

CHEVIOT FINANCIAL CORP
Form 10-Q
January 17, 2012

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

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from _____ to _____

Commission File No. 0-50529
CHEVIOT FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

| | |
|--|--|
| Federal (State or other jurisdiction of incorporation or organization) | 56-2423720 (I.R.S. Employer Identification Number) |
|--|--|

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check one.)

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company

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

Yes No

As of November 14, 2011, the latest practicable date, 8,864,908 shares of the registrant’s common stock, \$.01 par value, were issued and outstanding.

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

| | September 30, 2011 (Unaudited) | December 31, 2010 |
|--|---|-------------------------|
| ASSETS | | |
| Cash and due from banks | \$8,884 | \$5,776 |
| Federal funds sold | 20,933 | 5,924 |
| Interest-earning deposits in other financial institutions | 15,384 | 6,449 |
| Cash and cash equivalents | 45,201 | 18,149 |
| Investment securities available for sale - at fair value | 90,748 | 88,382 |
| Mortgage-backed securities available for sale - at fair value | 8,015 | 4,279 |
| Mortgage-backed securities held to maturity - at cost, approximate market value of \$4,498 and \$4,916 at September 30, 2011 and December 31, 2010, respectively | 4,340 | 4,779 |
| Loans receivable - net | 394,915 | 220,998 |
| Loans held for sale - at lower of cost or market | 2,545 | 4,440 |
| Real estate acquired through foreclosure - net | 4,190 | 2,007 |
| Office premises and equipment - at depreciated cost | 10,063 | 4,610 |
| Federal Home Loan Bank stock - at cost | 8,366 | 3,375 |
| Accrued interest receivable on loans | 1,661 | 925 |
| Accrued interest receivable on mortgage-backed securities | 29 | 23 |
| Accrued interest receivable on investments and interest-earning deposits | 421 | 392 |
| Goodwill | 10,309 | - |
| Core deposit intangible - net | 1,118 | - |
| Prepaid expenses and other assets | 4,312 | 1,510 |
| Bank-owned life insurance | 10,246 | 3,791 |
| Prepaid federal income taxes | 885 | 409 |
| Deferred federal income taxes | 3,152 | - |
| Total assets | \$600,516 | \$358,069 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits | \$480,390 | \$257,852 |
| Advances from the Federal Home Loan Bank | 42,024 | 27,300 |
| Advances by borrowers for taxes and insurance | 1,772 | 1,440 |
| Accrued interest payable | 163 | 99 |
| Accounts payable and other liabilities | 4,037 | 1,955 |
| Deferred federal income taxes | - | 4 |
| Total liabilities | 528,386 | 288,650 |

Commitments and contingencies

Shareholders' equity

| | | |
|---|-----------|-----------|
| Preferred stock - authorized 5,000,000 shares, \$.01 par value; none issued | - | - |
| Common stock - authorized 30,000,000 shares, \$.01 par value; 9,918,751 shares issued at September 30, 2011 and December 31, 2010 | 99 | 99 |
| Additional paid-in capital | 43,870 | 43,878 |
| Shares acquired by stock benefit plans | (1,270) | (1,302) |
| Treasury stock - at cost, 1,053,843 shares at September 30, 2011 and December 31, 2010 | (12,859) | (12,860) |
| Retained earnings - restricted | 41,855 | 40,655 |
| Accumulated comprehensive income (loss), unrealized gains (losses) on securities available for sale, net of related tax effects | 435 | (1,051) |
| Total shareholders' equity | 72,130 | 69,419 |
| Total liabilities and shareholders' equity | \$600,516 | \$358,069 |

