Cheviot Financial Corp.
Form 10-Q
August 12, 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 June 30, 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 August 12, 2013, the latest practicable date, 6,836,903 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)

ASSETS	June 30, 2013 (Unaudited)	December 31, 2012
Cash and due from banks	$9,472	$10,251
Federal funds sold	15,832	12,555
Interest-earning deposits in other financial institutions	3,352	2,308
Cash and cash equivalents	28,656	25,114
Investment securities available for sale – at fair value	164,450	195,963
Mortgage-backed securities available for sale - at fair value	5,278	6,029
Mortgage-backed securities held to maturity - at cost, approximate market value of $3,503 and $3,772 at June 30, 2013 and December 31, 2012, respectively	3,363	3,581
Loans receivable - net	333,133	337,110
Loans held for sale - at lower of cost or market	850	3,304
Real estate acquired through foreclosure - net	4,915	3,980
Office premises and equipment - at depreciated cost	11,793	12,481
Federal Home Loan Bank stock - at cost	8,651	8,651
Accrued interest receivable on loans	1,238	1,303
Accrued interest receivable on mortgage-backed securities	18	20
Accrued interest receivable on investments and interest-earning deposits	717	941
Goodwill	10,309	10,309
Core deposit intangible	634	746
Prepaid expenses and other assets	3,771	4,596
Bank-owned life insurance	15,491	15,249
Prepaid federal income taxes	1,285	1,192
Deferred federal income taxes	3,742	1,413
Total assets	$598,294	$631,982
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$477,381	$490,646
Advances from the Federal Home Loan Bank	21,197	24,314
Advances by borrowers for taxes and insurance	952	2,331
Accrued interest payable	88	90
Accounts payable and other liabilities	4,972	6,701
Total liabilities	504,590	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;		
6,836,903 and 7,596,557 shares issued at June 30, 2013 and December 31, 2012	76	76
Additional paid-in capital	57,226	65,772
Shares acquired by stock benefit plans	(1,955)	(1,992)
Retained earnings - restricted	43,218	43,444
Accumulated comprehensive gain (loss), unrealized gains (losses) on securities available for sale, net of related tax expense (benefit)	(4,861)	600
Total shareholders' equity	93,704	107,900
Total liabilities and shareholders' equity	$598,294	$631,982

See accompanying notes to consolidated financial statements.

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(In thousands, except per share data)

	Six months ended June 30, 2013	2012	Three months ended June 30, 2013	2012
Interest income				
Loans	$8,018	$9,419	$3,944	$4,587
Mortgage-backed securities	82	110	41	50
Investment securities	1,645	1,313	777	744
Interest-earning deposits and other	196	187	98	91
Total interest income	9,941	11,029	4,860	5,472
Interest expense				
Deposits	1,887	2,478	920	1,207
Borrowings	377	489	183	236
Total interest expense	2,264	2,967	1,103	1,443
Net interest income	7,677	8,062	3,757	4,029
Provision for losses on loans	340	400	285	250
Net interest income after provision for losses on loans	7,337	7,662	3,472	3,779
Other income				
Rental	73	71	31	35
Gain on sale of real estate acquired through foreclosure	69	39	71	10
Loss on sale of office premises and equipment	(255)	-	(255)	-
Gain on sale of loans	425	552	187	175
Earnings on bank-owned life insurance	241	156	122	76
Gain on death benefits from life insurance	-	481	-	481
Service fee income	736	795	376	396
Other operating	200	60	10	6
Total other income	1,489	2,154	542	1,179
General, administrative and other expense				
Employee compensation and benefits	3,323	3,154	1,640	1,496
Occupancy and equipment	832	853	428	426
Property, payroll and other taxes	727	642	359	347
Data processing	298	311	150	154
Legal and professional	492	394	277	226
Advertising	150	150	75	75
FDIC expense	219	228	111	114

ATM processing expense	185	182	95	93
Real estate owned impairment	256	168	155	116
Core deposit intangible amortization	112	153	47	98
Other operating	789	794	359	298
Total general, administrative and other expense	7,383	7,029	3,696	3,443
Earnings before income taxes	1,443	2,787	318	1,515
Federal income taxes (benefit)				
Current	(97)	258	(97)	17
Deferred	484	439	150	290
Total federal income taxes	387	697	53	307
NET EARNINGS	$1,056	$2,090	$265	$1,208
EARNINGS PER SHARE				
Basic	$.15	$.28	$.04	$.16
Diluted	$.15	$.28	$.04	$.16
Dividends per common share	$.18	$.16	$.09	$.08

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

For the six and three months ended June 30, 2013 and 2012
(In thousands)

	For the six months ended June 30,		For the three months ended June 30,	
	2013	2012	2013	2012
Net earnings for the period	$1,056	$2,090	$265	$1,208
Other comprehensive income, net of tax expense:				
Unrealized holding (losses) gains on securities during the period, net of tax (benefits) expense of $(2,813) and $133 for the six months ended June 30, 2013 and 2012, respectively, and $(2,660) and $430 for the three months ended June 30, 2013 and 2012, respectively	(5,461)	259	(5,164)	835
Comprehensive (loss) income	$(4,405)	$2,349	$(4,899)	$2,043
Accumulated comprehensive (loss) income	$(4,861)	$537	$(4,861)	$537

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the six months ended June 30, 2013 and 2012
(In thousands)

	2013	2012
Cash flows from operating activities:		
Net earnings for the period	$1,056	$2,090
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization of premiums and discounts on investment and mortgage-backed securities, net	(19)	(20)
Depreciation	370	375
Charitable donation of real estate owned property	32	-
Amortization of deferred loan origination costs - net	(13)	11
Amortization of intangible assets	112	153
Amortization of fair value adjustments	(482)	(489)
Proceeds from sale of loans in the secondary market	27,816	29,649
Loans originated for sale in the secondary market	(23,899)	(30,928)
Gain on sale of loans	(425)	(552)
Gain on sale of real estate acquired through foreclosure	(69)	(39)
Impairment on real estate acquired through foreclosure	256	170
Loss on sale of office premises and equipment	255	-
Net increase in cash surrender value of bank-owned life insurance	(242)	(156)
Amortization of expense related to stock benefit plans	39	4
Provision for losses on loans	340	400
Increase (decrease) in cash due to changes in:		
Accrued interest receivable on loans	65	171
Accrued interest receivable on mortgage-backed securities	2	4
Accrued interest receivable on investments and interest earning deposits	224	(170)
Prepaid expenses and other assets	825	82
Accrued interest payable	(2)	(18)
Accounts payable and other liabilities	(1,770)	(1,339)
Federal income taxes		
Current	(93)	188
Deferred	484	439
Net cash provided by operating activities	4,862	25
Cash flows provided by (used in) investing activities:		
Principal repayments on loans	38,641	46,458
Loan disbursements	(37,872)	(20,930)
Purchase of investment securities – available for sale	(80,928)	(137,134)
Proceeds from maturity of investment securities – available for sale	106,175	86,064
Purchase of corporate securities	(1,920)	-
Principal repayments on mortgage-backed securities – available for sale	682	743
Principal repayments on mortgage-backed securities – held to maturity	218	281

