CHEVIOT FINANCIAL CORP
Form 10-Q
November 12, 2010

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 September 30, 2010

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)

Federal (State or other jurisdiction of incorporation or organization)	56-2423720 (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 November 12, 2010, the latest practicable date, 8,861,110 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 o No o

INDEX

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash and due from banks	$4,058	$3,217
Federal funds sold	17,511	4,582
Interest-earning deposits in other financial institutions	5,827	3,484
Cash and cash equivalents	27,396	11,283
Investment securities available for sale - at fair value	61,431	55,851
Mortgage-backed securities available for sale - at fair value	4,431	4,920
Mortgage-backed securities held to maturity - at cost, approximate market value of $5,128 and $5,816 at September 30, 2010 and December 31, 2009, respectively	5,005	5,744
Loans receivable - net	231,498	245,905
Loans held for sale – at lower of cost or market	4,144	1,097
Real estate acquired through foreclosure - net	1,669	2,048
Office premises and equipment - at depreciated cost	4,683	4,889
Federal Home Loan Bank stock - at cost	3,375	3,369
Accrued interest receivable on loans	1,010	1,074
Accrued interest receivable on mortgage-backed securities	26	36
Accrued interest receivable on investments and interest-earning deposits	332	322
Prepaid expenses and other assets	1,636	1,591
Bank-owned life insurance	3,757	3,653
Prepaid federal income taxes	188	78
Total assets	$350,581	$341,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$247,781	$235,904
Advances from the Federal Home Loan Bank	28,703	33,672
Advances by borrowers for taxes and insurance	1,020	1,501
Accrued interest payable	100	136
Accounts payable and other liabilities	1,660	1,625
Deferred federal income taxes	768	272
Total liabilities	280,032	273,110
Shareholders' equity		
Preferred stock - authorized 5,000,000 shares, $.01 par value; none issued Common stock - authorized 30,000,000 shares, $.01 par value; 9,918,751 shares issued at	99	99

September 30, 2010 and December 31, 2009		
Additional paid-in capital	43,880	43,819
Shares acquired by stock benefit plans	(1,659)	(2,069)
Treasury stock - at cost, 1,053,843 and 1,050,045 shares at September 30, 2010 and December 31, 2009, respectively	(12,859)	(12,828)
Retained earnings - restricted	40,751	40,109
Accumulated comprehensive gain (loss), unrealized gains (losses) on securities available for sale, net of related tax effects (benefits)	337	(380)
Total shareholders’ equity	70,549	68,750
Total liabilities and shareholders’ equity	$350,581	$341,860

See accompanying notes to consolidated financial statements.

3

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	Nine months ended September 30,		Three months ended September 30,	
	2010	2009	2010	2009
	(Unaudited)			
Interest income				
Loans	$10,214	$11,103	$3,301	$3,577
Mortgage-backed securities	228	342	66	110
Investment securities	1,285	1,038	436	384
Interest-earning deposits and other	115	35	38	10
Total interest income	11,842	12,518	3,841	4,081
Interest expense				
Deposits	2,629	3,805	844	1,169
Borrowings	1,004	1,350	286	422
Total interest expense	3,633	5,155	1,130	1,591
Net interest income	8,209	7,363	2,711	2,490
Provision for losses on loans	250	803	150	351
Net interest income after provision for losses on loans	7,959	6,560	2,561	2,139
Other income (expense)				
Rental	48	38	17	13
Gain on sale of loans	389	319	306	47
Loss on sale of real estate acquired through foreclosure	(23)	(54)	(1)	(5)
Earnings on bank-owned life insurance	104	103	35	34
Other operating	324	247	116	90
Total other income	842	653	473	179
General, administrative and other expense				
Employee compensation and benefits	3,286	3,384	1,034	1,100
Occupancy and equipment	503	429	180	147
Property, payroll and other taxes	732	745	233	235
Data processing	175	257	63	73
Legal and professional	469	316	233	97
Advertising	150	150	50	50
FDIC expense	214	194	67	38
Other operating	596	570	201	143
Total general, administrative and other expense	6,125	6,045	2,061	1,883
Earnings before income taxes	2,676	1,168	973	435

Federal income taxes (benefit)				
Current	785	401	254	219
Deferred	127	9	36	(25)
Total federal income taxes	912	410	290	194
NET EARNINGS	$1,764	$758	$683	$241
EARNINGS PER SHARE				
Basic	$.20	$.09	$.08	$.03
Diluted	$.20	$.09	$.08	$.03
Dividends per common share	$.33	$.30	$.11	$.10

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the nine and three months ended September 30, 2010 and 2009
(In thousands)

	For the nine months ended September 30,		For the three months ended September 30,	
	2010	2009	2010	2009
Net earnings for the period	$1,764	$758	$683	$241
Other comprehensive income, net of tax:				
Unrealized holding gains on securities during the period, net of tax of $369 and $107 for the nine months ended September 30, 2010 and 2009, respectively, and $53 and $97 for the three months ended September 30, 2010 and 2009, respectively	717	207	102	188
Comprehensive income	$2,481	$965	$785	$429
Accumulated comprehensive income	$337	$ 66	$337	$66

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2010 and 2009
(In thousands)

	2010 (Unaudited)	2009
Cash flows from operating activities:		
Net earnings for the period	$1,764	$758
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization of premiums and discounts on investment and mortgage-backed securities, net	21	15
Depreciation	240	234
Amortization of deferred loan origination fees - net	39	(20)
Proceeds from sale of loans in the secondary market	15,354	19,405
Loans originated for sale in the secondary market	(18,104)	(19,086)
Gain on sale of loans	(389)	(319)
Loss on sale of real estate acquired through foreclosure	23	54
Impairment on real estate acquired through foreclosure	102	-
Net charge-offs of loans receivable	(47)	-
Federal Home Loan Bank stock dividends	(6)	-
Provision for losses on loans	250	803
Net increase in cash surrender value of bank-owned life insurance	(104)	(102)
Amortization of expense related to stock benefit plans	380	363
Increase (decrease) in cash due to changes in:		
Accrued interest receivable on loans	64	48
Accrued interest receivable on mortgage-backed securities	10	(6)
Accrued interest receivable on investments and interest-earning deposits	(10)	71
Prepaid expenses and other assets	(45)	(499)
Accounts payable and other liabilities	35	753
Accrued interest payable	(36)	(25)
Federal income taxes		
Current	(110)	70
Deferred	127	9
Net cash used in (provided by) operating activities	(442)	2,526
Cash flows used in investing activities:		
Principal repayments on loans	37,861	58,684
Loan disbursements	(23,785)	(42,787)
Loans purchased	-	(1,700)
Purchase of investment securities – available for sale	(76,670)	(55,940)
Proceeds from maturity of investment securities – available for sale	72,101	30,565
Proceeds from maturity of investment securities – held to maturity	-	7,000
Purchase of mortgage-backed securities – available for sale	-	(5,267)
Principal repayments on mortgage-backed securities – available for sale	542	755
Principal repayments on mortgage-backed securities – held to maturity	740	911
Proceeds from sale of real estate acquired through foreclosure	531	268

