly, the Corporation recognizes the expense of these grants as required. Stock-based employee compensation costs pertaining to stock options is reflected as a net increase in equity, for both any new grants, as well as for all unvested options outstanding at December 31, 2005, in both cases using the fair values established by usage of the Black-Scholes option pricing model, expensed over the vesting period of the underlying option.

The Corporation elected the modified prospective transition method in applying ASC 718. Under this method, the provisions of ASC 718 apply to all awards granted or modified after the date of adoption, as well as for all unvested options outstanding at December 31, 2005. The compensation cost recorded for unvested equity-based awards is based on their grant-date fair value. For the three months ended March 31, 2013, the Corporation recorded $6,000 in after-tax compensation cost for equity-based awards that vested during the three months ended March 31, 2013. The Corporation has $45,000 unrecognized pre-tax compensation cost related to non-vested equity-based awards granted under its stock incentive plan as of March 31, 2013, which is expected to be recognized over a weighted-average vesting period of approximately 2.0 months.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

5. Stock Option Plan (continued)

A summary of the status of the Corporation's stock option plan as of March 31, 2013, and changes during the period then ended is presented below:

	Three months ended March 31, 2013		Year ended December 31, 2012	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding at beginning of period	370,339	$ 12.80	425,600	$ 11.10
Stock conversion	-		(60,861)	1.76
Granted	-	-	5,600	8.30
Exercised	-	-	-	-
Forfeited	(400)	8.30	-	-
Outstanding at end of period	369,939	$ 12.80	370,339	$ 12.80
Options exercisable at period-end	353,022	$ 12.96	353,022	$ 12.96
Options expected to be exercisable at year-end				
Fair value of options granted		NA		$ 1.28

The following information applies to options outstanding at March 31, 2013:

Number outstanding	369,939
Exercise price	$8.30 - $15.90
Weighted-average exercise price	$12.96
Weighted-average remaining contractual life	2.6 years

The expected term of options is based on evaluations of historical and expected future employee exercise behavior. The risk free interest rate is based upon the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at the grant date. Volatility is based upon the historical volatility of the Corporation's stock.

The fair value of each option was estimated on the date of grant using the modified Black-Scholes options pricing model with the following weighted-average assumptions used for grants in 2012: dividend yield of 3.86%, expected volatility of 24.1%, risk-free interest rate of 1.64% and an expected life of 10 years for each grant.

On April 23, 2013, shareholders approved the 2013 Equity Incentive Plan.

The effects of expensing stock options are reported in “cash provided by financing activities” in the Consolidated Statements of Cash Flows.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

6. Investment and Mortgage-backed Securities

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of investment securities at March 31, 2013 and December 31, 2012 are shown below.

	March 31, 2013			
	Amortized cost (In thousands)	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available for Sale:				
U.S. Government agency securities	$ 162,366	$ 165	$ 502	$ 162,029
Municipal obligations	3,036	192	28	3,200
Corporate securities	1,920	434	-	2,354
	$ 167,322	$ 791	$ 530	$ 167,583

	December 31, 2012			
	Amortized cost (In thousands)	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available for Sale:				
U.S. Government agency securities	$ 192,247	$ 550	$ 92	$ 192,705
Municipal obligations	3,037	222	1	3,258
	$ 195,284	$ 772	$ 93	$ 195,963

The amortized cost of investment securities at March 31, 2013, by contractual term to maturity, are shown below.

	March 31, 2013 (In thousands)
Less than one year	$ 91,864
One to five years	19,241
Five to ten years	31,003
More than ten years	23,294
	165,402
Corporate securities	1,920

$ 167,322

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

6. Investment and Mortgage-backed Securities (continued)

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of mortgage-backed securities at March 31, 2013 and December 31, 2012 are shown below.