Proceeds from sale of real estate acquired through foreclosure	878	1,406
Proceeds from sale of office premises and equipment	1,167	-
Purchase of office premises and equipment	(1,104)	(908)
Purchase of Federal Home Loan Bank stock	-	(285)
Proceeds from bank-owned life insurance	-	403
Net cash provided by (used in) investing activities	25,937	(23,902)
Cash flows provided by (used in) financing activities:		
Net increase (decrease) in deposits	(12,974)	3,795
Repayments on Federal Home Loan Bank advances	(3,074)	(4,426)
Advances by borrowers for taxes and insurance	(1,379)	(1,494)
Proceeds from stock conversion	-	22,133
Shares acquired by stock benefit plans	-	(1,496)
Stock option expense, net	12	11
Common stock repurchased	(8,560)	-
Dividends paid on common stock	(1,282)	(1,215)
Net cash provided by (used in) financing activities	(27,257)	17,308
Net increase (decrease) in cash and cash equivalents	3,542	(6,569)
Cash and cash equivalents at beginning of period	25,114	45,140
Cash and cash equivalents at end of period	$28,656	$38,571

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

For the six months ended June 30, 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	$2,266	$2,985
Supplemental disclosure of noncash investing activities:		
Transfer of loans to real estate acquired through foreclosure	$2,040	$1,401
Recognition of mortgage servicing rights	$204	$224
Deferred gain on real estate acquired through foreclosure	$7	$13

See accompanying notes to consolidated financial statements.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 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, Cheviot Financial completed a 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 six month period ended June 30, 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 six months ended June 30, 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 the 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 customers and to fund current and planned expenditures. The Corporation's 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 operations. In addition, the Corporation may borrow from the Federal Home Loan Bank of Cincinnati. At June 30, 2013 and December 31, 2012, the Corporation had $21.2 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 $118.1 million and $136.6 million, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June, 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.

The Corporation's 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 six months ended June 30, 2013, loan originations totaled $61.8 million, compared to $51.9 million for the six months ended June 30, 2012.

Total deposits decreased $13.3 million during the six months ended June 30, 2013, while total deposits increased $3.4 million during the six months ended June 30, 2012. 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 June 30, 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	$699	$3,313	$11,709	$5,476	$21,197
Certificates of deposit	117,333	88,004	37,801	-	243,138
Lease obligations	173	348	115	234	870
Amount of loan commitments and expiration per period:					
Commitments to originate one- to four-family loans	4,141	-	-	-	4,141
Home equity lines of credit	27,912	-	-	-	27,912
Commercial lines of credit	1,180	-	-	-	1,180
Undisbursed loans in process	3,201	-	-	-	3,201
Total contractual obligations	$154,639	$91,665	$49,625	$5,710	$301,639

Cheviot Financial is committed to maintaining a strong liquidity position and management monitors the Corporation's liquidity position on a daily basis. The Corporation anticipates that it will have sufficient funds to meet current funding commitments. Based on deposit retention experience and current pricing strategy, its anticipated that a significant portion of maturing time deposits will be retained.

At June 30, 2013 and 2012, we exceeded all of the applicable regulatory capital requirements. Core (Tier 1) capital was $77.8 million and $77.6 million, or 13.3% and 12.4% of total assets at June 30, 2013 and 2012, respectively. In order to be classified as "well-capitalized" under federal banking regulations, the Corporation was required to have core capital of at least $35.7 million, or 6.0% of assets as of June 30, 2013. To be classified as a well-capitalized bank, the Corporation must also have a ratio of total risk-based capital to risk-weighted assets of at least 10.0%. At June 30, 2013 and 2012, the Corporation had a total risk-based capital ratio of 25.7% and 25.5%, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 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 six months ended June 30, 2013 and 2012, respectively.

	For the six months ended June 30,		For the three months ended June 30,	
	2013	2012	2013	2012
Weighted-average common shares outstanding (basic)	7,101,890	7,483,336	6,905,946	7,348,351
Dilutive effect of assumed exercise of stock options	6,872	7,578	7,692	7,681
Weighted-average common shares outstanding (diluted)	7,108,762	7,490,914	6,913,638	7,356,032

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 in which the options granted will vest ratably annually. For the six months ended June 20, 2013, no shares have been granted. 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 six months ended June 30, 2013, the Corporation recorded $11,000 in after-tax compensation cost for equity-based awards that vested during the six months ended June 30, 2013. The Corporation has $37,000 unrecognized pre-tax compensation cost related to non-vested equity-based awards granted under its stock incentive plan as of June 30, 2013, which is expected to be recognized over a weighted-average vesting period of approximately 2.0 months.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2013 and 2012

5. Stock Option Plan (continued)

A summary of the status of the Corporation's stock option plan as of June 30, 2013 and the year ended December 31, 2012 as well as the changes during the period then ended are presented below:

	Six months ended June 30, 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	359,177	$12.91	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 June 30, 2013:

Number outstanding	369,939
Exercise price	$8.30 - $15.90
Weighted-average exercise price	$12.91
Weighted-average remaining contractual life	2.4 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. As of June 30, 2013, no shares have been granted or options awarded under this 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 six months ended June 30, 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 June 30, 2013 and December 31, 2012 are shown below.

	June 30, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Available for Sale:				
U.S. Government agency securities	$167,043	$-	$8,048	$158,995
Municipal obligations	3,036	86	122	3,000
Corporate securities	1,920	535	-	2,455
	$171,999	$621	$8,170	$164,450

	December 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
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

Unrealized gross gains and losses on investments and mortgage backed securities are shown on the Corporation's consolidated financial as an adjustment to shareholders' equity.

The amortized cost of investment securities at June 30, 2013, by contractual term to maturity, are shown below.