Additions to real estate acquired through foreclosure	(96)	(236)
Proceeds from sale of office premises and equipment	-	1
Purchase of office premises and equipment	(34)	(211)
Net cash provided by (used in) investing activities	11,190	(7,957)

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the nine months ended September 30, 2010 and 2009
(In thousands)

	2010 (Unaudited)	2009
Cash flows provided by financing activities:		
Net increase (decrease) in deposits	11,877	16,277
Proceeds from Federal Home Loan Bank advances	10,000	-
Repayments on Federal Home Loan Bank advances	(14,969)	(6,631)
Advances by borrowers for taxes and insurance	(481)	(472)
Treasury stock repurchases	(31)	(29)
Stock option expense, net	91	186
Dividends paid on common stock	(1,122)	(1,019)
Net cash provided by financing activities	5,365	8,312
Net increase in cash and cash equivalents	16,113	2,881
Cash and cash equivalents at beginning of period	11,283	10,013
Cash and cash equivalents at end of period	$27,396	$12,894
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	$794	$327
Interest on deposits and borrowings	$3,597	$5,180
Supplemental disclosure of noncash investing activities:		
Transfer of loans to real estate acquired through foreclosure	$181	$1,413
Recognition of mortgage servicing rights	$118	$153

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2010 and 2009

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 Corporation is 62% owned by Cheviot Mutual Holding Company. Cheviot Savings' 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.

The accompanying unaudited 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, 2009. 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 and nine month periods ended September 30, 2010, are not necessarily indicative of the results which may be expected for the entire year.

2. Principles of Consolidation

The accompanying consolidated financial statements as of and for the three and nine months ended September 30, 2010, 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 September 30, 2010 and December 31, 2009, we had $28.7 million and $33.7 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 $114.4 million and $109.3 million, respectively.

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.

8

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

3. Liquidity and Capital Resources (continued)

Our primary investing activities are the origination of one-to four-family real estate loans, commercial real estate, construction and consumer loans, and, to a lesser extent, the purchase of securities. For the nine months ended September 30, 2010, loan originations totaled $41.9 million, compared to $61.9 million for the nine months ended September 30, 2009.

Total deposits increased $11.9 million during the nine months ended September 30, 2010, compared to an increase of $16.3 million during the nine months ended September 30, 2009. 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 contract as of September 30, 2010.

	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	$ -	$ 1,360	$ 7,350	$ 19,993	$ 28,703
Certificates of deposit	96,832	32,805	11,059	-	140,696
Amount of loan commitments and expiration per period:					
Commitments to originate one- to four-family loans	5,144	-	-	-	5,144
Home equity lines of credit	12,794	-	-	-	12,794
Commercial lines of credit	164	-	-	-	164
Undisbursed loans in process	2,742	-	-	-	2,742
Total contractual obligations	$ 117,676	$ 34,165	$ 18,409	$ 19,993	$ 190,243

We are committed to maintaining a strong liquidity position. 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 September 30, 2010 and 2009, we exceeded all of the applicable regulatory capital requirements. Our core (Tier 1) capital was $56.9 million and $57.2 million, or 16.7 % and 17.1% of total assets at September 30, 2010 and 2009. In order to be classified as "well-capitalized" under federal banking regulations, we were required to have core capital of at least $20.5 million, or 6.0% of assets, as of September 30, 2010. 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 September 30, 2010 and 2009, we had a total risk-based capital ratio of 34.8% and 34.5%, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

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. The weighted-average common shares outstanding includes 5,455,313 shares held by our mutual holding company. Weighted-average common shares deemed outstanding gives effect to 142,833 and 178,540 unallocated shares held by the ESOP for the three and nine months ended September 30, 2010 and 2009, respectively.

	For the nine months ended September 30,		For the three months ended September 30,	
	2010	2009	2010	2009
Weighted-average common shares outstanding (basic)	8,723,800	8,691,891	8,722,075	8,690,166
Dilutive effect of assumed exercise of stock options	9,051	25,997	9,179	24,658
Weighted-average common shares outstanding (diluted)	8,732,851	8,717,888	8,731,254	8,714,824

5. Stock Option Plan

On April 26, 2005, the Corporation approved a Stock Incentive Plan that provides for grants of up to 486,018 stock options. During 2010, 2009, and 2008 approximately 8,860, 8,060, and 8,060 option shares were granted subject to five year vesting.

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 nine months ended September 30, 2010, the Corporation recorded $91,000 in after-tax compensation cost for equity-based awards that vested during the nine months ended September 30, 2010. The Corporation has a $74,000 unrecognized pre-tax compensation cost related to non-vested equity-based awards granted under its stock incentive plan as of September 30, 2010, which is expected to be recognized over a weighted-average vesting period of approximately 0.2 years.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

5. Stock Option Plan (continued)

A summary of the status of the Corporation's stock option plan as of September 30, 2010, and changes during the period then ended is presented below:

	Nine months ended September 30, 2010		Year ended December 31, 2009	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding at beginning of period	412,340	$ 11.11	404,280	$ 11.16
Granted	8,860	8.07	8,060	8.48
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at end of period	421,200	$ 11.05	412,340	$ 11.11
Options exercisable at period-end	397,260	$ 11.16	314,792	$ 11.17
Fair value of options granted		$ 4.83		$ 3.31

The following information applies to options outstanding at September 30, 2010:

Number outstanding	421,200
Exercise price	$8.07 - $13.63
Weighted-average exercise price	$11.16
Weighted-average remaining contractual life	4.9 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 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 2010: dividend yield of 5.45%, expected volatility of 44.55%, risk-free interest rate of 3.38% and an expected life of 10 years for each grant.