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

| | Nine months ended September 30, 2011 (Unaudited) | | Three months ended September 30, 2011 | |
|--|---|-----------|---|----------|
| | 2010 | 2010 | 2010 | 2010 |
| Interest income | | | | |
| Loans | \$ 14,236 | \$ 10,214 | \$ 5,384 | \$ 3,301 |
| Mortgage-backed securities | 208 | 228 | 70 | 66 |
| Investment securities | 1,624 | 1,285 | 591 | 436 |
| Interest-earning deposits and other | 222 | 115 | 85 | 38 |
| Total interest income | 16,290 | 11,842 | 6,130 | 3,841 |
| Interest expense | | | | |
| Deposits | 3,503 | 2,629 | 1,286 | 844 |
| Borrowings | 912 | 1,004 | 297 | 286 |
| Total interest expense | 4,415 | 3,633 | 1,583 | 1,130 |
| Net interest income | 11,875 | 8,209 | 4,547 | 2,711 |
| Provision for losses on loans | 400 | 250 | 200 | 150 |
| Net interest income after provision for losses on loans | 11,475 | 7,959 | 4,347 | 2,561 |
| Other income (expense) | | | | |
| Rental | 91 | 48 | 33 | 17 |
| Gain on sale of loans | 429 | 389 | 204 | 306 |
| Gain (loss) on sale of real estate acquired through foreclosure | 75 | (23) | (47) | (1) |
| Earnings on bank-owned life insurance | 208 | 104 | 84 | 35 |
| Other operating | 1,086 | 324 | 428 | 116 |
| Total other income | 1,889 | 842 | 702 | 473 |
| General, administrative and other expense | | | | |
| Employee compensation and benefits | 4,774 | 3,286 | 1,652 | 1,034 |
| Occupancy and equipment | 948 | 503 | 413 | 180 |
| Property, payroll and other taxes | 892 | 732 | 294 | 233 |
| Data processing | 381 | 175 | 161 | 63 |
| Legal and professional | 712 | 469 | 170 | 233 |
| Advertising | 367 | 150 | 87 | 50 |
| FDIC expense | 481 | 214 | 177 | 67 |
| Other operating | 1,651 | 596 | 682 | 201 |
| Total general, administrative and other expense | 10,206 | 6,125 | 3,636 | 2,061 |

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| | | | | |
|------------------------------|----------|----------|--------|--------|
| Earnings before income taxes | 3,158 | 2,676 | 1,413 | 973 |
| Federal income taxes | | | | |
| Current | (243) | 785 | 168 | 254 |
| Deferred | 977 | 127 | 276 | 36 |
| Total federal income taxes | 734 | 912 | 444 | 290 |
| NET EARNINGS | \$ 2,424 | \$ 1,764 | \$ 969 | \$ 683 |
| EARNINGS PER SHARE | | | | |
| Basic | \$.28 | \$.20 | \$.11 | \$.08 |
| Diluted | \$.28 | \$.20 | \$.11 | \$.08 |
| Dividends per common share | \$.36 | \$.33 | \$.12 | \$.11 |

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the nine and three months ended September 30, 2011 and 2010

(In thousands)

| | For the nine months ended September 30, 2011 | | For the three months ended September 30, 2011 | |
|--|--|---------|---|-------|
| | 2011 | 2010 | 2011 | 2010 |
| Net earnings for the period | \$2,424 | \$1,764 | \$969 | \$683 |
| Other comprehensive income, net of tax expense: | | | | |
| Unrealized holding gains on securities during the period, net of tax expense of \$766 and \$369 for the nine months ended September 30, 2011 and 2010, respectively, and \$120 and \$53 for the three months ended September 30, 2011 and 2010, respectively | 1,486 | 717 | 232 | 102 |
| Comprehensive income | \$3,910 | \$2,481 | \$1,201 | \$785 |
| Accumulated comprehensive income | \$435 | \$337 | \$435 | \$337 |

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2011 and 2010

(In thousands)