	June 30, 2013 (In thousands)
Less than one year	$-

One to five years	48,742
Five to ten years	64,888
More than ten years	56,449
	170,079
Corporate securities	1,920
Corporate securities	$171,999

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 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 June 30, 2013 and December 31, 2012 are shown below.

	June 30, 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	$ 826	$ 38	$ 1	$ 863
Federal National Mortgage Association adjustable-rate participation certificates	1,415	37	1	1,451
Government National Mortgage Association adjustable-rate participation certificates	2,852	112	-	2,964
	$ 5,093	$ 187	$ 2	$ 5,278
Held to maturity:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$ 286	$ 9	$ -	$ 295
Federal National Mortgage Association adjustable-rate participation certificates	249	6	-	255
Government National Mortgage Association adjustable-rate participation certificates	2,828	125	-	2,953
	$ 3,363	$ 140	$ -	$ 3,503

	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

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 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 June 30, 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.

	June 30, 2013
	(In thousands)
Due in one year or less	$ 446
Due in one year through five years	1,877
Due in five years through ten years	2,574
Due in more than ten years	3,559
	$ 8,456

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at June 30, 2013:

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

securities	investments	value	losses	investments	value	losses	investments	value	losses
	(Dollars in thousands)								
U.S. Government agency securities	29	$ 154,081	$ 7,961	1	$ 4,914	$ 87	30	$ 158,995	$ 8,048
Municipal obligations	2	268	5	1	598	117	3	866	122
Corporate stocks	-	-	-	-	-	-	-	-	-
Mortgage-backed securities	-	-	-	7	111	2	7	111	2
Total temporarily impaired securities	31	$ 154,349	$ 7,966	9	$ 5,623	$ 206	40	$ 159,972	$ 8,172

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 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 the Corporation 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 $3.8 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.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 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 June 30, 2013 and 2012:

	2013	2012
	(Dollars in thousands)	
Federal income taxes at statutory rate of 34%	$ 491	$ 948
Increase (decrease) in taxes resulting primarily from:		
Stock compensation	2	(19)
Nontaxable interest income	(22)	(19)
Cash surrender value of life insurance	(82)	(217)
Other	(2)	4
Federal income taxes per financial statements	$ 387	$ 697
Effective tax rate	26.8 %	25.0 %

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 a 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 six months ended June 30, 2013 and 2012

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

Fair Value Measurements at June 30, 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 June 30, 2013:			
U.S. Government agency securities	-	$ 158,995	-
Municipal obligations	-	$ 3,000	-
Corporate securities	-	$ 2,455	-
Mortgage-backed securities	-	$ 5,278	-
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 $4.0 million and $5.7 million at June 30, 2013 and December 31, 2012, respectively.

The Corporation has real estate acquired through foreclosure totaling $4.9 million and $4.0 million at June 30, 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 June 30, 2013 all real estate acquired through foreclosure was carried at fair value.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2013 and 2012

9. Effects of Recent Accounting Pronouncements

The Corporation adopted the following accounting guidance in 2013, none of which had a material effect, if any, on the 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. The Corporation does not anticipate any material impact from this Update.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 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 June 30, 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 six months ended June 30, 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 June 30, 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 June 30, 2013, the fair value of the derivative loan commitments was not material.

The estimated fair values of the Corporation's financial instruments at June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)		(In thousands)	
Financial assets				
Cash and cash equivalents	$28,656	$28,656	$25,114	$25,114
Investment securities	164,450	164,450	195,963	195,963
Mortgage-backed securities	8,641	8,781	9,610	9,801
Loans receivable - net	333,983	349,343	340,414	381,018
Accrued interest receivable	1,973	1,973	2,264	2,264
Federal Home Loan Bank stock	8,651	8,651	8,651	8,651
	$546,354	$561,854	$582,016	$622,811
Financial liabilities				
Deposits	$477,381	$476,662	$490,646	$490,017
Advances from the Federal Home Loan Bank	21,197	22,280	24,314	24,920
Advances by borrowers for taxes and insurance	952	952	2,331	2,331
Accrued interest payable	86	86	90	90
	$499,616	$499,980	$517,381	$517,358

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 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 June 30, 2013. The carrying amount of the goodwill at June 30, 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 June 30, 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 June 30, 2013 was $634,000 with $664,000 in accumulated amortization as of that date.

As of June 30, 2013, the current year and estimated future amortization expense for the core deposit intangible was:

2013	$94
2014	149
2015	116
2016	110
2017	110
2018	55
Total	$634

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2013 and 2012

12. Financing Receivables

The recorded investment in loans was as follows as of June 30, 2013:

	One-to four-Family Residential (In thousands)	Multi-family Residential	Construction	Commercial	Consumer	Total
Purchased loans	$90,381	$ 8,725	$ -	$28,757	$2,031	$129,894
Credit quality discount	(1,257)	(159)	-	(1,550)	(1,063)	(4,029)
Purchased loans book value	89,124	8,566	-	27,207	968	125,865
Originated loans (1)	156,983	12,004	5,570 (2)	36,556	1,025	212,138
Ending balance	$246,107	$ 20,570	$ 5,570	$63,763	$1,993	$338,003

(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 June 30, 2013.

	Non-impaired Purchased Loans (In thousands)	Credit Impaired Purchased Loans (In thousands)
One-to-four family residential	$ 85,756	$ 3,368
Multi-family residential	7,507	1,059
Construction	-	-
Commercial	19,600	7,607
Consumer	886	82
Total	$ 113,749	$ 12,116

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2013 and 2012

12. Financing receivables (continued)

The following summarizes activity in the allowance for credit losses:

	June 30, 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	357	(19)	10	(9)	1	340
Charge-offs	(983)	-	-	-	-	(983)
Recoveries	15	-	-	-	(3)	12
Ending balance	$1,212	$ 153	$ 11	$ 144	$9	$1,529
Originated loans: Individually evaluated for impairment	$67	$ -	$ -	$ -	$-	$67
Purchased loans: Individually evaluated for impairment	$43	$ -	$ -	$ -	$-	$43
Originated loans: Collectively evaluated for impairment	$763	$ 153	$ 11	$ 144	$9	$1,080
Purchased loans: Loans acquired with deteriorated credit quality	$339	$ -	$ -	$ -	$-	$339
Loans receivable:						
Ending balance	$246,107	$ 20,570	$ 5,570	$ 63,763	$1,993	$338,003
Ending balance:						

Individually evaluated for impairment (1)	$88,931	$ 7,602	$ -	$21,459	$886	$118,878
Ending balance: Collectively evaluated for impairment	$153,808	$ 11,909	$ 5,570	$34,697	$1,025	$207,009
Ending balance: Loans acquired with deteriorated credit quality	$3,368	$ 1,059	$ -	$7,607	$82	$12,116