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

11

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

6. Investment and Mortgage-backed Securities

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and estimated fair values of investment securities at September 30, 2010 and December 31, 2009 are shown below.

	September 30, 2010			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In thousands)			
Available for Sale:				
U.S. Government agency securities	$ 59,475	$ 463	$ -	$ 59,938
Municipal obligations	1,545	18	70	1,493
	$ 61,020	$ 481	$ 70	$ 61,431

	December 31, 2009			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In thousands)			
Available for Sale:				
U.S. Government agency securities	$ 54,915	$ 67	$ 527	$ 54,455
Municipal obligations	1,545	4	153	1,396
	$ 56,460	$ 71	$ 680	$ 55,851

The amortized cost of investment securities at September 30, 2010 by contractual term to maturity, are shown below.

	September 30, 2010 (In thousands)
Less than one year	$ 55,475
One to five years	4,000
Over five to ten years	310
More than ten years	1,235
	$ 61,020

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

6. Investment and Mortgage-backed Securities (continued)

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and estimated fair values of mortgage-backed securities at September 30, 2010 and December 31, 2009 are shown below.

	September 30, 2010			
	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	$ 760	$ 26	$ -	$ 786
Federal National Mortgage Association adjustable-rate participation certificates	554	16	-	570
Government National Mortgage Association adjustable-rate participation certificates	3,017	58	-	3,075
	$ 4,331	$ 100	$ -	$ 4,431
Held to maturity:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$ 496	$ 5	$ 4	$ 497
Federal National Mortgage Association adjustable-rate participation certificates	544	8	-	552
Government National Mortgage Association adjustable-rate participation certificates	3,965	114	-	4,079
	$ 5,005	$ 127	$ 4	$ 5,128

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

6. Investment and Mortgage-backed Securities (continued)

	December 31, 2009			
	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	$ 829	$ 1	$ -	$ 830
Federal National Mortgage Association adjustable-rate participation certificates	700	9	-	709
Government National Mortgage Association adjustable-rate participation certificates	3,358	24	1	3,381
	$ 4,887	$ 34	$ 1	$ 4,920
Held to maturity:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$ 603	$ 1	$ 7	$ 597
Federal National Mortgage Association adjustable-rate participation certificates	640	3	1	642
Government National Mortgage Association adjustable-rate participation certificates	4,501	76	-	4,577
	$ 5,744	$ 80	$ 8	$ 5,816

The amortized cost of mortgage-backed securities, including those designated as available for sale, at September 30, 2010, by contractual terms to maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may generally prepay obligations without prepayment penalties.

	September 30, 2010 (In thousands)
Due in one year or less	$ 363

Due in one year through five years		1,566
Due in over five years through ten years		2,244
Due in more than ten years		5,163
	$	9,336

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

6. Investment and Mortgage-backed Securities (continued)

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at September 30, 2010:

Description of securities	Less than 12 months			12 months or longer			Total		
	Number of investments	Fair value	Unrealized holding losses	Number of investments	Fair value	Unrealized holding losses	Number of investments	Fair value	Unrealized holding losses
	(Dollars in thousands)								
U.S. Government agency securities	-	$ -	$ -	-	$ -	$ -	-	$ -	$ -
Municipal obligations	-	-	-	2	1,165	70	2	1,165	70
Mortgage-backed securities	1	9	1	4	61	3	5	70	4
Total temporarily impaired securities	1	$ 9	$ 1	6	$ 1,226	$ 73	7	$ 1,235	$ 74

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 it will be required to sell a security in an unrealized loss position prior to a recovery in value. The fair values are expected to recover as securities approach maturity dates. The Company 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 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, the Corporation applied the standard to all tax positions for which the statute of limitations remained open. The Corporation was not required to record any liability for unrecognized tax benefits as of January 1, 2007. There have been no material changes in unrecognized tax benefits since January 1, 2007.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

7. Income Taxes (continued)

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 2007.

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

8. Disclosures about Fair Value of Assets and Liabilities

Pursuant to GAAP, 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 in GAAP 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 value on available for sale securities were 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, which used third party data service providers. Available for sale securities includes U.S. agency securities, municipal bonds and mortgage-backed agency securities

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

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

	Fair Value Measurements at September 30, 2010		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Securities available for sale at September 30, 2010			
U.S. Government agency securities		$ 59,938	
Municipal obligations		1,493	
Mortgage-backed securities		9,559	

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. Such fair values are obtained using independent appraisals, which the Corporation considers to be Level 2 inputs. The aggregate carrying amount of impaired loans at September 30, 2010 was approximately $3.5 million.

The Corporation has real estate acquired through foreclosure totaling $1.7 million at September 30, 2010, compared to $2.0 million at December 31, 2009. 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. The aggregate amount of real estate acquired through foreclosure that is carried at fair value was approximately $1.7 million at September 30, 2010 and $732,000 at December 31, 2009. The aggregate amount of real estate acquired through foreclosure that is carried at cost was approximately $1.3 million at December 31, 2009.

9. Effects of Recent Accounting Pronouncements

In January 2010, the FASB issued ASU No. 2010-01 “Accounting for Distributions to Shareholders with Components of Stock and Cash,” which updated the Codification on accounting for distributions to shareholders that offers them the ability to elect to receive their entire distribution in cash or stock with a potential limitation on the total amount of cash that all shareholders can receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend. The new guidance is effective for interim and annual periods after December 15, 2009, and would be applied on a retrospective basis. The adoption of this guidance did not have any effect on our consolidated financial statements.

17

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

9. Effects of Recent Accounting Pronouncements (continued)

In January 2010, the FASB issued ASU No. 2010-06 “Improving Disclosures About Fair Value Measurements,” as the guidance for fair value measurements and disclosures. The guidance in ASU 2010-06 requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. Furthermore, ASU 2010-06 requires a reporting entity to present separately information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs; clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value; and amends guidance on employers’ disclosures about postretirement benefit plan assets to require that disclosures be provided by classes of assets instead of by major categories of assets. The new guidance is effective for interim and annual reporting periods beginning January 1, 2010, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective January 1, 2011 and for interim periods thereafter. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. Early adoption is permitted. The adoption of this guidance is not expected to significantly impact our annual and interim financial statement disclosures and will not have any impact on our consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements. The amendments in the ASU remove the requirement for companies that are subject to the periodic reporting requirements of the Exchange Act to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. generally accepted accounting principles (“U.S. GAAP”). The FASB also clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. The FASB believes these amendments remove potential conflicts with the SEC’s literature. All of the amendments in the ASU were effective upon issuance, except for the use of the issued date for conduit debt obligors, which will be effective for interim or annual periods ending after June 15, 2010. The adoption of this guidance is not expected to have a material effect on the consolidated financial statements.

