Cheviot Financial Corp.
Form 10-Q
August 12, 2014

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, 2014

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, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" 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, 2014, the latest practicable date, 6,707,803 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)

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Cash and due from banks	$13,124	$14,129
Federal funds sold	17,516	3,340
Interest-earning deposits in other financial institutions	8,417	4,643
Cash and cash equivalents	39,057	22,112
Investment securities available for sale – at fair value	144,123	153,942
Mortgage-backed securities available for sale - at fair value	8,667	9,361
Mortgage-backed securities held to maturity - at cost, approximate market value of $2,987 and $3,230 at June 30, 2014 and December 31, 2013, respectively	2,880	3,116
Loans receivable - net	326,996	336,134
Loans held for sale - at lower of cost or market	1,191	703
Real estate acquired through foreclosure - net	2,790	3,284
Office premises and equipment - at depreciated cost	11,172	11,505
Federal Home Loan Bank stock - at cost	8,651	8,651
Accrued interest receivable on loans	1,060	1,173
Accrued interest receivable on mortgage-backed securities	21	23
Accrued interest receivable on investments and interest-earning deposits	788	775
Goodwill	10,309	10,309
Core deposit intangible	459	540
Prepaid expenses and other assets	3,902	3,537
Bank-owned life insurance	15,966	15,733
Prepaid federal income taxes	791	1,284
Deferred federal income taxes	2,220	4,928
Total assets	$581,043	$587,110
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$463,889	$469,387
Advances from the Federal Home Loan Bank	16,187	19,261
Advances by borrowers for taxes and insurance	1,072	2,357
Accrued interest payable	62	71
Accounts payable and other liabilities	5,492	5,107
Total liabilities	486,702	496,183

Shareholders' equity		
Preferred stock - authorized 5,000,000 shares, $.01 par value; none issued Common stock - authorized 30,000,000 shares, $.01 par value; 6,707,803 and 6,834,803 shares issued at June 30, 2014 and December 31, 2013	76	76
Additional paid-in capital	55,781	57,215
Shares acquired by stock benefit plans	(1,545)	(1,574)
Retained earnings - restricted	42,559	42,439
Accumulated comprehensive loss, unrealized losses on securities available for sale, net of related tax benefit	(2,530)	(7,229)
Total shareholders' equity	94,341	90,927
Total liabilities and shareholders' equity	$581,043	$587,110

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(In thousands, except per share data)

	Six months ended June 30,		Three months ended June 30,	
	2014	2013	2014	2013
Interest income				
Loans	$7,412	$8,018	$3,668	$3,944
Mortgage-backed securities	112	82	52	41
Investment securities	1,547	1,645	796	777
Interest-earning deposits and other	178	196	90	98
Total interest income	9,249	9,941	4,606	4,860
Interest expense				
Deposits	1,538	1,887	767	920
Borrowings	286	377	137	183
Total interest expense	1,824	2,264	904	1,103
Net interest income	7,425	7,677	3,702	3,757
Provision for losses on loans	555	340	355	285
Net interest income after provision for losses on loans	6,870	7,337	3,347	3,472
Other income				
Rental	56	73	31	31
Gain on sale of real estate acquired through foreclosure	25	69	-	71
Loss on sale of office premises and equipment	-	(255)	-	(255)
Gain on sale of loans	167	425	101	187
Gain on sale of investment securities designated as available-for-sale	722	-	281	-
Earnings on bank-owned life insurance	233	241	117	122
Service fee income	771	736	401	376
Other operating	37	200	26	10
Total other income	2,011	1,489	957	542
General, administrative and other expense				
Employee compensation and benefits	2,882	3,323	1,408	1,640
Occupancy and equipment	732	832	354	428
Property, payroll and other taxes	569	727	276	359
Data processing	318	298	158	150
Legal and professional	463	492	232	277
Advertising	150	150	75	75

FDIC expense	216	219	99	111
ATM processing expense	183	185	95	95
Real estate owned impairment	493	256	297	155
Core deposit intangible amortization	81	112	34	47
Other operating	902	789	546	359
Total general, administrative and other expense	6,989	7,383	3,574	3,696
Earnings before income taxes	1,892	1,443	730	318
Federal income taxes (benefit)				
Current	145	(97)	(210)	(97)
Deferred	405	484	413	150
Total federal income taxes	550	387	203	53
NET EARNINGS	$1,342	$1,056	$527	$265
EARNINGS PER SHARE				
Basic	$.20	$.15	$.08	$.04
Diluted	$.20	$.15	$.08	$.04
Dividends per common share	$.18	$.18	$.09	$.09

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, 2014 and 2013
(In thousands)

	For the six months ended June 30,		For the three months ended June 30,	
	2014	2013	2014	2013
Net earnings for the period	$1,342	$1,056	$527	$265
Other comprehensive income (loss), net of tax expense (benefit):				
Unrealized holding (losses) gains on securities during the period, net of tax (benefits) expense of $2,421 and $(2,813) for the six months ended June 30, 2014 and 2013, respectively, and $1,398 and $(2,660) for the three months ended June 30, 2014 and 2013, respectively	4,699	(5,461)	2,713	(5,164)
Comprehensive income (loss)	$6,041	$(4,405)	$3,240	$(4,899)
Accumulated comprehensive loss	$(2,530)	$(4,861)	$(2,530)	$(4,861)

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the six months ended June 30, 2014 and 2013
(In thousands)