	March 31, 2013			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In thousands)			
Available for sale:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$847	$31	$6	$872
Federal National Mortgage Association adjustable-rate participation certificates	1,572	45	2	1,615
Government National Mortgage Association adjustable-rate participation certificates	2,958	131	-	3,089
	$5,377	$207	$8	$5,576
Held to maturity:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$300	$10	$-	$310
Federal National Mortgage Association adjustable-rate participation certificates	275	8	-	283
Government National Mortgage Association adjustable-rate participation certificates	2,904	137	-	3,041
	$3,479	$155	$-	$3,634

	December 31, 2012			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In thousands)			
Available for sale:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$925	$129	$1	$1,053

Federal National Mortgage Association adjustable-rate participation certificates	1,738	46	1	1,783
Government National Mortgage Association adjustable-rate participation certificates	3,136	57	-	3,193
	$5,799	$232	$2	$6,029

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

6. Investment and Mortgage-backed Securities (continued)

	December 31, 2012			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In thousands)			
Held to maturity:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$ 318	$ 7	$ 1	$ 324
Federal National Mortgage Association adjustable-rate participation certificates	296	9	-	305
Government National Mortgage Association adjustable-rate participation certificates	2,967	176	-	3,143
	$ 3,581	$ 192	$ 1	$ 3,772

The amortized cost of mortgage-backed securities, including those designated as available for sale, at March 31, 2013, by contractual terms to maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may generally prepay obligations without prepayment penalties.

	March 31, 2013 (In thousands)
Due in one year or less	$ 461
Due in one year through five years	1,942
Due in five years through ten years	2,663
Due in more than ten years	3,790
	$ 8,856

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at March 31, 2013:

	Less than 12 months			12 months or longer			Total		
	Number			Number			Number		
Description of	of	Fair	Unrealized	of	Fair	Unrealized	of	Fair	Unrealized

securities	investments	value	losses	investments	value	losses	investments	value	losses
(Dollars in thousands)									
U.S. Government agency securities	14	$71,511	$ 502	-	$-	$ -	14	$71,511	$ 502
Municipal obligations	-	-	-	1	687	28	1	687	28
Corporate stocks	-	-	-	-	-	-	-	-	-
Mortgage-backed securities	2	337	6	7	115	2	9	452	8
Total temporarily impaired securities	16	$71,848	$ 508	8	$802	$ 30	24	$72,650	$ 538

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

6. Investment and Mortgage-backed Securities (continued)

Management does not intend to sell any of the debt securities with an unrealized loss and does not believe that it is more likely than not that we will be required to sell a security in an unrealized loss position prior to a recovery in value. The decline in the fair value is primarily due to an increase in market interest rates. The fair values are expected to recover as securities approach maturity dates. The Corporation has evaluated these securities and has determined that the decline in their values is temporary.

7. Income Taxes

The Corporation uses an asset and liability approach to accounting for income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are recognized if it is more likely than not that a future benefit will be realized. The Corporation accounts for income taxes in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740, Income Taxes, which prescribes the recognition and measurement criteria related to tax positions taken or expected to be taken in a tax return.

The Corporation’s principal temporary differences between financial income and taxable income result mainly from different methods of accounting for Federal Home Loan Bank stock dividends, the general loan loss allowance, deferred compensation, stock benefit plans, fair value adjustments arising from the First Franklin acquisition. The Corporation has approximately $3.6 million of net operating losses to carryforward for the next 20 years. These losses are subject to the Internal Revenue Code section 382 limitations which allow approximately $1.1 million of the losses on an annual basis to offset current year taxable income.

The Corporation recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At adoption date, January 1, 2007 the Corporation applied the standard to all tax positions for which the statute of limitations remained open and was not required to record any liability for unrecognized tax benefits as that date. There have been no material changes in unrecognized tax benefits since January 1, 2007. The known tax attributes which can influence the Corporation’s effective tax rate is the utilization of net operating loss carryforwards subject to the limitations under Internal Revenue Code section 382.

The Corporation is subject to income taxes in the U.S. federal jurisdiction, as well as various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Corporation is no longer subject to U.S. federal, state and local, or non U.S. income tax examinations by tax authorities for the years before 2010.