In March 2010, the FASB issued ASU No. 2010-11, “Derivatives and Hedging (Topic 815),” which clarifies that the only type of embedded credit derivative feature related to the transfer of credit risk that is exempt from derivative bifurcation requirements is one that is in the form of subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination will need to assess those embedded credit derivatives to determine if bifurcation and separate accounting as a derivative is required. This guidance is effective on July 1, 2010. Early adoption is permitted at the beginning of an entity’s first interim reporting period beginning after issuance of this guidance. The adoption of this guidance is not expected to have any impact on our consolidated financial statements.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

9. Effects of Recent Accounting Pronouncements (continued)

In April 2010, the FASB issued Codification Accounting Standards Update No. 2010-18 (ASU No. 2010-18) Effect of Loan Modification when the Loan is Part of a Pool that is accounted for as a Single Asset (a consensus of the FASB Emerging Issues Task Force). The amendments in this update affect any entity that acquires loans subject to ASC Subtopic 310-30, that accounts for some or all of those loans within pools, and that subsequently modifies one or more of those loans after acquisition. ASU No. 2010-18 is effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the interim period ending September 30, 2010, and the amendments are to be applied prospectively. Management is currently evaluating the impact, if any, that the adoption of this amendment will have on its consolidated financial statements.

In July 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The ASU amends FASB Accounting Standards Codification™ (the “Codification” or “ASC”) Topic 310, Receivables, to improve the disclosures about the credit quality of an entity’s financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate, by portfolio segment or class of financing receivable, certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses.

Existing disclosures are amended to require an entity to provide the following disclosures about its financing receivables on a disaggregated basis:
(1) A rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the reporting period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the impairment method;
(2) For each disaggregated ending balance in item (1) above, the related recorded investment in financing receivables;
(3) The nonaccrual status of financing receivables by class of financing receivables;
(4) Impaired financing receivables by class of financing receivables.

The amendments in the ASU also require an entity to provide the following additional disclosures about its financing receivables:
(1) Credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables;
(2) The aging of past due financing receivables at the end of the reporting period by class of financing receivables;
(3) The nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses;
(4) The nature and extent of financing receivables modified as troubled debt restructurings within the previous twelve months that defaulted during the reporting period by class of financing receivables and their effect on the allowance for credit losses; and
(5)Significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segments.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

9. Effects of Recent Accounting Pronouncements (continued)

The disclosures as of the end of a reporting period will be effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period will be effective for interim and annual reporting periods beginning on or after December 15, 2010. As this ASU is disclosure-related only, we do not expect it to have an impact on our financial condition or results of operations.

In October 2010, the FASB issued a proposed Accounting Standards Update (ASU), "Receivables (Topic 310): Clarifications to Accounting for Troubled Debt Restructurings ("TDR") by Creditors" to assist creditors in determining whether a modification is a TDR. Currently, there is diversity in practice in identifying loan modifications that constitute TDRs, particularly when determining whether a concession has been granted. The clarifications are proposed to be effective for interim and annual periods ending after June 15, 2011, and would be applied retrospectively to restructurings occurring on or after the beginning of the earliest period presented.

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 for many of the Corporation's financial instruments, it has made estimates of many of these fair values 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 fair value estimates are determined in accordance with ASC 820.

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments at September 30, 2010:

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.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

10. Fair Value of Financial Instruments (continued)

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

Deposits: The fair value of NOW accounts, passbook accounts, and money market demand deposits is deemed to approximate the amount payable on demand at September 30, 2010. 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 September 30, 2010, the fair value of the derivative loan commitments was not material.

The estimated fair values of the Company's financial instruments at September 30, 2010 and December 31, 2009 are as follows:

	September 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)		(In thousands)	
Financial assets				
Cash and cash equivalents	$ 27,396	$ 27,396	$ 11,283	$ 11,283
Investment securities	61,431	61,431	55,851	55,851
Mortgage-backed securities	9,436	9,559	10,664	10,736
Loans receivable - net	235,642	252,641	247,002	258,986
Federal Home Loan Bank stock	3,375	3,375	3,369	3,369
	$ 337,280	$ 354,402	$ 328,169	$ 340,225
Financial liabilities				
Deposits	$ 247,781	$ 247,600	$ 235,904	$ 235,771
Advances from the Federal Home Loan Bank	28,703	31,696	33,672	37,807
Advances by borrowers for taxes and insurance	1,020	1,020	1,501	1,501

$ 277,504	$ 280,316	$ 271,077	$ 275,079

21

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

11. Subsequent Events

The Company evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements.

On October 12, 2010, the Corporation, its wholly owned subsidiary, the Savings Bank, and Cheviot Merger Subsidiary, Inc. (“Merger Subsidiary”) entered into an Agreement and Plan of Merger (the “Merger Agreement”) with First Franklin Corporation (“First Franklin”) and its wholly-owned subsidiary, The Franklin Savings and Loan Company (“Franklin Savings”).

The Merger Agreement provides for a business combination whereby Merger Subsidiary will merge with and into First Franklin (the “Merger”). As a result of the Merger, the separate corporate existence of Merger Subsidiary will cease and First Franklin will continue as the surviving corporation in the Merger. At the effective time of the Merger, each share of common stock, par value $0.01 per share, of First Franklin (other than shares owned by First Franklin, the Corporation, Savings Bank and Merger Subsidiary) will be converted into the right to receive $14.50 in cash. Each First Franklin stock option outstanding at the time of the closing will be converted into an amount of cash equal to the positive difference, if any, between $14.50 and the exercise price of such stock option.

The Merger is subject to the approval of a majority of First Franklin’s stock outstanding and entitled to vote at a meeting of stockholders, the attainment of regulatory approvals and other customary closing conditions. The Merger Agreement contains customary representations, warranties and covenants of the Corporation, Savings Bank, Merger Subsidiary, First Franklin and Franklin Savings.