	2014	2013
Cash flows from operating activities:		
Net earnings for the period	$1,342	1,056
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Amortization of premiums and discounts on investment and mortgage-backed securities, net	(12)	(19)
Depreciation	361	370
Charitable donation of real estate owned property	-	32
Amortization of deferred loan origination costs - net	23	(13)
Amortization of intangible assets	81	112
Amortization of fair value adjustments	(215)	(482)
Proceeds from sale of loans in the secondary market	10,999	27,816
Loans originated for sale in the secondary market	(11,425)	(23,899)
Gain on sale of loans	(167)	(425)
Gain on sale of real estate acquired through foreclosure	(25)	(69)
Impairment on real estate acquired through foreclosure	493	256
Loss on sale of office premises and equipment	-	255
Gain on sale of investment securities designated as available-for-sale	(722)	-
Net increase in cash surrender value of bank-owned life insurance	(233)	(242)
Amortization of expense related to stock benefit plans	38	39
Provision for losses on loans	555	340
Increase (decrease) in cash due to changes in:		
Accrued interest receivable on loans	113	65
Accrued interest receivable on mortgage-backed securities	2	2
Accrued interest receivable on investments and interest earning deposits	(13)	224
Prepaid expenses and other assets	(364)	825
Accrued interest payable	(9)	(2)
Accounts payable and other liabilities	340	(1,770)
Federal income taxes		
Current	493	(93)
Deferred	405	484
Net cash provided by operating activities	2,060	4,862
Cash flows provided by (used in) investing activities:		
Principal repayments on loans	32,298	38,641
Loan disbursements	(23,983)	(37,872)
Purchase of investment securities – available for sale	(14,978)	(80,928)
Proceeds from maturity of investment securities – available for sale	30,000	106,175
Purchase of corporate securities	-	(1,920)

Proceeds from the sale of corporate securities	2,484	-
Principal repayments on mortgage-backed securities – available for sale	742	682
Principal repayments on mortgage-backed securities – held to maturity	236	218
Proceeds from sale of real estate acquired through foreclosure	405	878
Proceeds from sale of office premises and equipment	-	1,167
Purchase of office premises and equipment	(28)	(1,104)
Net cash provided by investing activities	27,176	25,937
Cash flows provided by (used in) financing activities:		
Net decrease in deposits	(5,311)	(12,974)
Repayments on Federal Home Loan Bank advances	(3,030)	(3,074)
Advances by borrowers for taxes and insurance	(1,285)	(1,379)
Stock option expense, net	7	12
Common stock repurchased	(1,450)	(8,560)
Dividends paid on common stock	(1,222)	(1,282)
Net cash used in financing activities	(12,291)	(27,257)
Net increase in cash and cash equivalents	16,945	3,542
Cash and cash equivalents at beginning of period	22,112	25,114
Cash and cash equivalents at end of period	$39,057	$28,656

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

For the six months ended June 30, 2014 and 2013
(In thousands)

	2014	2013
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	$-	$-
Interest on deposits and borrowings	$1,833	$2,266
Supplemental disclosure of noncash investing activities:		
Transfer of loans to real estate acquired through foreclosure	$383	$2,040
Recognition of mortgage servicing rights	$66	$204
Deferred gain on real estate acquired through foreclosure	$4	$7

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2014 and 2013

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, 2013. However, in the opinion of management, all adjustments (consisting of only normal recurring accruals) which are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three or six month period ended June 30, 2014 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, 2014 and 2013 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,

2014 and December 31, 2013, the Corporation had $16.2 million and $19.3 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 $123.6 million and $121.1 million, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June, 2014 and 2013

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, 2014, loan originations totaled $35.4 million, compared to $61.8 million for the six months ended June 30, 2013.

Total deposits decreased $5.5 million during the six months ended June 30, 2014, while total deposits decreased $13.3 million during the six months ended June 30, 2013. 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, 2014.

	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	$237	$11,623	$1,915	$2,412	$16,187
Certificates of deposit	130,121	69,114	24,950	27	224,212
Lease obligations	103	133	119	174	529
Purchase of leased facility	575	–	–	–	575
Amount of loan commitments and expiration per period:					
Commitments to originate one- to four-family loans	2,068	–	–	–	2,068
Home equity lines of credit	26,248	–	–	–	26,248
Commercial lines of credit	1,243	–	–	–	1,243
Undisbursed loans in process	2,821	–	–	–	2,821
Total contractual obligations	$163,416	$80,870	$26,984	$2,613	$273,883

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, 2014 and 2013, we exceeded all of the applicable regulatory capital requirements. Core (Tier 1) capital was $78.3 million and $77.8 million, or 13.7% and 13.3% of total assets at June 30, 2014 and 2013, respectively. In order to be classified as "well-capitalized" under federal banking regulations, the Savings Bank was required to have core capital of at least $34.9 million, or 6.0% of assets as of June 30, 2014. To be classified as a well-capitalized bank, the Savings Bank must also have a ratio of total risk-based capital to risk-weighted assets of at least 10.0%. At June 30, 2014 and 2013, the Savings Bank had a total risk-based capital ratio of 26.5% and 25.7%, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

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 168,300 and 208,251 unallocated shares held by the ESOP for the six months ended June 30, 2014 and 2013, respectively.

	For the six months ended June 30,		For the three months ended June 30,	
	2014	2013	2014	2013
Weighted-average common shares outstanding (basic)	6,630,407	7,101,890	6,607,066	6,905,946
Dilutive effect of assumed exercise of stock options	4,991	6,872	5,911	7,692
Weighted-average common shares outstanding (diluted)	6,635,398	7,108,762	6,612,977	6,913,638

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, approximately 5,600 stock options were granted subject to a five year vesting period. The shares in the plan and the shares granted have been adjusted to reflect the exchange ratio of 0.857.

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

The Corporation elected the modified prospective transition method in applying ASC 718. Under this method, the provisions of ASC 718 apply to all awards granted or modified after the date of adoption, as well as for all unvested options outstanding at December 31, 2005. The compensation cost recorded for unvested equity-based awards is based on their grant-date fair value. For the six months ended June 30, 2014, the Corporation recorded $7,000 in after-tax compensation cost for equity-based awards that vested during the six months ended June 30, 2014. The Corporation has $20,000 unrecognized pre-tax compensation cost related to non-vested equity-based awards granted under its stock incentive plan as of June 30, 2014, which is expected to be recognized over a weighted-average vesting period of approximately 1.0 months.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

5. Stock Option Plan (continued)

A summary of the status of the Corporation's stock option plan as of June 30, 2014 and the year ended December 31, 2013 as well as the changes during the period then ended are presented below:

	Six months ended June 30, 2014		Year ended December 31, 2013	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding at beginning of period	369,939	$12.80	370,339	$12.80
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	(400)	8.30
Outstanding at end of period	369,939	$12.80	369,939	$12.80
Options exercisable at period-end	363,791	$12.74	359,177	$12.91
Options expected to be exercisable at year-end	363,791		359,177	
Fair value of options granted		NA		NA

The following information applies to options outstanding at June 30, 2014:

Number outstanding	369,939
Exercise price	$8.30 - $15.90
Weighted-average exercise price	$12.80
Weighted-average remaining contractual life	1.4 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.