(1) Includes loans acquired from First Franklin with outstanding balances of $113,749 at June 30, 2013.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 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: collectively evaluated for impairment	$673	$ 172	$ 1	$153	$11	$1,010
Purchased loans: loans acquired with deteriorated credit quality	$366	$ -	$ -	$ -	$-	$366
Loans receivable:						
Ending balance	$249,202	$ 23,866	$ 1,243	$67,166	$1,691	$343,168
Ending balance: individually evaluated for impairment (1)	$96,060	$ 9,225	$ -	$24,967	$894	$131,146

Ending balance: Collectively evaluated for impairment	$149,159	$ 13,579	$ 1,243	$33,678	$716	$198,375
Ending balance: loans acquired with deteriorated credit quality	$3,983	$ 1,062	$ -	$8,521	$81	$13,647

(1) Includes loans acquired from First Franklin with outstanding balances of $125,430 at December 31, 2012.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2013 and 2012

12. Financing receivables (continued)

The Corporation assigns credit risk grades to evaluated loans using grading standards employed by regulatory agencies. Loans judged to carry lower-risk attributes are assigned a “pass” grade, indicating a minimal likelihood of loss. Loans judged to carry a higher-risk attributes are referred to as “classified loans” and are further disaggregated, with increasing expectations for loss recognition, as “special mention”, “substandard”, “doubtful”, and “loss”. The Loan Classification of Assets committee assigns the credit risk grades to loans and reports to the board on a monthly basis the “classified asset” report.

The following table summarizes the credit risk profile by internally assigned grade:

	Originated Loans at June 30, 2013					
	One-to four-Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Grade:						
Pass	$153,808	$ 11,909	$ 5,570	$ 34,697	$ 1,025	$ 207,009
Special mention	-	-	-	-	-	-
Substandard	3,175	95	-	1,859	-	5,129
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$156,983	$ 12,004	$ 5,570	$ 36,556	$ 1,025	$ 212,138

	Originated Loans at December 31, 2012					
	One-to four-Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Grade:						
Pass	$148,771	$ 13,579	$ 1,243	$ 32,699	$716	$ 197,008
Special mention	-	-	-	-	-	-
Substandard	5,390	94	-	1,599	-	7,083
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-

Total	$154,161	$ 13,673	$ 1,243	$34,298	$716	$204,091

	Purchased Loans at June 30, 2013					
	One-to four-Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Grade:						
Pass	$85,947	$ 8,566	$ -	$25,627	$865	$121,005
Special mention	-	-	-	-	-	-
Substandard	3,177	-	-	1,580	103	4,860
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$89,124	$ 8,566	$ -	$27,207	$968	$125,865

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2013 and 2012

12. Financing receivables (continued)

Purchased Loans at December 31, 2012

	One-to four-Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Grade:						
Pass	$91,091	$ 10,193	$ -	$ 30,551	$855	$132,690
Special mention	108	-	-	-	-	108
Substandard	3,842	-	-	2,317	120	6,279
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$95,041	$ 10,193	$ -	$ 32,868	$975	$139,077

The following tables summarize loans by delinquency, nonaccrual status and impaired loans:

Age Analysis of Past Due Originated Loans Receivable
As of June 30, 2013

	>30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current & Accruing	Nonaccrual	Total Loans	Recorded Investment 90 Days and Accruing
	(In thousands)						
Real Estate:							
1-4 family Residential	$941	$2,920	$3,861	$154,063	$2,920	$156,983	$-
Multi-family Residential	-	95	95	11,909	95	12,004	-
Construction	-	-	-	5,570	-	5,570	-
Commercial	-	954	954	35,602	954	36,556	-
Consumer	-	-	-	1,025	-	1,025	-
Total	$941	$3,969	$4,910	$208,169	$3,969	$212,138	$-

Age Analysis of Past Due Originated Loans Receivable
As of December 31, 2012

	>30-89 Days Past Due (In thousands)	Greater than 90 Days	Total Past Due	Current & Accruing	Nonaccrual	Total Loan Receivables	Recorded Investment 90 Days and Accruing
Real Estate:							
1-4 family Residential	$1,116	$5,002	$6,118	$149,159	$5,002	$154,161	$-
Multi-family	-	94	94	13,579	94	13,673	-
Construction	-	-	-	1,243	-	1,243	-
Commercial	547	620	1,167	33,678	620	34,298	-
Consumer	-	-	-	716	-	716	-
Total	$1,663	$5,716	$7,379	$198,375	$5,716	$204,091	$-

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2013 and 2012

12. Financing receivables (continued)

Age Analysis of Past Due Purchased Loans Receivable
As of June 30, 2013

	>30-89 Days Past Due (In thousands)	Greater than 90 Days	Total Past Due	Current & Accruing	Nonaccrual	Total Loans	Recorded Investment 90 Days and Accruing
Real Estate:							
1-4 family Residential	$607	$2,613	$3,220	$86,511	$2,613	$89,124	$-
Multi-family Residential	182	-	182	8,566	-	8,566	-
Construction	-	-	-	-	-	-	-
Commercial	309	1,170	1,479	26,037	1,170	27,207	-
Consumer	2	17	19	951	17	968	-
Total	$1,100	$3,800	$4,900	$122,065	$3,800	$125,865	$-

Age Analysis of Past Due Purchased Loans Receivable
As of December 31, 2012

	>30-89 Days Past Due (In thousands)	Greater than 90 Days	Total Past Due	Current & Accruing	Nonaccrual	Total Loan Receivables	Recorded Investment 90 Days and Accruing
Real Estate:							
1-4 family Residential	$2,890	$3,446	$6,336	$91,595	$3,446	$ 95,041	$-
Multi-family	-	-	-	10,193	-	10,193	-
Construction	-	-	-	-	-	-	-
Commercial	693	1,519	2,212	31,349	1,519	32,868	-
Consumer	-	7	7	968	7	975	-
Total	$3,583	$4,972	$8,555	$134,105	$4,972	$ 139,077	$-