First Franklin and Franklin Savings have generally agreed not to solicit proposals relating to, or enter into discussions concerning, alternative mergers, consolidations, acquisitions or other business combination transactions.

The Merger Agreement contains certain termination rights for both the Corporation and First Franklin, including allowing First Franklin to terminate the Merger Agreement if First Franklin has received an acquisition proposal that First Franklin’s board of directors reasonably determines to be superior to the Merger from a financial point-of-view to First Franklin’s stockholders. Further, upon termination of the Merger Agreement under certain circumstances, First Franklin may be required to pay the Corporation a termination fee of $980,000.

Cheviot Financial Corp.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This report on Form 10-Q 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 are subject to significant risks, assumptions and uncertainties that could affect the actual outcome of future events. Because of these uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Recent Developments

On July 21, 2010, President Obama signed into law the financial regulatory reform act entitled the "Dodd-Frank Wall Street Reform and Consumer Protection Act" that implements changes to the regulation of the financial services industry, including provisions that, among other things:

- Centralize responsibility for consumer financial protection by creating a new agency responsible for implementing, examining and enforcing compliance with federal consumer financial laws.
- Apply the same leverage and risk-based capital requirements that apply to insured depository institutions to bank holding companies.
- Require the FDIC to seek to make its capital requirements for banks countercyclical so that the amount of capital required to be maintained increases in times of economic expansion and decreases in times of economic contraction.
- Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital.
- Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders that apply to all public companies, not just financial institutions.
- Make permanent the $250 thousand limit for federal deposit insurance and increase the cash limit of Securities Investor Protection Corporation protection from $100 thousand to $250 thousand, and provide unlimited federal deposit insurance until January 1, 2013, for non-interest bearing demand transaction accounts at all insured depository institutions.
- Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.
- Increase the authority of the Federal Reserve to examine the Company and its non-bank subsidiaries.

Cheviot Financial Corp. would become a bank holding company subject to regulation and supervision by the Board of Governors of the Federal Reserve System and the Savings Bank will be regulated by the FDIC, in each case, instead of the Office of Thrift Supervision. As a bank holding company, Cheviot Financial Corp. may become subject to regulatory capital requirements it is not currently subject to as a savings and loan holding company and certain additional restrictions on its activities. In addition, compliance with new regulations and being supervised by one or more new regulatory agencies could increase our expenses.

Many aspects of the act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry. Provisions in the legislation that affect deposit insurance assessments and payment of interest on demand deposits could increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate.

Cheviot Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (CONTINUED)

Recent Developments (continued)

On October 12, 2010, the Corporation, its wholly owned subsidiary, the Savings Bank, and Cheviot Merger Subsidiary, Inc. ("Merger Subsidiary") entered into an Agreement and Plan of Merger (the "Merger Agreement") with First Franklin Corporation ("First Franklin") and its wholly-owned subsidiary, The Franklin Savings and Loan Company ("Franklin Savings").

The Merger Agreement provides for a business combination whereby Merger Subsidiary will merge with and into First Franklin (the "Merger"). As a result of the Merger, the separate corporate existence of Merger Subsidiary will cease and First Franklin will continue as the surviving corporation in the Merger. At the effective time of the Merger, each share of common stock, par value $0.01 per share, of First Franklin (other than shares owned by First Franklin, the Corporation, Savings Bank and Merger Subsidiary) will be converted into the right to receive $14.50 in cash. Each First Franklin stock option outstanding at the time of the closing will be converted into an amount of cash equal to the positive difference, if any, between $14.50 and the exercise price of such stock option.

The Merger is subject to the approval of a majority of First Franklin's stock outstanding and entitled to vote at a meeting of stockholders, the attainment of regulatory approvals and other customary closing conditions. The Merger Agreement contains customary representations, warranties and covenants of the Corporation, Savings Bank, Merger Subsidiary, First Franklin and Franklin Savings.

First Franklin and Franklin Savings have generally agreed not to solicit proposals relating to, or enter into discussions concerning, alternative mergers, consolidations, acquisitions or other business combination transactions.

The Merger Agreement contains certain termination rights for both the Corporation and First Franklin, including allowing First Franklin to terminate the Merger Agreement if First Franklin has received an acquisition proposal that First Franklin's board of directors reasonably determines to be superior to the Merger from a financial point-of-view to First Franklin's stockholders. Further, upon termination of the Merger Agreement under certain circumstances, First Franklin may be required to pay the Corporation a termination fee of $980,000.

Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the accounting method used for the allowance for loan losses to be a critical accounting policy.

The allowance for loan losses is the estimated amount considered necessary to cover inherent, but unconfirmed credit losses in the loan portfolio at the balance sheet date. The allowance is established through the provision for losses on loans which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of the most critical for Cheviot Financial.

Management performs a quarterly evaluation of the allowance for loan losses. Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlining collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change.

Cheviot Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (CONTINUED)

Critical Accounting Policies (continued)

The analysis has two components, specific and general allocations. Specific percentage allocations can be made for unconfirmed losses related to loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. If the fair value of the loan is less than the loan's carrying value, a charge-off is recorded for the difference. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general reserve. Actual loan losses may be significantly more than the allowances we have established which could result in a material negative effect on our financial results.

Discussion of Financial Condition Changes at December 31, 2009 and at September 30, 2010

Total assets increased $8.7 million, or 2.6%, to $350.6 million at September 30, 2010, from $341.9 million at December 31, 2009. The increase in total assets reflects an increase in cash and cash equivalents and investment securities, which were partially offset by a decrease in loans receivable and mortgage-backed securities.

Cash, federal funds sold and interest-earning deposits increased $16.1 million, or 142.8%, to $27.4 million at September 30, 2010, from $11.3 million at December 31, 2009. The increase in cash and cash equivalents at September 30, 2010, was due to a $12.9 million increase in federal funds sold, a $2.3 million increase in interest-earning deposits and a $841,000 increase in cash and due from banks. Investment securities increased $5.6 million to $61.4 million at September 30, 2010. At September 30, 2010, all investment securities were classified as available for sale.

Mortgage-backed securities decreased $1.2 million, or 11.5%, to $9.4 million at September 30, 2010, from $10.7 million at December 31, 2009. The decrease in mortgage-backed securities was due primarily to principal prepayments and repayments totaling $1.3 million. At September 30, 2010, $5.0 million of mortgage-backed securities were classified as held to maturity, while $4.4 million were classified as available for sale. As of September 30, 2010, none of the mortgage-backed securities are considered impaired.