On April 23, 2013, shareholders approved the 2013 Equity Incentive Plan. As of June 30, 2014, 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, 2014 and 2013

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, 2014 and December 31, 2013 are shown below.

	June 30, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Available for Sale:				
U.S. Government agency securities	$145,066	$32	$4,377	$140,721
Municipal obligations	3,034	149	13	3,170
Corporate securities	158	74	-	232
	$148,258	$255	$4,390	$144,123

	December 31, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Available for Sale:				
U.S. Government agency securities	$160,063	$-	$11,714	$148,349
Municipal obligations	3,035	83	103	3,015
Corporate securities	1,920	658	-	2,578
	$165,018	$741	$11,817	$153,942

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, 2014, by contractual term to maturity, are shown below.

	June 30, 2014 (In thousands)
Less than one year	$ -
One to five years	55,166
Five to ten years	67,213
More than ten years	25,721
	148,100

Corporate securities	158
Corporate securities	$ 148,258

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

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, 2014 and December 31, 2013 are shown below.

	June 30, 2014			
	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	$607	$ 34	$ 1	$640
Federal National Mortgage Association adjustable-rate participation certificates	5,477	76	2	5,551
Government National Mortgage Association adjustable-rate participation certificates	2,400	76	-	2,476
	$8,484	$ 186	$ 3	$8,667
Held to maturity:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$228	$5	$-	$233
Federal National Mortgage Association adjustable-rate participation certificates	173	3	-	176
Government National Mortgage Association adjustable-rate participation certificates	2,479	99	-	2,578
	$2,880	$107	$-	$2,987

	December 31, 2013			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In thousands)			
Available for sale:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$677	$ 34	$ 1	$710
	5,940	40	36	5,944

Federal National Mortgage Association adjustable-rate participation certificates				
Government National Mortgage Association adjustable-rate participation certificates	2,622	85	-	2,707
	$9,239	$ 159	$ 37	$9,361

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

6. Investment and Mortgage-backed Securities (continued)

	December 31, 2013			
	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	$253	$ 8	$ -	$261
Federal National Mortgage Association adjustable-rate participation certificates	212	6	-	218
Government National Mortgage Association adjustable-rate participation certificates	2,651	100	-	2,751
	$3,116	$ 114	$ -	$3,230

The amortized cost of mortgage-backed securities, including those designated as available for sale, at June 30, 2014, 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, 2014 (In thousands)
Due in one year or less	$ 771
Due in one year through five years	3,257
Due in five years through ten years	4,491
Due in more than ten years	2,845
	$ 11,364

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at June 30, 2014:

	Less than 12 months			12 months or longer			Total		
Description of securities	Number of investments	Fair value	Unrealized losses	Number of investments	Fair value	Unrealized losses	Number of investments	Fair value	Unrealized losses
	(Dollars in thousands)								

U.S. Government agency securities	5	$ 26,478	$ 523	21	$ 109,232	$ 3,854	26	$ 135,710	$ 4,377
Municipal obligations	-	-	-	1	702	13	1	702	13
Corporate stocks	-	-	-	-	-	-	-	-	-
Mortgage-backed securities	18	126	2	8	98	1	26	224	3
Total temporarily impaired securities	23	$ 26,604	$ 525	30	$ 110,032	$ 3,868	53	$ 136,636	$ 4,393

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

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 $2.5 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 $1.5 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, 2014 and 2013

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, 2014 and 2013:

	2014		2013	
	(Dollars in thousands)			
Federal income taxes at statutory rate of 34%	$643		$491	
Increase (decrease) in taxes resulting primarily from:				
Stock compensation	7		2	
Nontaxable interest income	(20)		(22)	
Cash surrender value of life insurance	(79)		(82)	
Other	(1)		(2)	
Federal income taxes per financial statements	$550		$387	
Effective tax rate	29.1	%	26.8	%

8. 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, 2014:

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, 2014 and 2013

8. 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, 2014. Fair values for fixed-rate certificates of deposit have been estimated using a discounted cash flow calculation using the interest rates currently offered for deposits of similar remaining maturities.

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

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

Commitments to extend credit: For fixed-rate loan commitments, the fair value estimate considers the difference between current levels of interest rates and committed rates. At March 31, 2014, the fair value of the derivative loan commitments was not material.

9. Disclosures about Fair Value of Assets and Liabilities

The estimated fair values of the Company's financial instruments are as follows:

	June 30, 2014		December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
	(In thousands)			
Financial assets				
Cash and cash equivalents	$39,057	$39,057	$22,112	$22,112
Investment securities	144,123	144,123	153,942	153,942
Mortgage-backed securities	11,547	11,654	12,477	12,591
Loans receivable – net and loans held for sale	328,187	349,764	336,837	362,066
Accrued interest receivable	1,869	1,869	1,971	1,971
Federal Home Loan Bank stock	8,651	8,651	8,651	8,651
	$533,434	$555,118	$535,990	$561,333
Financial liabilities				
Deposits	$463,889	$462,136	$469,387	$468,417
Advances from the Federal Home Loan Bank	16,187	16,543	19,261	20,207
Accrued interest payable	62	62	71	71
Advances by borrowers for taxes and insurance	1,072	1,072	2,357	2,357

	$481,210	$479,813	$491,076	$491,052

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

9. Disclosures about Fair Value of Assets and Liabilities (continued)

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 value on available for sale securities was based upon a market approach. Securities which are fixed income instruments that are not quoted on an exchange, but are traded in active markets, are valued using prices obtained from our custodian, which used third party data service providers and classified as level 2 assets. Management compares the fair values to another third party report for reasonableness. Available for sale securities includes U.S. agency securities, municipal bonds and mortgage-backed agency securities.