The Corporation will recognize, if applicable, interest accrued related to unrecognized tax liabilities in interest expense and penalties in operating expenses.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

7. Income Taxes (continued)

Federal income tax on earnings differs from that computed at the statutory corporate tax rate for the periods ended March 31, 2013 and 2012:

	2013	2012
	(Dollars in thousands)	
Federal income taxes at statutory rate of 34%	$ 383	$ 432
Increase (decrease) in taxes resulting primarily from:		
Stock compensation	1	(7)
Nontaxable interest income	(10)	(11)
Cash surrender value of life insurance	(41)	(27)
Other	2	3
Federal income taxes per financial statements	$ 335	$ 390
Effective tax rate	29.8 %	30.6 %

8. Disclosures About Fair Value of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy exists for fair value measurements based upon the inputs to the valuation of an asset or liability.

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 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 for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair value methods and assumptions are set forth below for each type of financial instrument.

Securities available for sale: Fair values of available for sale securities are based upon a market approach. Securities which are fixed income instruments that are not quoted on an exchange, but are traded in active markets, are valued using prices obtained from our custodian, using observable inputs from third party data service providers. Available for sale securities includes U.S. agency securities, municipal bonds and mortgage-backed agency securities.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

8. Disclosures About Fair Value of Assets and Liabilities (continued)

Fair Value Measurements at March 31, 2013 and December 31, 2012

	Quoted prices in active markets for identical assets (Level 1) (In thousands)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Securities available for sale at March 31, 2013:			
U.S. Government agency securities	-	$ 162,029	-
Municipal obligations	-	$ 3,200	-
Corporate securities	-	$ 2,354	-
Mortgage-backed securities	-	$ 5,576	-
Securities available for sale at December 31, 2012:			
U.S. Government agency securities	-	$ 192,705	-
Municipal obligations	-	$ 3,258	-
Mortgage-backed securities	-	$ 6,029	-

The Corporation is predominately an asset-based lender with real estate serving as collateral on a substantial majority of loans. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. In addition, on the acquisition date the Corporation independently fair valued $25.0 million of First Franklin's impaired loans, as well as $173.2 million of performing loans. First Franklin's impaired loans subject to fair value write-downs are not included in Cheviot Financial's non-performing loan totals. Such loans are considered performing under Topic ASC 310-30, even though the loans are contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and the resulting loss provisions or future period yield adjustments. The fair values were obtained using independent appraisals, which the Corporation considers to be Level 2 inputs. The aggregate carrying amount of the Corporation's impaired originated loans was approximately $4.9 million and $5.7 million at March 31, 2013 and December 31, 2012, respectively.

The Corporation has real estate acquired through foreclosure totaling $4.6 million and $4.0 million at March 31, 2013 and December 31, 2012, respectively. Real estate acquired through foreclosure is carried at the lower of the cost or fair value less estimated selling expenses at the date of acquisition. Fair values are obtained using independent appraisals, based on comparable sales which the Corporation considers to be Level 2 inputs. At March 31, 2013 all real estate acquired through foreclosure was carried at fair value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

9. Effects of Recent Accounting Pronouncements

We adopted the following accounting guidance in 2013, none of which had a material effect, if any, on our consolidated financial position or results of operations.

In July 2012, the FASB issued ASU 2012-02, Intangibles - goodwill and other (Topic 350). The amendments in this Update will allow an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. Under these amendments, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on qualitative assessment, that it is not more likely than not, the indefinite-lived intangible asset is impaired. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. Effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012.

In August 2012, the FASB issued ASU 2012-03, Technical Amendments and Corrections to SEC Sections—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 114, Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22. Because the amendments in this ASU reflect only guidance modifications that the SEC had previously issued, the amendments have no incremental impact on the reporting entity.

In October 2012, the FASB issued ASU 2012-04, Technical Corrections and Improvements: The amendments in this update clarify the Codification or corrects unintended application of guidance and includes amendments identifying when the use of fair value should be linked to the definition of fair value in Topic 820, Fair Value Measurement. Amendments to the Codification without transition guidance are effective upon issuance for both public and nonpublic entities. For public entities, amendments subject to transition guidance are effective for fiscal periods beginning after December 15, 2012.