Loans receivable, including loans held for sale, decreased $11.4 million, or 4.6%, to $235.6 million at September 30, 2010, from $247.0 million at December 31, 2009. The decrease reflects loan originations totaling $41.9 million, partially offset by loan principal repayments of $37.8 million and sales to the Federal Home Loan Bank of $15.4 million. Mortgage originations were lower during the nine months ended September 30, 2010 compared with the nine months ended September 30, 2009. The change in the composition of the Corporation's assets reflects management's decision to take advantage of opportunities to obtain a higher rate of return by selling certain mortgage loans and recording gains.

The allowance for loan losses totaled $1.2 million and $1.0 million at September 30, 2010 and December 31, 2009, respectively. In determining the adequacy of the allowance for loan losses at any point in time, management and the board of directors apply a systematic process focusing on the risk of loss in the portfolio. First, the loan portfolio is segregated by loan types to be evaluated collectively and individually. Delinquent multi-family and commercial loans are evaluated individually for potential impairments in their carrying value. Second, the allowance for loan losses entails utilizing our historic loss experience by applying such loss percentage to the loan types to be collectively evaluated in the portfolio. The $250,000 provision for losses on loans during the nine months ended September 30, 2010 is a reflection of the following factors, weaker economic conditions in the greater Cincinnati area, loan charge-offs of $48,000 and the need to allocate approximately $42,000 in specific reserves for three residential properties with principal balances totaling $197,000 which were acquired through foreclosure. The analysis of the allowance for loan losses requires an element of judgment and is subject to the possibility that the allowance may need to be increased, with a corresponding reduction in earning. To the best of management's knowledge, all known and inherent losses that are probable and that can be reasonably estimated have been recorded at September 30, 2010.

Cheviot Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (CONTINUED)

Discussion of Financial Condition Changes at December 31, 2009 and at September 30, 2010 (continued)

Non-performing and impaired loans totaled $3.5 million and $2.4 million at September 30, 2010 and December 31, 2009, respectively. At September 30, 2010, non-performing and impaired loans were comprised of forty-six loans secured by one-to-four family residential real estate and one loan secured by commercial real estate. At September 30, 2010 and December 31, 2009, real estate acquired through foreclosure totaled $1.7 million and $2.0 million, respectively. The Corporation maintains an allowance for loan losses intended to absorb losses inherent in our loan portfolio. The allowance for loan losses represented 33.4% and 41.9% of non-performing and impaired loans at September 30, 2010 and December 31, 2009, respectively. Although management believes that the Corporation's allowance for loan losses is adequate to absorb known and inherent losses in our portfolio, based upon the available facts and circumstances, there can be no assurance that additions to the allowance will not be necessary in future periods, which would adversely affect our results of operations.

Deposits increased $11.9 million, or 5.0%, to $247.8 million at September 30, 2010, from $235.9 million at December 31, 2009. Advances from the Federal Home Loan Bank of Cincinnati decreased by $5.0 million, or 14.8%, to $28.7 million at September 30, 2010, from $33.7 million at December 31, 2009.

Shareholders' equity increased $1.8 million, or 2.6%, to $70.5 million at September 30, 2010, from $68.8 million at December 31, 2009. The increase primarily resulted from net earnings of $1.8 million, an increase of $717,000 in unrealized gains on securities available for sale and an increase in shares acquired by stock benefit plans of $410,000 which were partially offset by dividends paid of $1.1 million. At September 30, 2010, Cheviot Financial had the ability to purchase 360,818 shares under its previously announced stock repurchase plan.

Liquidity and Capital Resources

We monitor our liquidity position on a daily basis using reports that recap all deposit activity and loan commitments. A significant portion of our deposit base is made up of time deposits. At September 30, 2010, $96.8 million of time deposits are due to mature within twelve months. The daily deposit activity report allows us to price our time deposits competitively. Because of this and our deposit retention experience, we anticipate that a significant portion of maturing time deposits will be retained.

Borrowings from the Federal Home Loan Bank of Cincinnati decreased $5.0 million during the nine months ended September 30, 2010. We have the ability to increase such borrowings by approximately $114.4 million. At September 30, 2010, we had no borrowings other than Federal Home Loan Bank of Cincinnati borrowings. Our borrowings can be used to offset any decrease in customer deposits or to fund loan commitments.

Cheviot Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (CONTINUED)

Comparison of Operating Results for the Nine-Month Periods Ended September 30, 2010 and 2009

General

Net earnings for the nine months ended September 30, 2010 totaled $1.8 million, a $1.0 million increase from the $758,000 in net earnings reported for the same period in 2009. The increase in net earnings reflects an increase in net interest income of $846,000, a decrease of $553,000 in the provision for losses on loans, an increase of $189,000 in other income, which was partially offset by an $80,000 increase in general, administrative and other expenses and a $502,000 increase in federal income taxes for the 2010 period.

Net Interest Income

Total interest income decreased $676,000, or 5.4%, to $11.8 million for the nine-months ended September 30, 2010, from $12.5 million for the comparable period in 2009. Interest income on loans decreased $889,000, or 8.0%, to $10.2 million during the 2010 period, from $11.1 million for the 2009 period. This decrease was due primarily to a $12.3 million, or 4.8%, decrease in the average balance of loans outstanding and a 19 basis point decrease in the average yield on loans to 5.62 % for the 2010 period from 5.81% for the nine months ended September 30, 2009.

Interest income on mortgage-backed securities decreased $114,000, or 33.3%, to $228,000 for the nine months ended September 30, 2010, from $342,000 for the same period in 2009, due primarily to a 104 basis point decrease in the average yield and a decrease in the average balance of securities outstanding of $1.2 million for the nine months ended September 30, 2010 from the comparable period in 2009. Interest income on investment securities increased $247,000, or 23.8%, to $1.3 million for the nine months ended September 30, 2010, compared to $1.0 million for the same period in 2009, due primarily to a $26.3 million, or 67.4% in the average balance of investment securities outstanding, which was partially offset by a 52 basis point decrease in the average yield to 2.63% in the 2010 period. Interest income on other interest-earning deposits increased $80,000, or 228.6% to $115,000 for the nine months ended September 30, 2010, as compared to the same period in 2009.