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
	(In thousands)			
Securities available for sale at June 30, 2014:				
U.S. Government agency securities	$140,721	-	$140,721	-
Municipal obligations	3,170	-	3,170	-
Corporate Securities	232	-	232	-
Mortgage-backed securities	8,667	-	8,667	-
Securities available for sale at December 31, 2013:				
U.S. Government agency securities	$148,349	-	$148,349	-
Municipal obligations	3,015	-	3,015	-

Corporate Securities	2,578	-	2,578	-
Mortgage-backed securities	9,361	-	9,361	-

The Corporation is predominately an asset-based lender with real estate serving as collateral on a substantial majority of loans. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are obtained using independent appraisals based on comparable sales, which the Corporation considers to be Level 2 inputs. The aggregate carrying amount of impaired loans, including loans acquired from Franklin Savings with a fair value discount, at June 30, 2014 and December 31, 2013 were approximately $15.4 million and $16.5 million, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

9. Disclosures about Fair Value of Assets and Liabilities (continued)

The Corporation has real estate acquired through foreclosure totaling $2.8 million and $3.3 million at June 30, 2014 and December 31, 2013, 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. The aggregate amount of real estate acquired through foreclosure that is carried at fair value was approximately $2.8 and $3.3 million at June 30, 2014 and December 31, 2013, respectively.

The following table presents fair value measurements for the Company's financial instruments which are not recognized at fair value in the accompanying statements of financial position on a recurring or nonrecurring basis.

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
June 30, 2014:				
Financial assets:				
Cash and cash equivalents	$39,057	$ 39,057	$-	$ -
Mortgage-backed securities	2,987	-	2,987	-
Loans receivable - net	349,764	-	349,764	-
Federal Home Loan Bank stock	8,651	-	8,651	-
Accrued interest receivable	1,869	-	1,869	-
Financial liabilities:				
Deposits	462,136	-	462,136	-
Advances from the Federal Home Loan Bank	16,543	-	16,543	-
Advances by borrowers for taxes and insurance	1,072	-	1,072	-
Accrued interest payable	62	-	62	-
December 31, 2013:				
Financial assets:				
Cash and cash equivalents	$22,112	$ 22,112	$-	$ -
Mortgage-backed securities	3,230	-	3,230	-
Loans receivable - net	362,066	-	362,066	-
Federal Home Loan Bank stock	8,651	-	8,651	-
Accrued interest receivable	1,971	-	1,971	-
Financial liabilities:				
Deposits	468,417	-	468,417	-
Advances from the Federal Home Loan Bank	20,207	-	20,207	-
Advances by borrowers for taxes and insurance	2,357	-	2,357	-

Accrued interest payable	71	-	71	-

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

10. Effects of Recent Accounting Pronouncements

We adopted the following accounting guidance in 2014, none of which had a material effect, if any, on our consolidated financial position or results of operations.

In January 2014, the FASB issued ASU No. 2014-04, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40), which clarifies when an in substance repossession or foreclosure has occurred and the creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. A creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan either when legal title to the residential real estate property is obtained upon completion of a foreclosure or when the borrower has conveyed all interest in the residential real property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or similar arrangement. The ASU also require disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. We do not expect the adoption of these provisions to have a significant impact on the Company's consolidated financial statements.

In June 2014, The FASB issued ASU No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The effective date is the same for both public business entities and all other entities. We do not expect the adoption of these provisions to have a significant impact on the Company's consolidated financial statements.

In June 2014, The FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures, which changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also requires additional disclosures about repurchase agreements and other similar transactions. The amendments in this ASU are effective for public companies for the first interim or annual period beginning after December 15, 2014. In addition, for public companies, the disclosure for certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early application for a public company is prohibited. We do not expect the adoption of these provisions to have a significant impact on the Company's consolidated financial statements.

In May 2014, The FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606. ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We do not expect the adoption of these provisions to have a significant impact on the Company’s consolidated financial statements.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

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, 2014. The carrying amount of the goodwill at June 30, 2014 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, 2014, 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, 2014 was $1.3 million, with $839,000 in accumulated amortization as of that date.

As of June 30, 2014, the current year and estimated future amortization expense for the core deposit intangible was:

2014	$68
2015	116
2016	110
2017	110
2018	55
Total	$459

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

12. Financing Receivables

The recorded investment in loans was as follows as of June 30, 2014:

	One-to four-Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Purchased loans	$73,312	$ 5,166	$ -	$ 25,328	$205	$104,011
Fair value discount	(1,217)	(98)	-	(520)	(15)	(1,850)
Purchased loans book value	72,095	5,068	-	24,808	190	102,161
Originated loans (1)	160,530	14,153	6,921 (2)	47,793	786	230,183
Ending balance	$232,625	$ 19,221	$ 6,921	$ 72,601	$976	$332,344

(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, 2014.

	Non-impaired Purchased Loans (In thousands)	Credit Impaired Purchased Loans (In thousands)
One-to-four family residential	$ 67,775	$ 4,320
Multi-family residential	4,707	361
Construction	-	-
Commercial	18,389	6,419
Consumer	188	2
Total	$ 91,059	$ 11,102

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

12. Financing receivables (continued)

The following summarizes activity in the allowance for credit losses:

	June 30, 2014					
	One-to four-Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Allowance for loan losses:						
Beginning balance	$1,352	$ 194	$ 9	$ 131	$11	$1,697
Provision	534	(18)	(1)	41	(1)	555
Charge-offs	(279)	-	-	(39)	-	(318)
Recoveries	19	-	-	40	-	59
Ending balance	$1,626	$ 176	$ 8	$ 173	$10	$1,993
Originated loans: Individually evaluated for impairment	$189	$ 1	$ -	$ 8	$-	$198
Purchased loans: Individually evaluated for impairment	$143	$ -	$ -	$ -	$-	$143
Originated loans: Collectively evaluated for impairment	$831	$ 175	$ 8	$ 165	$10	$1,189
Purchased loans: Loans acquired with deteriorated credit quality	$463	$ -	$ -	$ -	$-	$463
Loans receivable:						
Ending balance	$232,625	$ 19,221	$ 6,921	$ 72,601	$976	$332,344
Ending balance:	$69,129	$ 4,802	$ -	$ 18,553	$188	$92,672

Individually evaluated for impairment (1)						
Ending balance: Collectively evaluated for impairment	$159,176	$ 14,058	$ 6,921	$47,629	$786	$228,570
Ending balance: Loans acquired with deteriorated credit quality	$4,320	$ 361	$ -	$6,419	$2	$11,102

(1) Includes loans acquired from First Franklin with outstanding balances of $91,059 at June 30, 2014.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