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2013 and 2012

12. Financing receivables (continued)

Impaired Loans
As of June 30, 2013

	Recorded Investment (In thousands)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Purchased loans with a credit quality discount and no related allowance recorded:					
Real Estate:					
1-4 family Residential	$3,293	$3,293	$-	$3,612	$94
Multi-family	1,059	1,059	-	1,061	11
Construction	-	-	-	-	-
Commercial	7,607	7,607	-	8,064	244
Consumer	82	82	-	81	8
Total	$12,041	$12,041	$-	$12,818	$357
Purchased loans with a credit quality discount and an allowance recorded:					
Real Estate:					
1-4 family Residential	$32	$75	$43	$22	$1
Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$32	$75	$43	$22	$1
Purchased loans with no credit quality discount and no related allowance recorded:					
Real Estate:					
1-4 family Residential	$1,661	$1,661	$-	$1,693	$29
Multi-family Residential	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	21	21	-	30	1
Total	$1,682	$1,682	$-	$1,723	$30
Purchased loans with an allowance recorded:					
Real Estate:					
1-4 family Residential	$-	$-	$	$-	$-
Multi-family Residential	-	-	-	-	-

Construction	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$-	$-	$-	$-	$-

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2013 and 2012

12. Financing receivables (continued)

	Recorded Investment (In thousands)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Originated loans with no related allowance recorded					
Real Estate:					
1-4 family Residential	$2,808	$2,808	$-	$3,148	$2
Multi-family Residential	95	95	-	94	-
Construction	-	-	-	-	-
Commercial	954	954	-	675	14
Consumer	-	-	-	-	-
Total	$3,857	$3,857	$-	$3,917	$16
Originated loans with an allowance recorded:					
Real Estate:					
1-4 family Residential	$120	$187	$67	$533	$3
Multi-family Residential	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	81	-
Consumer	-	-	-	-	-
Total	$120	$187	$67	$614	$3
Total:					
Real Estate:					
1-4 family Residential	$7,914	$8,024	$110	$9,008	$129
Multi-family Residential	1,154	1,154	-	1,155	11
Construction	-	-	-	-	-
Commercial	8,561	8,561	-	8,820	258
Consumer	103	103	-	111	9
Total	$17,732	$17,842	$110	$19,094	$407

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2013 and 2012

12. Financing receivables (continued)

Impaired Loans
As of December 31, 2012

	Recorded Investment (In thousands)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Purchased loans with a credit quality discount and no related allowance recorded:					
Real Estate:					
1-4 family Residential	$ 3,931	$ 3,931	$ -	$ 4,752	$ 232
Multi-family	1,062	1,062	-	1,065	53
Construction	-	-	-	-	-
Commercial	8,521	8,521	-	8,861	545
Consumer	81	81	-	89	16
Total	$ 13,595	$ 13,595	$ -	$ 14,767	$ 846
Purchased loans with a credit quality discount and an allowance recorded:					
Real Estate:					
1-4 family Residential	$ 13	$ 52	$ 39	$ 7	$ -
Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 13	$ 52	$ 39	$ 7	$ -
Purchased loans with no credit quality discount and no related allowance recorded:					
Real Estate:					
1-4 family Residential	$ 1,724	$ 1,724	$ -	$ 2,055	$ 60
Multi-family Residential	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	116	-
Consumer	39	39	-	30	1
Total	$ 1,763	$ 1,763	$ -	$ 2,201	$ 61
Purchased loans with an allowance recorded:					
Real Estate:					
1-4 family Residential	$ 148	$ 261	$ 113	$ 74	$ 5

Multi-family Residential	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 148	$ 261	$ 113	$ 74	$ 5

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2013 and 2012

12. Financing receivables (continued)

	Recorded Investment (In thousands)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Originated loans with no related allowance recorded					
Real Estate:					
1-4 family Residential	$ 3,487	$ 3,487	$ -	$ 4,259	$ 43
Multi-family	94	94	-	95	1
Construction	-	-	-	-	-
Commercial	396	396	-	291	2
Consumer	-	-	-	-	-
Total	$ 3,977	$ 3,977	$ -	$ 4,645	$ 46
Originated loans with an allowance recorded:					
Real Estate:					
1-4 family Residential	$ 946	$ 1,515	$ 569	$ 613	$ 6
Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	161	224	63	157	-
Consumer	-	-	-	-	-
Total	$ 1,107	$ 1,739	$ 632	$ 770	$ 6
Total:					
Real Estate:					
1-4 family Residential	$ 10,249	$ 10,970	$ 721	$ 11,760	$ 346
Multi-family	1,156	1,156	-	1,160	54
Construction	-	-	-	-	-
Commercial	9,078	9,141	63	9,425	547
Consumer	120	120	-	119	17
Total	$ 20,603	$ 21,387	$ 784	$ 22,464	$ 964

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2013 and 2012

12. Financing receivables (continued)

Modifications
As of June 30, 2013

	Number of Contracts	Pre-Modification Outstanding Recorded Investment (Dollars in thousands)	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real Estate:			
1-4 Family Residential	4	$ 316	$ 316
Multi-family Residential	-	-	-
Construction	-	-	-
Commercial	2	848	848
Consumer	-	-	-

Modifications
For the six months ended June 30, 2013

	Number of Contracts	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted		
Real Estate:		
1-4 Family Residential	-	$ -
Multi-family Residential	-	-
Construction	-	-
Commercial	-	-
Consumer	-	-

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2013 and 2012

12. Financing receivables (continued)

Modifications
As of December 31, 2012

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real Estate:			
1-4 Family Residential	16	$ 1,508	$ 1,508
Multi-family Residential	-	-	-
Construction	-	-	-
Commercial	1	754	754
Consumer	-	-	-

	Number of Contracts	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted		
Real Estate:		
1-4 Family Residential	-	$ -
Multi-family Residential	-	-
Construction	-	-
Commercial	-	-
Consumer	-	-

The modifications related to interest only payments ranging from a three to six month period. Due to the short term cash flow deficiency, no related allowance was recorded as a result of the restructurings. The collateral value was updated with recent appraisals which gave no indication of impairment

13. Completion of Plan of Conversion

On January 18, 2012, Cheviot Financial Corp., a Maryland corporation (the “Corporation”), completed its second-step conversion and related public stock offering. Cheviot Savings Bank is now 100% owned by the Corporation and the Corporation is 100% owned by public stockholders. The Corporation sold a total of 4,675,000 shares of common stock in a subscription, community and syndicated community offerings, including 187,000 shares to the Corporation’s employee stock ownership plan. All shares were sold at a purchase price of $8.00 per share.

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, actual future results may be materially different from the results indicated by these forward-looking statements.

Recent Developments

On April 23, 2013, shareholders approved the 2013 Equity Incentive Plan. As of the date of this report no stock grants or option awards have been made under the 2013 Equity Incentive Plan.