Interest expense decreased $1.5 million, or 29.5% to $3.6 million for the nine months ended September 30, 2010, from $5.2 million for the same period in 2009. Interest expense on deposits decreased by $1.2 million, or 30.9%, to $2.6 million for the nine months ended September 30, 2010, from $3.8 million for the same period in 2009, due primarily to a 78 basis point decrease in the average costs of deposits to 1.50% during the 2010 period, which was partially offset by a $11.1 million, or 5.0%, increase in the average balance outstanding. Interest expense on borrowings decreased by $346,000, or 25.6%, due primarily to a $6.9 million, or 16.8%, decrease in the average balance outstanding and a 47 basis point decrease in the average cost of borrowings. The decrease in the average cost of deposits and borrowings reflects continuing lower short term interest rates in 2010.

As a result of the foregoing changes in interest income and interest expense, net interest income increased by $846,000, or 11.5%, to $8.2 million for the nine months ended September 30, 2010. The average interest rate spread increased to 3.05% for the nine months ended September 30, 2010 from 2.63% for the nine months ended September 30, 2009. The net interest margin increased to 3.37% for the nine months ended September 30, 2010 from 3.08% for the nine months ended September 30, 2009.

27

Cheviot Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (CONTINUED)

Comparison of Operating Results for the Nine-Month Periods Ended September 30, 2010 and 2009 (continued)

Provision for Losses on Loans

As a result of an analysis of historical experience, the volume and type of lending conducted by the Savings Bank, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to the Savings Bank's market area, and other factors related to the collectability of the Savings Bank's loan portfolio, management recorded a $250,000 provision for losses on loans for the nine months ended September 30, 2010, compared to a $803,000 provision for losses on loans for the nine months ended September 30, 2009. The decision to record a provision for loan losses during the nine months ended September 30, 2010 reflects management's assessment of the amount necessary to maintain an adequate allowance based on our historical loss experience, changes in the local economy, and other external factors. These other external factors, economic conditions and collateral value changes, have had a negative impact on all types of loans in the portfolio. There can be no assurance that the loan loss allowance will be sufficient to cover losses on non-performing loans in the future, however management believes they have identified all known and inherent losses that are probable and that can be reasonably estimated within the loan portfolio, and that the allowance for loan losses is adequate to absorb such losses.

Other Income

Other income increased $189,000, or 28.9%, to $842,000 for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to an increase in the gain on sale of loans of $70,000, an increase of $77,000 in other operating income and a decrease of $31,000 in loss on sale of real estate acquired through foreclosure.

General, Administrative and Other Expense

General, administrative and other expense increased $80,000, or 1.3%, to $6.1 million for the nine months ended September 30, 2010, from $6.0 million for the comparable period in 2009. This increase is a result of an increase of $74,000 in occupancy and equipment and an increase of $153,000 in legal and professional expenses, which was partially offset by a decrease of $98,000 in employee compensation and other benefits. The increase in occupancy and equipment is the result of annual maintenance contracts for the new equipment instituted for the new core computer operating system. The increase in legal and professional expenses is the result of the merger agreement entered into on October 12, 2010 with First Franklin Corporation. The decrease in employee compensation and benefits is a result of the expense vesting period expiring on prior stock-based compensation grants.

FDIC Premiums

The Federal Deposit Insurance Corporation ("FDIC") imposes an assessment against institutions for deposit insurance. This assessment is based on the risk category of the institution and currently ranges from 5 to 43 basis points of the institution's deposits. Federal law requires that the designated reserve ratio for the deposit insurance fund be established by the FDIC at 1.15% to 1.50% of estimated insured deposits. If this reserve ratio drops below 1.15% or the FDIC expects that it to do so within six months, the FDIC must, within 90 days, establish and implement a plan to restore the designated reserve ratio to 1.15% of estimated insured deposits within five years (absent extraordinary circumstances).

These actions increased our FDIC insurance premiums in the third quarter of 2010 to $65,000 from $55,000 for the same period in 2009.

Cheviot Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (CONTINUED)

Comparison of Operating Results for the Nine-Month Periods Ended September 30, 2010 and 2009 (continued)

Federal Income Taxes

The provision for federal income taxes increased $502,000, or 122.4%, to $912,000 for the nine months ended September 30, 2010, from $410,000 for the same period in 2009, due primarily to a $1.5 million, or 129.1%, increase in pre-tax earnings. The effective tax rate was 34.1% and 35.1% for the nine month periods ended September 30, 2010 and 2009. The difference between the Corporation's effective tax rate in the 2010 and 2009 periods and the 34% statutory corporate rate is due primarily to the tax-exempt earnings on bank-owned life insurance, tax-exempt interest on municipal obligations and tax benefits for the contribution to the Cheviot Savings Bank Foundation offset by the difference in the stock compensation deduction for tax purposes.

Comparison of Operating Results for the Three-Month Periods Ended September 30, 2010 and 2009

General

Net earnings for the three months ended September 30, 2010 totaled $683,000, a $442,000 increase from the $241,000 net earnings reported in the September 2009 period. The increase in net earnings reflects an increase in net interest income after the provision for losses on loans of $422,000 and an increase of $294,000 in other income, which was partially offset by an increase of $178,000, in general, administrative and other expenses and an increase of $96,000 in federal income taxes for the 2010 quarter.

Net Interest Income

Total interest income decreased $240,000, or 5.9%, to $3.8 million for the three-months ended September 30, 2010, from the comparable quarter in 2009. Interest income on loans decreased $276,000, or 7.7%, to $3.3 million during the 2010 quarter from $3.6 million for the 2009 quarter. This decrease was due primarily to a $13.3 million, or 5.3%, decrease in the average balance of loans outstanding and by a 14 basis point decrease in the average yield on loans to 5.53% for the 2010 quarter from 5.67% for the three months ended September 30, 2009.

Interest income on mortgage-backed securities decreased $44,000, or 40.0%, to $66,000 for the three months ended September 30, 2010, from $110,000 for the comparable 2009 quarter, due primarily to a $1.9 million decrease in the average balance of securities outstanding and a 108 basis point decrease in the average yield period to period. Interest income on investment securities increased $52,000, or 13.5%, to $436,000 for the three months ended September 30, 2010, compared to $384,000 for the same quarter in 2009, due primarily to an increase of $18.7 million, or 38.9% in the average balance of investment securities outstanding and a 24 basis point decrease in the average yield to 2.61% in the 2010 quarter. Interest income on other interest-earning deposits increased $28,000, or 280.0% to $38,000 as compared to the same period in 2009.