12. Financing receivables (continued)

	December 31, 2013					
	One-to four-Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Allowance for loan losses:						
Beginning balance	$1,823	$ 172	$ 1	$ 153	$11	$2,160
Provision	1,426	22	8	(14)	1	1,443
Charge-offs	(1,928)	-	-	(8)	(1)	(1,937)
Recoveries	31	-	-	-	-	31
Ending balance	$1,352	$ 194	$ 9	$ 131	$11	$1,697
Originated loans: individually evaluated for impairment	$-	$ -	$ -	$ -	$-	$-
Purchased loans: individually evaluated for impairment	$-	$ -	$ -	$ -	$-	$-
Originated loans: collectively evaluated for impairment	$939	$ 194	$ 9	$ 131	$11	$1,284
Purchased loans: loans acquired with deteriorated credit quality	$413	$ -	$ -	$ -	$-	$413
Loans receivable:						
Ending balance	$236,236	$ 22,805	$ 7,141	$ 72,755	$2,278	$341,215
Ending balance: Individually evaluated for impairment (1)	$77,380	$ 6,535	$ -	$ 21,055	$1,508	$106,478

Ending balance: Collectively evaluated for impairment	$155,676	$ 15,214	$ 7,141	$45,109	$770	$223,910
Ending balance: Loans acquired with deteriorated credit quality	$3,180	$ 1,056	$ -	$6,591	$-	$10,827

(1) Includes loans acquired from First Franklin with outstanding balances of $103,497 at December 31, 2013.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

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, 2014					
	One-to four-Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Grade:						
Pass	$158,852	$ 14,058	$6,921	$46,753	$786	$227,370
Special mention	-	-	-	-	-	-
Substandard	1,678	95	-	1,040	-	2,813
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$160,530	$ 14,153	$6,921	$47,793	$786	$230,183

	Originated Loans at December 31, 2013					
	One-to four-Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Grade:						
Pass	$155,364	$ 15,214	$7,141	$44,218	$770	$222,707
Special mention	-	-	-	-	-	-
Substandard	2,519	95	-	1,570	-	4,184
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$157,883	$ 15,309	$7,141	$45,788	$770	$226,891

	Purchased Loans at June 30, 2014					
	One-to four-Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Grade:						
Pass	$68,852	$ 5,068	$-	$ 20,704	$66	$94,690
Special mention	-	-	-	-	-	-
Substandard	3,243	-	-	4,104	124	7,471
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$72,095	$ 5,068	$-	$ 24,808	$190	$102,161

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

12. Financing receivables (continued)

	Purchased Loans at December 31, 2013					
	One-to four-Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Grade:						
Pass	$74,410	$ 7,496	$ -	$ 25,076	$1,490	$108,472
Special mention	-	-	-	-	-	-
Substandard	3,943	-	-	1,891	18	5,852
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$78,353	$ 7,496	$ -	$ 26,967	$1,508	$114,324

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

	Age Analysis of Past Due Originated Loans Receivable As of June 30, 2014						
	>30-89 Days Past Due	Over 90 Days	Total Past Due	Current & Accruing	Nonaccrual	Total Loans	Recorded Investment 90 Days and Accruing
	(In thousands)						
Real Estate:							
1-4 family Residential	$912	$1,223	$2,135	$158,395	$1,223	$160,530	$-
Multi-family Residential	-	95	95	14,058	95	14,153	-
Construction	-	-	-	6,921	-	6,921	-
Commercial	-	165	165	47,628	165	47,793	-
Consumer	-	-	-	786	-	786	-
Total	$912	$1,483	$2,395	$227,788	$1,483	$230,183	$-

	Age Analysis of Past Due Originated Loans Receivable As of December 31, 2013

	>30-89 Days Past Due	Over 90 Days	Total Past Due	Current & Accruing	Nonaccrual	Total Loan Receivables	Recorded Investment 90 Days and Accruing
	(In thousands)						
Real Estate:							
1-4 family Residential	$1,915	$2,207	$4,122	$153,761	$2,207	$157,883	-
Multi-family	-	95	95	15,214	95	15,309	-
Construction	-	-	-	7,141	-	7,141	-
Commercial	-	679	679	45,109	679	45,788	-
Consumer	-	-	-	770	-	770	-
Total	$1,915	$2,981	$4,896	$221,995	$2,981	$226,891	-

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

12. Financing receivables (continued)

Age Analysis of Past Due Purchased Loans Receivable
As of June 30, 2014

	>30-89 Days Past Due	Over 90 Days	Total Past Due	Current & Accruing	Nonaccrual	Total Loans	Recorded Investment 90 Days and Accruing
				(In thousands)			
Real Estate:							
1-4 family Residential	$ 312	$ 2,707	$ 3,019	$ 69,076	$ 2,707	$ 72,095	$ -
Multi-family Residential	-	-	-	5,068	-	5,068	-
Construction	-	-	-	-	-	-	-
Commercial	-	519	519	24,289	519	24,808	-
Consumer	-	123	123	67	123	190	-
Total	$ 312	$ 3,349	$ 3,661	$ 98,500	$ 3,349	$ 102,161	$ -

Age Analysis of Past Due Purchased Loans Receivable
As of December 31, 2013

	>30-89 Days Past Due	Over 90 Days	Total Past Due	Current & Accruing	Nonaccrual	Total Loan Receivables	Recorded Investment 90 Days and Accruing
				(In thousands)			
Real Estate:							
1-4 family Residential	$ 2,221	$ 3,287	$ 5,508	$ 72,845	$ 3,287	$ 78,353	$ -
Multi-family	56	-	56	7,440	-	7,496	-
Construction	-	-	-	-	-	-	-
Commercial	336	676	1,012	25,955	676	26,967	-
Consumer	10	18	28	1,480	18	1,508	-
Total	$ 2,623	$ 3,981	$ 6,604	$ 107,720	$ 3,981	$ 114,324	$ -