In February 2013, the FASB issues ASU 2013-02, Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. These amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional details about those amounts. For public entities, the amendments are effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012. Early adoption is permitted. We do not anticipate any material impact from this Update.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

10. Fair Value of Financial Instruments

Fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practical to estimate the value, is based upon the characteristics of the instruments and relevant market information. Financial instruments include cash, evidence of ownership in an entity or contracts that convey or impose on an entity the contractual right or obligation to either receive or deliver cash for another financial instrument. These fair value estimates are based on relevant market information and information about the financial instruments. Fair value estimates are intended to represent the price for which an asset could be sold or liability could be settled. However, given there is no active market or observable market transactions identical to many of the Corporation’s financial instruments, estimates of many of these fair values are based upon observable inputs which are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimated values.

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments at March 31, 2013:

Cash and cash equivalents: The carrying amounts presented in the consolidated statements of financial condition for cash and cash equivalents are deemed to approximate fair value.

Investment and mortgage-backed securities: For investment and mortgage-backed securities, fair value is deemed to equal the quoted market price.

Loans receivable: The loan portfolio was segregated into categories with similar characteristics, such as one-to four-family residential, multi-family residential and commercial real estate. These loan categories were further delineated into fixed-rate and adjustable-rate loans. The fair values for the resultant loan categories were computed via discounted cash flow analysis, using current interest rates offered for loans with similar terms to borrowers of similar credit quality. For loans on deposit accounts, fair values were deemed to equal the historic carrying values. The historical carrying amount of accrued interest on loans is deemed to approximate fair value.

Federal Home Loan Bank stock: The carrying amount presented in the consolidated statements of financial condition is deemed to approximate fair value.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

10. Fair Value of Financial Instruments (continued)

Deposits: The fair value of NOW accounts, passbook accounts, and money market demand deposits is deemed to approximate the amount payable on demand at March 31, 2013. Fair values for fixed-rate certificates of deposit have been estimated using a discounted cash flow calculation using the interest rates currently offered for deposits of similar remaining maturities.

Advances from the Federal Home Loan Bank: The fair value of these advances is estimated using the rates currently offered for similar advances of similar remaining maturities or, when available, quoted market prices.

Advances by Borrowers for Taxes and Insurance: The carrying amount of advances by borrowers for taxes and insurance is deemed to approximate fair value.

Commitments to extend credit: For fixed-rate loan commitments, the fair value estimate considers the difference between current levels of interest rates and committed rates. At March 31, 2013, the fair value of the derivative loan commitments was not material.

The estimated fair values of the Corporation's financial instruments at March 31, 2013 and December 31, 2012 are as follows:

	March 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)		(In thousands)	
Financial assets				
Cash and cash equivalents	$48,588	$48,588	$25,114	$25,114
Investment securities	167,583	167,583	195,963	195,963
Mortgage-backed securities	9,055	9,210	9,610	9,801
Loans receivable - net	333,447	372,318	340,414	381,018
Accrued interest receivable	1,842	1,842	2,264	2,264
Federal Home Loan Bank stock	8,651	8,651	8,651	8,651
	$569,166	$608,192	$582,016	$622,811
Financial liabilities				
Deposits	$486,207	$485,524	$490,646	$490,017
Advances from the Federal Home Loan Bank	22,331	23,283	24,314	24,920
Accrued interest payable	94	94	90	90
Advances by borrowers for taxes and insurance	1,480	1,480	2,331	2,331
	$510,112	$510,381	$517,381	$517,358

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

11. Intangible Assets

The Corporation recorded goodwill and other intangibles associated with the purchase of First Franklin and Franklin Savings in March 2011 totaling $11.6 million. Goodwill is not amortized, but is periodically evaluated for impairment. The Corporation did not recognize any impairment during the quarter ended March 31, 2013. The carrying amount of the goodwill at March 31, 2013 was $10.3 million.

Identifiable intangibles are amortized to their estimated residual values over the expected useful lives. Such lives are also periodically reassessed to determine if any amortization period adjustments are required. During the quarter ended March 31, 2013, no such adjustments were recorded. The identifiable intangible asset consists of a core deposit intangible which is being amortized on an accelerated basis over the useful life of such asset. The gross carrying amount of the core deposit intangible at March 31, 2013 was $681,000 with $617,000 in accumulated amortization as of that date.