Critical Accounting Policies

Cheviot Financial considers 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. The Corporation considers 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 underlying collateral, the financial strength of the borrower, results of internal loan review and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change.

The analysis has two components, specific and general allocations. Specific allocations are 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. Management also analyzes 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 allowance. Actual loan losses may be significantly more than the allowances that has been established which could result in a material negative effect on financial results.

The acquired assets and assumed liabilities of First Franklin were measured at estimated fair values, as required by FASB under Business Combinations. Management made significant estimates and exercised significant judgment in accounting for the acquisition. Management measured loan fair values based on loan file reviews (including borrower financial statements or tax returns), appraised collateral values, expected cash flows and historical loss factors of Franklin Savings. Real estate acquired through foreclosure was primarily valued based on appraised collateral values. The Corporation also recorded an identifiable intangible asset representing the core deposit base of Franklin Savings based on management's evaluation of the cost of such deposits relative to alternative funding sources. Management used significant estimates including the average lives of depository accounts, future interest rate levels, the cost of servicing various depository products and other significant estimates. Management used market quotations to determine the fair value of investment securities and FHLB advances.

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Cheviot Financial Corp.

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

Critical Accounting Policies (continued)

The acquired assets of First Franklin and Franklin Savings include loans receivable. Loans receivable acquired with a deteriorated credit quality amounted to $25.0 million with a related credit quality discount of $5.5 million. The method of measuring carrying value of purchased loans differs from loans originated by the Corporation, and as such, the Corporation identifies purchased loans and purchased loans with a credit quality discount.

The Corporation classifies investments in debt and equity securities as either held-to-maturity or available-for-sale. Securities classified as held-to maturity are recorded at cost or amortized cost. Available-for-sale securities are carried at fair value. Estimated fair values are obtained from a third party service. This service's fair value calculations are based on quoted market prices when such prices are available. If quoted market prices are not available, estimates of fair value are computed using a variety of techniques, including extrapolation from the quoted prices of similar instruments or recent trades for thinly traded securities, fundamental analysis, or through obtaining purchase quotes. Due to the subjective nature of the valuation process, it is possible that the actual fair values of these investments could differ from the estimated amounts, thereby affecting the statements of financial position, results of operations and cash flows. If the estimated value of investments is less than the cost or amortized cost, management evaluates whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of the investment. If such an event or change has occurred and it is determined that the impairment is other-than-temporary, the impairment of the investment is expensed in the period in which the event or change occurred. Management also considers how long a security has been in a loss position in determining if it is other than temporarily impaired. Management also assesses the nature of the unrealized losses taking into consideration factors such as changes in risk- free interest rates, general credit spread widening, market supply and demand, creditworthiness of the issuer, and quality of the underlying collateral.

Discussion of Financial Condition Changes at June 30, 2013 and December 31, 2012

Total assets decreased $33.7 million, or 5.3%, to $598.3 million at June 30, 2013, from $632.0 million at December 31, 2012. The decrease in total assets primarily reflects a $31.5 million decrease in investment securities as $106.2 million in investment securities matured during the six months ended June 30, 2013 and a $6.4 million decrease in loans receivable as a result of selling $27.8 million of loans in the secondary market.

Cash, federal funds and interest-earning deposits increased $3.5 million, or 14.1% to $28.7 million at June 30, 2013. The increase in cash and cash equivalents at June 30, 2013 was due to a $3.3 million increase in federal funds sold and an increase of $1.0 million in interest-earning deposits, which was partially offset by a decrease of $779,000 in cash and due from banks. Investment securities decreased $31.5 million, or 16.1%, to $164.5 million at June 30, 2013. The decrease in investment securities is primarily the result of $106.2 million of investment securities maturing, which was partially offset by investing approximately $80.9 million in U.S. Government agencies and $1.9 million in corporate securities during the six months ended June 30, 2013. At June 30, 2013, all investment securities were classified as available for sale.

Mortgage-backed securities decreased $969,000, or 10.1%, to $8.6 million at June 30, 2013, from $9.6 million at December 31, 2012. The decrease in mortgage-backed securities was due primarily to $900,000 in principal repayments. At June 30, 2013, $5.3 million of mortgage-backed securities were classified as available for sale, while $3.4 million were classified as held to maturity. As of June 30, 2013, none of the mortgage-backed securities were considered other than temporarily impaired.

Cheviot Financial Corp.

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

Discussion of Financial Condition Changes at June 30, 2013 and December 31, 2012 (continued)

Loans receivable, including loans held for sale, decreased $6.4 million, or 1.9%, to $334.0 million at June 30, 2013, from $340.4 million at December 31, 2012. The change in net loans receivable reflects loan sales totaling $27.8 million and loan principal repayments of $38.6 million, which were partially offset by loan originations of $61.8 million. The change in the composition of the Corporation's assets reflects management's decision to service our customer base by originating loans for sale and recording gains, while simultaneously managing interest rate risk.

The allowance for loan losses totaled $1.5 million and $2.2 million at June 30, 2013 and December 31, 2012, 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 loan types to be evaluated 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 the Corporation's historic loss experience by applying such loss percentage to the loan types to be collectively evaluated in the portfolio. The $340,000 provision for losses on loans during the quarter ended June 30, 2013 reflected these factors, as well as, replenishing the allowance for charge-offs and the need to provide approximately $604,000 in specific reserves for twelve residential properties with principal balances totaling $2.7 million that were transferred to real estate owned during the six months ended June 30, 2013. 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 earnings. 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 June 30, 2013.

Originated non-performing and impaired loans totaled $4.0 million and $5.7 million at June 30, 2013 and December 31, 2012, respectively. At June 30, 2013, originated non-performing and impaired loans were comprised of thirty-three loans secured by one- to four-family residential real estate totaling $3.0 million, one multi-family loan totaling $95,000 and five commercial and non-residential loans totaling $954,000. At June 30, 2013 and December 31, 2012 real estate acquired through foreclosure was $4.9 million and $3.9 million, respectively. The allowance for loan losses represented 28.4% and 25.2% of Cheviot Financial's originated non-performing and impaired loans at June 30, 2013 and December 31, 2012, respectively. Although management believes that the Corporation's allowance for loan losses conforms to generally accepted accounting principles 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 results of operations.

Deposits totaled $477.4 million at June 30, 2013, a decrease of $13.3 million, or 2.7% from $490.6 million at December 31, 2012. Advances from the Federal Home Loan Bank of Cincinnati decreased by $3.1 million, or 12.8%, to $21.2 million at June 30, 2013, from $24.3 million at December 31, 2012. The decrease is a result of approximately $3.1 million in repayments during the six months ended June 30, 2013.