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

12. Financing receivables (continued)

	Impaired Loans As of June 30, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
Purchased loans with a fair value discount and no related allowance recorded:					
Real Estate:					
1-4 family					
Residential	$4,285	$4,285	$-	$3,732	$96
Multi-family	361	361	-	709	35
Construction	-	-	-	-	-
Commercial	6,419	6,419	-	6,505	250
Consumer	2	2	-	1	-
Total	$11,067	$11,067	$-	$10,947	$381
Purchased loans with a fair value discount and an allowance recorded:					
Real Estate:					
1-4 family					
Residential	$21	$35	$14	$10	$-
Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$21	$35	$14	$10	$-
Purchased loans with no fair value discount and no related allowance recorded:					
Real Estate:					
1-4 family	$1,874	$1,874	$-	$2,260	$12
Residential					
Multi-family					
Residential	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	519	519	-	259	7
Consumer	123	123	-	70	1
Total	$2,516	$2,516	$-	$2,589	$20

Purchased loans with an allowance recorded:					
Real Estate:					
1-4 family	$411	$540	$129	$206	$8
Residential					
Multi-family					
Residential	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$411	$540	$129	$206	$8

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

12. Financing receivables (continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
Originated loans with no related allowance recorded					
Real Estate:					
1-4 family Residential	$924	$924	$-	$1,566	$15
Multi-family Residential	-	-	-	48	-
Construction	-	-	-	-	-
Commercial	118	118	-	398	5
Consumer	-	-	-	-	-
Total	$1,042	$1,042	$-	$2,012	$20
Originated loans with an allowance recorded:					
Real Estate:					
1-4 family Residential	$241	$430	$189	$121	$5
Multi-family Residential	94	95	1	47	-
Construction	-	-	-	-	-
Commercial	38	46	8	19	-
Consumer	-	-	-	-	-
Total	$373	$571	$198	$187	$5
Total:					
Real Estate:					
1-4 family Residential	$7,756	$8,088	$332	$7,895	$136
Multi-family Residential	455	456	1	804	35
Construction	-	-	-	-	-
Commercial	7,094	7,102	8	7,181	262
Consumer	125	125	-	71	1
Total	$15,430	$15,771	$341	$15,951	$434

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

12. Financing receivables (continued)

	Impaired Loans As of December 31, 2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
Purchased loans with a fair value discount and no related allowance recorded:					
Real Estate:					
1-4 family					
Residential	$3,180	$3,180	$-	$3,556	$192
Multi-family	1,056	1,056	-	1,059	22
Construction	-	-	-	-	-
Commercial	6,591	6,591	-	7,556	436
Consumer	-	-	-	41	-
Total	$10,827	$10,827	$-	$12,212	$650
Purchased loans with a fair value discount and an allowance recorded:					
Real Estate:					
1-4 family					
Residential	$-	$-	$-	$7	$-
Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$-	$-	$-	$7	$-
Purchased loans with no fair value discount and no related allowance recorded:					
Real Estate:					
1-4 family	$2,646	$2,646	$-	$2,185	$107
Residential					
Multi-family					
Residential	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	-	-

Consumer	16	16	-	28	1
Total	$2,662	$2,662	$-	$2,213	$108
Purchased loans with an allowance recorded:					
Real Estate:					
1-4 family	$-	$-	$-	$74	$-
Residential					
Multi-family					
Residential	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$-	$-	$-	$74	$-

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

12. Financing receivables (continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
Originated loans with no related allowance recorded					
Real Estate:					
1-4 family					
Residential	$2,207	$2,207	$-	$2,847	$32
Multi-family	95	95	-	95	-
Construction	-	-	-	-	-
Commercial	679	679	-	537	35
Consumer	-	-	-	-	-
Total	$2,981	$2,981	$-	$3,479	$67
Originated loans with an allowance recorded:					
Real Estate:					
1-4 family					
Residential	$-	$-	$-	$473	$-
Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	81	-
Consumer	-	-	-	-	-
Total	$-	$-	$-	$554	$-
Total:					
Real Estate:					
1-4 family					
Residential	$8,033	$8,033	$-	$9,142	$331
Multi-family	1,151	1,151	-	1,154	22
Construction	-	-	-	-	-
Commercial	7,270	7,270	-	8,174	471
Consumer	16	16	-	69	1
Total	$16,470	$16,470	$-	$18,539	$825

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

12. Financing receivables (continued)

	Modifications As of June 30, 2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)		
Troubled Debt Restructurings			
Real Estate:			
1-4 Family Residential	5	$ 2,320	$ 2,323
Multi-family Residential	-	-	-
Construction	-	-	-
Commercial	1	100	100
Consumer	-	-	-

	Modifications For the six months ended June 30, 2014	
	Number of Contracts	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted		
Real Estate:		
1-4 Family Residential	4	$ 1,827
Multi-family Residential	-	-
Construction	-	-
Commercial	1	99
Consumer	-	-

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

12. Financing receivables (continued)

Modifications
As of December 31, 2013

Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)		
Real Estate:			
1-4 Family Residential	4	$ 316	$ 312
Multi-family Residential	-	-	-
Construction	-	-	-
Commercial	4	1,863	1,849
Consumer	-	-	-

Troubled Debt Restructurings That Subsequently Defaulted	Number of Contracts	Recorded Investment
Real Estate:		
1-4 Family Residential	-	$ -
Multi-family Residential	-	-
Construction	-	-
Commercial	1	754
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.

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 July 15, 2014, the Board of Directors approved a grant of 400,000 stock options in accordance with the 2013 Equity Incentive Plan. The options have an exercise price of $12.48 and vest over five years beginning one year from the date of grant.

On August 8, 2014, the Bank signed an agreement to purchase the Forest Park branch location for $575,000. This transaction is expected to close during the third quarter of 2014.

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.

Cheviot Financial Corp.

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

Critical Accounting Policies (continued)

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.

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, 2014 and December 31, 2013

Total assets decreased $6.1 million, or 1.0%, to $581.0 million at June 30, 2014, from $587.1 million at December 31, 2013. The decrease in total assets primarily reflects a $9.8 million decrease in investment securities as $30.0 million in investment securities were called at par during the six months ended June 30, 2014 and an $8.7 million decrease in loans receivable as a result of selling $11.0 million of loans in the secondary market.

Cash, federal funds and interest-earning deposits increased $16.9 million, or 76.6% to $39.1 million at June 30, 2014. The increase in cash and cash equivalents at June 30, 2014 was due to a $14.2 million increase in federal funds sold and an increase of $3.8 million in interest-earning deposits, which were partially offset by a decrease of $1.0 million in cash and due from banks. Investment securities decreased $9.8 million, or 6.4%, to $144.1 million at June 30, 2014. The decrease in investment securities was a result of calls of $30.0 million and the sale of corporate

securities of $2.5 million, which were offset by an increase of $6.9 million in the fair market value of securities designated as available for sale. At June 30, 2014, all investment securities were classified as available for sale.