As of March 31, 2013, the current year and estimated future amortization expense for the core deposit intangible was:

	2013	$141
	2014	149
	2015	116
	2016	110
	2017	110
	2018	55
Total		$681

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

12. Financing Receivables

The recorded investment in loans was as follows as of March 31, 2013:

	One-to four Family Residential	Multi-family Residential	Construction (In thousands)	Commercial	Consumer	Total
Purchased loans	$ 94,805	$ 10,300	$ -	$ 30,019	$ 2,109	$ 137,233
Credit quality discount	(1,630)	(159)	-	(1,780)	(1,079)	(4,648)
Purchased loans book value	93,175	10,141	-	28,239	1,030	132,585
Originated loans (1)	150,505	13,414	3,104 (2)	35,530	980	203,533
Ending balance	$ 243,680	$ 23,555	$ 3,104	$ 63,769	$ 2,010	$ 336,118

(1) Includes loans held for sale
(2) Before consideration of undisbursed Loans-in-process

The carrying amount of purchased loans consisting of credit-impaired purchased loans and non-impaired purchased loans is shown in the following table as of March 31, 2013.

	Non-impaired Purchased Loans (In thousands)	Credit Impaired Purchased Loans (In thousands)
One-to-four family residential	$ 89,311	$ 3,864
Multi-family residential	9,081	1,060
Construction	-	-
Commercial	20,541	7,698
Consumer	950	80
Total	$ 119,883	$ 12,702

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

12. Financing receivables (continued)

The following summarizes activity in the allowance for credit losses:

	March 31, 2013 One-to four Family Residential (In thousands)	Multi-family Residential	Construction	Commercial	Consumer	Total
Allowance for loan losses:						
Beginning balance	$1,823	$ 172	$ 1	$ 153	$11	$2,160
Provision	62	2	1	(10)	-	55
Charge-offs	(619)	-	-	-	(3)	(622)
Recoveries	15	-	-	-	-	15
Ending balance	$1,281	$ 174	$ 2	$ 143	$8	$1,608
Originated loans: Individually evaluated for impairment	$219	$ -	$ -	$ -	$-	$219
Purchased loans: Individually evaluated for impairment	$66	$ -	$ -	$ -	$-	$66
Originated loans: Collectively evaluated for impairment	$644	$ 174	$ 2	$ 143	$8	$971
Purchased loans: Loans acquired with deteriorated credit quality	$352	$ -	$ -	$ -	$-	$352
Loans receivable:						
Ending balance	$243,680	$ 23,555	$ 3,104	$ 63,769	$2,010	$336,118
Ending balance: Individually evaluated for impairment (1)	$123,765	$ 9,176	$ -	$ 21,482	$950	$155,373
Ending balance:						

Collectively evaluated for impairment	$116,051	$ 13,319	$ 3,104	$34,589	$980	$168,043
Ending balance:						
Loans acquired with deteriorated credit quality	$3,864	$ 1,060	$ -	$7,698	$80	$12,702

(1) Includes loans acquired from First Franklin with outstanding balances of $119,883 at March 31, 2013.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

12. Financing receivables (continued)

	December 31, 2012 One-to four Family Residential (In thousands)	Multi-family Residential	Construction	Commercial	Consumer	Total
Allowance for loan losses:						
Beginning balance	$978	$ 162	$ 13	$ 285	$ 9	$ 1,447
Provision	1,382	10	(12)	(101)	1	1,280
Charge-offs	(537)	-	-	(31)	-	(568)
Recoveries	-	-	-	-	1	1
Ending balance	$1,823	$ 172	$ 1	$ 153	$ 11	$ 2,160
Originated loans: individually evaluated for impairment	$632	$ -	$ -	$ -	$ -	$632
Purchased loans: individually evaluated for impairment	$152	$ -	$ -	$ -	$ -	$152
Originated loans:						