Shareholders' equity decreased $14.2 million, or 13.2%, from December 31, 2012. The decrease primarily resulted from purchasing 759,654 shares through the stock buyback program at a total cost of $8.6 million, dividend payments on common stock of $1.3 million and an increase in the unrealized loss on securities designated as available for sale of $5.5 million. These decreases were partially offset by net income of $1.1 million.

Cheviot Financial Corp.

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

Discussion of Financial Condition Changes at June 30, 2013 and December 31, 2012 (continued)

Liquidity and Capital Resources

The Corporation monitors its liquidity position on a daily basis using reports that summarize all deposit activity and loan commitments. A significant portion of the deposit base is comprised of time deposits. At June 30, 2013, $117.3 million of time deposits are due to mature within one year. The daily deposit activity report allows management to price time deposits competitively. Because of this and the Corporation's deposit retention experience, the Corporation anticipates that a significant portion of maturing time deposits will be retained. At June 30, 2013, the Corporation had loan commitments of $4.1 million. Loan commitments are funded or expire within 45 days from the date of the commitment.

Borrowings from the Federal Home Loan Bank of Cincinnati decreased $3.1 million during the six months ended June 30, 2013 and totaled $21.2 million at June 30, 2013. At June 30, 2013, the Corporation had the ability to increase such borrowings by approximately $118.1 million. The additional borrowings can be used to offset any decrease in customer deposits or to fund loan commitments. The Corporation's other borrowings were primarily limited to $870,000 of lease obligations.

Comparison of Operating Results for the Six-Month Period Ended June 30, 2013 and 2012

General

Net earnings for the six months ended June 30, 2013 totaled $1.1 million, a $1.0 million decrease from the $2.1 million in net earnings reported for the June 2012 period. The decrease in net earnings reflects a decrease in net interest income of $385,000 and a decrease in other income of $665,000 and an increase in general, administrative and other expense of $354,000, which were partially offset by a decrease of $60,000 in the provision for losses on loans and a decrease in the provision for federal income taxes of $310,000.

Net Interest Income

Total interest income decreased $1.1 million, or 9.9%, to $9.9 million for the six-months ended June 30, 2013, from the comparable quarter in 2012. Interest income on loans decreased $1.4 million, or 14.9%, to $8.0 million during the 2013 period from $9.4 million for the 2012 period. This decrease was due primarily to a $37.1 million decrease in the average balance of loans outstanding and a 27 basis point decrease in the average yield to 4.79% from 5.06% in the 2013 six month period.

Interest income on mortgage-backed securities decreased $28,000, or 25.5%, to $82,000 for the six months ended June 30, 2013, from $110,000 for the 2012 period, due primarily to a 17 basis point decrease in the average yield and a $2.0 million decrease in the average balance of securities outstanding period to period. Interest income on investment securities increased $332,000, or 25.3%, to $1.6 million for the six months ended June 30, 2013, compared to $1.3 million for the same period in 2012, due primarily to an increase of $40.9 million, or 29.2%, in the average balance of investment securities outstanding, which was partially offset by a 5 basis point decrease in the average yield to 1.82%

for the 2013 period. Interest income on other interest-earning deposits increased $9,000, or 4.8%, to $196,000 for the six months ended June 30, 2013, as compared to the same period in 2012.

Cheviot Financial Corp.

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

Comparison of Operating Results for the Six-Month Periods Ended June 30, 2013 and 2012 (continued)

Interest expense decreased $703,000, or 23.7%, to $2.3 million for the six months ended June 30, 2013, from $3.0 million for the same period in 2012. Interest expense on deposits decreased by $591,000, or 23.8%, to $1.9 million from $2.5 million, due primarily to a $13.2 million decrease in the average balance outstanding, which was partially offset by 22 basis point decrease in the average cost of deposits to 0.78% during the 2013 period. Interest expense on borrowings decreased by $112,000, or 22.9%, due primarily to a $6.4 million, or 21.9%, decrease in the average balance outstanding and a 5 basis point decrease in the average cost of borrowings. As a result of the foregoing changes in interest income and interest expense, net interest income decreased by $385,000, or 4.8%, to $7.7 million for the six months ended June 30, 2013. The average interest rate spread decreased 10 basis points to 2.84% for the six months ended June 30, 2013 from 2.94% for the six months ended June 30, 2012. The net interest margin decreased to 2.88% for the six months ended June 30, 2013 from 2.97% for the six months ended June 30, 2012.

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 $340,000 provision for losses on loans for the six months ended June 30, 2013 and $400,000 for the six months ended June 30, 2012. Non-performing originated loans were 1.9% and 2.7% of net originated loans at June 30, 2013 and December 31, 2012, respectively. The 2013 provision for loan losses reflects the amount necessary to maintain an adequate allowance based on the Corporation's historical loss experience and other external factors. These other 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 is adequate to absorb such losses.

Other Income

Other income decreased $665,000, or 30.9%, to $1.5 million for the six months ended June 30, 2013, compared to the same period in 2012, due primarily to a loss of $255,000 on sale of office premises and equipment, a decrease in the gain on sale of loans of $127,000 and the absence during the 2013 period of a gain on death benefits from life insurance of $481,000. During the second quarter of 2013, the Corporation sold the former Franklin Savings headquarters.

General, Administrative and Other Expense

General, administrative and other expense increased $354,000, or 5.0%, to $7.4 million for the six months ended June 30, 2013, from $7.0 million for the comparable period in 2012. The increase is a result of an increase of $169,000 in employee compensation and benefits, an increase of $88,000 in real estate owned loss expense and an increase of $98,000 in legal and professional expense. The increase in compensation expense is due to an increase in the number of employees, salary increases and resulting benefits. The increase in real estate owned loss expense is a result of the impairment of five properties acquired through foreclosure based on updated appraised values. The increase in legal and professional expense is due to fees paid to resolve delinquent loans and foreclosure properties.

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Cheviot Financial Corp.

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

Comparison of Operating Results for the Six-Month Periods Ended June 30, 2013 and 2012 (continued)

Federal Income Taxes

The provision for federal income taxes decreased $310,000, or 44.5%, for the six months ended June 30, 2013. Cheviot Financial has approximately $3.8 million in remaining operating loss carryforwards to offset future taxable income for 20 years. These losses are subject to the Internal Revenue Code Section 382 net operating loss limitations of $1.1 million allowed on an annual basis. The effective tax rate for the six months ended June 30, 2013 and 2012 was 26.8% and 29.8%, respectively.