Mortgage-backed securities decreased $930,000, or 7.5%, to $11.5 million at June 30, 2014, from $12.5 million at December 31, 2013. The decrease in mortgage-backed securities was due primarily to $978,000 in principal repayments. At June 30, 2014, $8.7 million of mortgage-backed securities were classified as available for sale, while $2.9 million were classified as held to maturity. As of June 30, 2014, 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, 2014 and December 31, 2013 (continued)

Loans receivable, including loans held for sale, decreased $8.7 million, or 2.6%, to $328.2 million at June 30, 2014, from $336.8 million at December 31, 2013. The change in net loans receivable reflects loan sales totaling $11.0 million and loan principal repayments of $32.3 million, which were partially offset by loan originations of $35.4 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 maintaining higher levels of cash and cash equivalents in order to manage interest rate risk.

The allowance for loan losses totaled $2.0 million and $1.7 million at June 30, 2014 and December 31, 2013, 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 $555,000 provision for losses on loans during the six months ended June 30, 2014 reflected these factors, as well as replenishing the allowance for charge-offs totaling $262,000 and the need to provide approximately $56,000 in specific reserves for five residential properties with principal balances totaling $519,000 that were transferred to real estate owned during the six months ended June 30, 2014. 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, 2014.

Originated non-performing and impaired loans totaled $1.6 million and $3.0 million at June 30, 2014 and December 31, 2013, respectively. At June 30, 2014, originated non-performing and impaired loans were comprised of nineteen loans secured by one- to four-family residential real estate totaling $1.4 million, one multi-family loan totaling $95,000 and three commercial and non-residential loans totaling $164,000. At June 30, 2014 and December 31, 2013 real estate acquired through foreclosure was $2.8 million and $3.3 million, respectively. The allowance for loan losses represented 85.6% and 43.1% of Cheviot Financial's originated non-performing and impaired loans at June 30, 2014 and December 31, 2013, 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 $463.9 million at June 30, 2014, a decrease of $5.5 million, or 1.2% from $469.4 million at December 31, 2013. Advances from the Federal Home Loan Bank of Cincinnati decreased by $3.1 million, or 16.0%, to $16.2 million at June 30, 2014, from $19.3 million at December 31, 2013. The decrease is a result of approximately $3.0 million in repayments during the six months ended June 30, 2014.

Shareholders' equity increased $3.4 million, or 3.8%, from December 31, 2013. The increase primarily resulted from net income of $1.3 million and a decrease in the unrealized loss on securities designated as available for sale of $4.7

million, which were partially offset by repurchasing 127,000 shares through the stock buyback program at a total cost of $1.5 million and dividend payments on common stock of $1.2 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, 2014 and December 31, 2013 (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, 2014, $130.1 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, 2014, 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, 2014 and totaled $16.2 million at June 30, 2014. At June 30, 2014, the Corporation had the ability to increase such borrowings by approximately $123.6 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 $529,000 of lease obligations.

Comparison of Operating Results for the Six-Month Period Ended June 30, 2014 and 2013

General

Net earnings for the six months ended June 30, 2014 totaled $1.3 million, a $286,000 increase from the $1.1 million in net earnings reported for the June 2013 period. The increase in net earnings reflects an increase in other income of $522,000 and a decrease of $394,000 in general, administrative and other expense, which were partially offset by a decrease in net interest income of $252,000, an increase of $215,000 in the provision for losses on loans and an increase in the provision for federal income taxes of $163,000.

Net Interest Income

Total interest income decreased $692,000, or 7.0%, to $9.2 million for the six months ended June 30, 2014, from the comparable period in 2013. Interest income on loans decreased $606,000, or 7.6%, to $7.4 million during the 2014 period from $8.0 million for the 2013 period. This decrease was due primarily to a $3.3 million decrease in the average balance of loans outstanding and by a 32 basis point decrease in the average yield to 4.47% from 4.79% in the 2013 period.

Interest income on mortgage-backed securities increased $30,000, or 36.6%, to $112,000 for the six months ended June 30, 2014, from $82,000 for the 2013 period, due primarily to an increase of $3.0 million in the average balance of securities outstanding and by a five basis point increase in yield period over period. Interest income on investment securities decreased $98,000, or 6.0%, to $1.5 million for the six months ended June 30, 2014, compared to $1.6 million for the same period in 2013, due primarily to a decrease of $31.4 million, or 17.4%, in the average balance of investment securities outstanding, which was partially offset by a 25 basis point increase in the average yield to 2.07%

for the 2014 period. Interest income on other interest-earning deposits decreased $18,000, or 9.2%, to $178,000 for the six months ended June 30, 2014, as compared to the same period in 2013.

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, 2014 and 2013 (continued)

Interest expense decreased $440,000, or 19.4%, to $1.8 million for the six months ended June 30, 2014, from $2.3 million for the same period in 2013. Interest expense on deposits decreased by $349,000, or 18.5%, to $1.5 million from $1.9 million, due primarily to an $18.9 million decrease in the average balance outstanding, which was partially offset by 12 basis point decrease in the average costs of deposits to 0.66% during the 2013 period. Interest expense on borrowings decreased by $91,000, or 24.1%, due primarily to a $4.9 million, or 21.5%, decrease in the average balance outstanding and a 11 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 $252,000, or 3.3%, to $7.4 million for the six months ended June 30, 2014. The average interest rate spread increased 10 basis points to 2.94% for the six months ended June 30, 2014 from 2.84% for the six months ended June 30, 2013. The net interest margin increased to 2.97% for the six months ended June 30, 2014 from 2.88% for the six months ended June 30, 2013.

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 $555,000 provision for losses on loans for the six months ended June 30, 2014 and $340,000 for the six months ended June 30, 2013. Non-performing originated loans were 0.7% and 1.3% of net originated loans at June 30, 2014 and December 31, 2013, respectively. The 2014 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 increased $522,000, or 35.1%, to $2.0 million for the six months ended June 30, 2014, compared to the same period in 2013, due primarily to the gain on sale of investment securities designated as available-for-sale of $722,000 and the absence during the 2014 period of a loss on sale of office premises and equipment of $255,000, which was partially offset by a $258,000 decrease in the gain on sale of loans and a decrease of $163,000 in other operating income.