Interest expense decreased $461,000, or 29.0%, to $1.1 million for the three months ended September 30, 2010, from $1.6 million for the same quarter in 2009. Interest expense on deposits decreased by $325,000, or 27.8%, to $844,000, from $1.2 million, due primarily to a 64 basis point decrease in the average cost of deposits to 1.42% during the 2010 quarter, which was partially offset by a $11.0 million, or 4.9%, increase in the average balance outstanding. Interest expense on borrowings decreased by $136,000, or 32.2%, due primarily to a $9.3 million, or

24.1%, decrease in the average balance outstanding and a 47 basis point decrease in the average cost of borrowings.

Cheviot Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (CONTINUED)

Comparison of Operating Results for the Three-Month Periods Ended September 30, 2010 and 2009 (continued)

As a result of the foregoing changes in interest income and interest expense, net interest income increased by $221,000, or 8.9%, to $2.7 million for the three months ended September 30, 2010, as compared to the same quarter in 2009. The average interest rate spread increased to 3.02% for the three months ended September 30, 2010 from 2.72% for the three months ended September 30, 2009. The net interest margin increased to 3.33% for the three months ended September 30, 2010 from 3.12% for the three months ended September 30, 2009.

Provision for Losses on Loans

Management recorded a $150,000 provision for losses on loans for the three months ended September 30, 2010, compared to a $351,000 provision for losses on loans for the three months ended September 30, 2009. The decision to make a provision for loan losses during the three months ended September 30, 2010 reflects the amount necessary to maintain an adequate allowance based on our historical loss experience and other external factors. These external factors, economic conditions and collateral value changes, have had a negative impact on non-owner occupied loans in the portfolio. There can be no assurance that the loan loss allowance will be sufficient to cover losses on non-performing loans in the future; however, management believes they have identified all known and inherent losses that are probable and that can be reasonably estimated within the loan portfolio, and that the allowance for loan losses is adequate to absorb such losses.

Other Income

Other income increased $294,000, or 164.2%, to $473,000 for the three months ended September 30, 2010, compared to the same quarter in 2009, due primarily to an increase in the gain on sale of loans of $259,000 and an increase of $26,000 in other operating income.

General, Administrative and Other Expense

General, administrative and other expense increased $178,000, or 9.5% to $2.1 million, for the three months ended September 30, 2010, from $1.9 million for the comparable quarter in 2009. The increase is a result of an increase of $33,000 in occupancy and equipment expense and an increase of $136,000 in legal and professional expenses, which was partially offset by a decrease of $66,000 in employee compensation and benefits. The increase in occupancy and equipment is the result of annual maintenance contracts for the new equipment instituted for the new core computer operating system. The increase in legal and professional expenses is the result of the merger agreement entered into on October 12, 2010 with First Franklin Corporation. The decrease in employee compensation and benefits is a result of the expense vesting period expiring on prior stock-based compensation grants.

Federal Income Taxes

The provision for federal income taxes increased $96,000, or 49.5%, to $290,000 for the three months ended September 30, 2010, from $194,000 for the same quarter in 2009, due primarily to a $538,000, or 123.7%, increase in pre-tax earnings. The effective tax rate was 29.8% and 44.6% for the three month periods ended September 30, 2010 and 2009, respectively. The difference between the Corporation's effective tax rate in the 2010 and 2009 periods and the 34% statutory corporate rate is due primarily to the tax-exempt earnings on bank-owned life insurance, tax-exempt interest on municipal obligations and tax benefits for the contribution to the Cheviot Savings Bank Foundation, offset by the difference in the stock compensation deduction for tax and book purposes.

Cheviot Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (CONTINUED)

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the Corporation's market risk since the Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2009.

ITEM 4 CONTROLS AND PROCEDURES

The Corporation's Chief Executive Officer and Chief Financial Officer evaluated the disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures are effective.

There were no changes in the Corporation's internal controls or in other factors that could materially affect, or could reasonably be likely to materially affect, these controls subsequent to the date of their evaluation by the Corporation's Chief Executive Officer and Chief Financial Officer.

Cheviot Financial Corp.

PART II

ITEM 1. Legal Proceedings

On October 25, 2010, the Corporation was named as a defendant in the case Burroughs v. First Franklin Corporation, et al, which was filed in the Court of Common Pleas, Hamilton County, Ohio. The complaint alleges that the individual directors of First Franklin Corporation breached their fiduciary duty to First Franklin shareholders by entering into a merger agreement to be acquired by the Corporation. The complaint also requests class certification. The complaint alleges that the Corporation and Cheviot Merger Subsidiary, Inc., a wholly owned subsidiary of the Corporation formed to facilitate the acquisition, aided and abetted the individual named defendants in their breaches of fiduciary duty to First Franklin shareholders. The complaint requests that the court declare the case to be a proper class action, certifying the named plaintiff as the class representative, and enjoin the acquisition. Management believes the lawsuit is without merit and intends to vigorously defend this lawsuit.

ITEM 1A. Risk Factors

There have been no changes to the Corporation's risk factors since the filing of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The Corporation announced a repurchase plan on January 16, 2008 which provides for the repurchase of 5% or 447,584 shares of our common stock. As of September 30, 2010, the Corporation had purchased 86,766 shares pursuant to the program. During the past three months, the Corporation did not repurchase any shares of its common stock.

Period	Total # of shares purchased	Average price paid per share	Total # of shares purchased as part of publicly announced plans or programs
July 1-31, 2010	-	$ -	86,766
August 1-31, 2010	-	$ -	86,766
September 1 – 30, 2010	-	$ -	86,766

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Removed and Reserved

ITEM 5. Other Information

None.

ITEM 6. Exhibits

31.1 Certification of Principal Executive Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Cheviot Financial Corp.

PART II (CONTINUED)

31.2 Certification of Principal Financial Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Cheviot Financial Corp.

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.

Date: November 12, 2010	By: /s/ Thomas J. Linneman Thomas J. Linneman President and Chief Executive Officer
Date: November 12, 2010	By: /s/ Scott T. Smith Scott T. Smith Chief Financial Officer