Comparison of Operating Results for the Three-Month Periods Ended June 30, 2013 and 2012

General

Net earnings for the three months ended June 30, 2013 totaled $265,000, a $943,000 decrease from the $1.2 million earnings reported in the June 2012 period. The decrease in net earnings reflects a decrease in other income of $637,000, a decrease of $272,000 in net interest income, an increase of $35,000 in the provision for losses on loans and an increase in general, administrative and other expenses of $253,000, which were partially offset by a decrease of $254,000 in the provision for federal income taxes.

Net Interest Income

Total interest income decreased $612,000, or 11.2%, to $4.9 million for the three-months ended June 30, 2013, from the comparable quarter in 2012. Interest income on loans decreased $643,000, or 14.0%, to $3.9 million during the 2013 quarter from $4.6 million for the 2012 quarter. This decrease was due primarily to a $32.7 million, or 8.9%, decrease in the average balance of loans outstanding and by a 28 basis point decrease in the average yield on loans to 4.73% for the 2013 quarter from 5.01% for the three months ended June 30, 2012.

Cheviot Financial Corp.

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

For the three and six months ended June 30, 2013 and 2012

Comparison of Operating Results for the Three-Month Periods Ended June 30, 2013 and 2012 (continued)

Net Interest Income (continued)

Interest income on mortgage-backed securities decreased $9,000, or 18.0%, to $41,000 for the three months ended June 30, 2013, from $50,000 for the comparable 2012 quarter, due primarily to a $2.1 million, or 19.0% decrease in the average balance of securities outstanding, which was partially offset by a 2 basis point increase in the average yield. Interest income on investment securities increased $33,000, or 4.4%, to $777,000 for the three months ended June 30, 2013, compared to $744,000 for the same quarter in 2012, due primarily to an increase of $18.2 million, or 11.5% in the average balance of investment securities outstanding, which was partially offset by a 12 basis point decrease in the average yield to 1.76% in the 2013 quarter. Interest income on other interest-earning deposits increased $7,000, or 7.7% to $98,000 for the three months ended June 30, 2013.

Interest expense decreased $340,000, or 23.6% to $1.1 million for the three months ended June 30, 2013, from $1.4 million for the same quarter in 2012. Interest expense on deposits decreased by $287,000, or 23.8%, to $920,000, from $1.2 million, due primarily to a 21 basis point decrease in the average cost of deposits to 0.76% and a $16.6 million, or 3.3% decrease in the average balance of deposits outstanding. The decrease in the average cost of deposits is due to the overall changes in the deposit composition and lower market rates for the period. Interest expense on borrowings decreased by $53,000, or 22.5%, due primarily to a $6.0 million decrease in the average balance outstanding, and due to a 5 basis point decrease in the average cost of borrowings.

As a result of the foregoing changes in interest income and interest expense, net interest income decreased by $272,000, or 6.8%, to $3.8 million for the three months ended June 30, 2013, as compared to the same quarter in 2012. The average interest rate spread decreased to 2.82% for the three months ended June 30, 2013 from 2.90% for the three months ended June 30, 2012. The net interest margin decreased to 2.86% for the three months ended June 30, 2013 from 2.94% for the three months ended June 30, 2012.

Provision for Losses on Loans

Management recorded a $285,000 provision for losses on loans for the three months ended June 30, 2013, compared to a $250,000 provision for losses on loans for the three months ended June 30, 2012. The provision for loan losses during the three months ended June 30, 2013 reflects the amount necessary to maintain an adequate allowance based on the historical loss experience and other external factors. 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 decreased $637,000, or 54.0%, to $542,000 for the three months ended June 30, 2013, compared to the same quarter in 2012, reflecting the absence during the 2013 period of a gain on death benefits from life insurance of $481,000 and a loss on sale of office premises and equipment of $255,000 which occurred during the second quarter of 2013. This loss represented the sale of the former Franklin Savings headquarters.

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Cheviot Financial Corp.

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

For the three and six months ended June 30, 2013 and 2012

Comparison of Operating Results for the Three-Month Periods Ended June 30, 2013 and 2012 (continued)

General, Administrative and Other Expense

General, administrative and other expense increased $253,000, or 7.3%, to $3.7 million for of the three months ended June 30, 2013. This increase is primarily a result of an increase in employee compensation and benefits of $144,000 and an increase in other operating expense of $61,000.

Federal Income Taxes

The provision for federal income taxes decreased $254,000, or 82.7%, for the three months ended June 30, 2013. Cheviot Financial has approximately $3.8 million in remaining operating loss carryforwards to offset future taxable income for 20 years. These losses are subject to the Internal Revenue Code Section 382 net operating loss limitations of $1.1 million allowed on an annual basis. The effective tax rate for the three months ended June 30, 2012 was 16.3%.

Cheviot Financial Corp.

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, 2012.

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

NONE

ITEM 1A. Risk Factors

Not applicable, as the Corporation is a smaller reporting company.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

On January 16, 2013, Cheviot Financial Corp. announced that the Corporation's Board of Directors authorized on January 15, 2013 the repurchase of up to 759,654 shares, or approximately 10% of the Corporation's outstanding common stock. The stock repurchase program became effective January 21, 2013, which was one year after the anniversary of the Corporation's second-step conversion. The repurchases may be carried out through open market purchases, block trades, and in negotiated private transactions. In addition, the Corporation may enter into an agreement to have its shares repurchased pursuant to rule 10b-5-1 of the Securities Exchange Act of 1934. The common stock may be repurchased on an ongoing basis and will be subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital, and the Corporation's financial performance.

As of June 30, 2013, the Corporation had completed the repurchase of 759,654 shares at an average price of $11.22 pursuant to the program.

The Corporation's stock repurchases for the three months ended June 30, 2013 are as follows:

Period	Total # of shares purchased	Average price paid per share	Total # of shares purchased as part of publicly announced plans or programs	Maximum # of shares that may yet be purchased
April 1-30, 2013	102,800	$ 11.33	336,031	423,623
May 1-31, 2013	318,400	$ 11.40	654,431	105,223
June 1-30, 2013	105,223	$ 11.31	759,654	-

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable

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.

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: August 12, 2013	By: /s/ Thomas J. Linneman Thomas J. Linneman President and Chief Executive Officer
Date: August 12, 2013	By: /s/ Scott T. Smith Scott T. Smith Chief Financial Officer

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