General, Administrative and Other Expense

General, administrative and other expense decreased $394,000, or 5.3%, to $7.0 million for the six months ended June 30, 2014, from $7.4 million for the comparable period in 2013. The decrease is a result of a decrease of $441,000 in employee compensation and benefits, a decrease of $100,000 in occupancy and equipment, a decrease of $158,000 in property, payroll and other taxes, which was partially offset by an increase of $237,000 in real estate owned loss

expense. 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.

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, 2014 and 2013 (continued)

Federal Income Taxes

The provision for federal income taxes increased $163,000, or 42.1%, for the six months ended June 30, 2014. Cheviot Financial has approximately $2.9 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 $1.5 million allowed on an annual basis. The effective tax rate for the six months ended June 30, 2014 and 2013 was 29.1% and 26.8%, respectively.

Comparison of Operating Results for the Three-Month Periods Ended June 30, 2014 and 2013

General

Net earnings for the three months ended June 30, 2014 totaled $527,000, a $262,000 increase from the $265,000 earnings reported in the June 2013 period. The increase in net earnings reflects an increase in other income of $415,000 and a decrease of $122,000 in general, administrative and other expenses, which were partially offset by a decrease of $55,000 in net interest income, an increase of $70,000 in the provision for losses on loans and an increase of $150,000 in the provision for federal income taxes.

Net Interest Income

Total interest income decreased $254,000, or 5.2%, to $4.6 million for the three months ended June 30, 2014, from the comparable quarter in 2013. Interest income on loans decreased $276,000, or 7.0%, to $3.7 million during the 2014 quarter from $3.9 million for the 2013 quarter. This decrease was due primarily to a $2.8 million, or 0.8%, decrease in the average balance of loans outstanding and a 29 basis point decrease in the average yield on loans to 4.44% for the 2014 quarter from 4.73% for the three months ended June 30, 2013.

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, 2014 and 2013

Comparison of Operating Results for the Three-Month Periods Ended June 30, 2014 and 2013 (continued)

Net Interest Income (continued)

Interest income on mortgage-backed securities increased $11,000, or 26.8%, to $52,000 for the three months ended June 30, 2014, from $41,000 for the comparable 2013 quarter, due primarily to a $3.0 million, or 34.1% increase in the average balance of securities outstanding, which was partially offset by a 10 basis point decrease in the average yield. Interest income on investment securities increased $19,000, or 2.4%, to $796,000 for the three months ended June 30, 2014, compared to $777,000 for the same quarter in 2013, due primarily to a 40 basis point increase in the average yield to 2.16% in the 2014 quarter, which was partially offset by a decrease of $29.3 million in the average balance of investment securities outstanding. Interest income on other interest-earning deposits decreased $8,000, or 8.2% to $90,000 for the three months ended June 30, 2014.

Interest expense decreased $199,000, or 18.0% to $904,000 for the three months ended June 30, 2014, from $1.1 million for the same quarter in 2013. Interest expense on deposits decreased by $153,000, or 16.6%, to $767,000, from $920,000, due primarily to a 10 basis point decrease in the average costs of deposits to 0.66% and a $15.4 million, or 3.2% 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 $46,000, or 25.1%, due primarily to a $5.0 million decrease in the average balance outstanding and due to a 11 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 $55,000, or 1.5%, to $3.7 million for the three months ended June 30, 2014, as compared to the same quarter in 2013. The average interest rate spread increased to 2.95% for the three months ended June 30, 2014 from 2.82% for the three months ended June 30, 2013. The net interest margin increased to 2.98% for the three months ended June 30, 2014 from 2.86% for the three months ended June 30, 2013.

Provision for Losses on Loans

The Company recorded a $355,000 provision for losses on loans for the three months ended June 30, 2014, compared to a $285,000 provision for losses on loans for the three months ended June 30, 2013. The provision for loan losses during the three months ended June 30, 2014 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 increased $415,000, or 76.6%, to $957,000 for the three months ended June 30, 2014, compared to the same quarter in 2013, due primarily to the gain on sale of investment securities designated as available-for-sale of $281,000 and the absence during the 2014 period of a loss on sale of office premises and equipment of $255,000. During the quarter ended June 30, 2013, the Company sold the former Franklin Savings headquarters.

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, 2014 and 2013

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 decreased $122,000, or 3.3%, to $3.6 million for of the three months ended June 30, 2014. This decrease is a result of a decrease in employee compensation and benefits of $232,000, a decrease in occupancy and equipment of $74,000, a decrease of $83,000 in property, payroll and other taxes, a decrease of $45,000 in legal and other professional expenses, which was partially offset by a $142,000 increase in the impairment of real estate owned expense.

Federal Income Taxes

The provision for federal income taxes increased $150,000 for the three months ended June 30, 2014. Cheviot Financial has approximately $2.9 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 $1.5 million allowed on an annual basis. The effective tax rate for the three months ended June 30, 2013 was 27.8%.

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, 2013.

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 October 15, 2013, the Corporation amended the authorization of a stock purchase plan. Under this program the Corporation is authorized to repurchase 341,845 shares constituting 5% of the then outstanding shares of common stock. As of June 30, 2014, the Corporation had repurchased 129,100 shares at an average price of $11.35.

The Corporation's stock repurchases for the three months ended June 30, 2014 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, 2014	16,600	$ 10.41	59,600	282,245
May 1-31, 2014	-	$ -	-	282,245
June 1-30, 2014	69,500	$ 12.17	129,100	212,745

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.

PART II (Continued)

101 The following financial statements of the Corporation at June 30, 2014 and December 31, 3013, and for the three and six months ended June 30, 2014 and 2013 formatted in XBRL: Consolidated Statements of Financial Condition; Consolidated Statements of Earnings; Consolidated Statements of Comprehensive Income; Consolidated Statements of Cash Flows; and Notes to Consolidated Financial Statements.

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, 2014	By: /s/ Thomas J. Linneman Thomas J. Linneman President and Chief Executive Officer
Date: August 12, 2014	By: /s/ Scott T. Smith Scott T. Smith Chief Financial Officer