| | 2011 (Unaudited) | 2010 |
|--|---------------------|-----------|
| Cash flows from operating activities: | | |
| Net earnings for the period | \$2,424 | \$1,764 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Amortization of premiums and discounts on investment and mortgage-backed securities, net | (81) | 21 |
| Depreciation | 387 | 240 |
| Amortization expense related to stock benefit plans | 10 | 380 |
| Amortization of deferred loan origination fees - net | 88 | 39 |
| Amortization of intangible assets | 180 | - |
| Amortization of fair value adjustments | (1,267) | - |
| Proceeds from sale of loans in the secondary market | 37,186 | 15,354 |
| Loans originated for sale in the secondary market | (34,897) | (18,104) |
| Gain on sale of loans | (429) | (389) |
| (Gain) loss on sale of real estate acquired through foreclosure | (75) | 23 |
| Impairment on real estate acquired through foreclosure | 358 | 102 |
| Federal Home Loan Bank stock dividends | - | (6) |
| Earnings on bank-owned life insurance | (208) | (104) |
| Provision for losses on loans | 400 | 250 |
| Increase (decrease) in cash, net of acquisition, due to changes in: | | |
| Accrued interest receivable on loans | (20) | 64 |
| Accrued interest receivable on mortgage-backed securities | 18 | 10 |
| Accrued interest receivable on investments and interest-earning deposits | 100 | (10) |
| Prepaid expenses and other assets | 267 | (45) |
| Accrued interest payable | (692) | (36) |
| Accounts payable and other liabilities | (2,516) | 35 |
| Federal income taxes (benefits) | | |
| Current | 560 | (110) |
| Deferred | 977 | 127 |
| Net cash provided by (used in) operating activities | 2,770 | (395) |
| Cash flows used in investing activities: | | |
| Principal repayments on loans | 33,500 | 37,814 |
| Loan disbursements | (13,473) | (23,785) |
| Purchase of investment securities – available for sale | (28,346) | (76,670) |
| Proceeds from maturity of investment securities – available for sale | 44,050 | 72,101 |
| Principal repayments on mortgage-backed securities – available for sale | 1,037 | 542 |
| Principal repayments on mortgage-backed securities – held to maturity | 439 | 740 |
| Additions to real estate acquired through foreclosure | (100) | (96) |
| Proceeds from sale of real estate acquired through foreclosure | 2,388 | 531 |
| Purchase of office premises and equipment | (913) | (34) |

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| | | |
|--|-----------|-----------|
| Cash paid for acquisition, net of cash received | (4,200) | - |
| Net cash provided by investing activities | 34,382 | 11,143 |
| Cash flows provided by financing activities: | | |
| Net increase in deposits – net of acquisition | 1,813 | 11,877 |
| Proceeds from Federal Home Loan Bank advances – net of acquisition | 11,000 | 10,000 |
| Repayments on Federal Home Loan Bank advances – net of acquisition | (19,254) | (14,969) |
| Advances by borrowers for taxes and insurance – net of acquisition | (960) | (481) |
| Repayments on other borrowings | (1,490) | - |
| Treasury stock repurchases | - | (31) |
| Stock option expense, net | 15 | 91 |
| Dividends paid on common stock | (1,224) | (1,122) |
| Net cash provided by (used in) financing activities | (10,100) | 5,365 |
| Net increase in cash and cash equivalents | 27,052 | 16,113 |
| Cash and cash equivalents at beginning of period | 18,149 | 11,283 |
| Cash and cash equivalents at end of period | \$45,201 | \$27,396 |

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the nine months ended September 30, 2011 and 2010
(In thousands)

| | 2011 (Unaudited) | 2010 |
|---|---------------------|---------|
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Federal income taxes | \$235 | \$794 |
| Interest on deposits and borrowings | \$4,479 | \$3,597 |
| Supplemental disclosure of noncash investing activities: | | |
| Transfer of loans to real estate acquired through foreclosure | \$2,350 | \$181 |
| Loans originated upon sales of real estate acquired through foreclosure | \$102 | \$- |
| Recognition of mortgage servicing rights | \$140 | \$118 |

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2011 and 2010

1. Basis of Presentation

Cheviot Financial Corp. (“Cheviot Financial” or the “Corporation”) is a savings and loan 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 to the origination of primarily real estate loans. The Corporation is 62% owned by Cheviot Mutual Holding Company. Earnings per share is reported including all shares held by Cheviot Mutual Holding Company. Cheviot Mutual Holding Company has waived the receipt of dividends declared by the Corporation since incorporation. Cheviot Savings’ profitability is significantly dependent on net interest income, which is the difference between interest income from interest-earning assets and the interest expense paid on interest-bearing liabilities. Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances.

On March 16, 2011, the Corporation completed the acquisition of First Franklin Corporation (“First Franklin”) and its wholly-owned subsidiary, The Franklin Savings and Loan Company (“Franklin Savings”). Accordingly, the Corporation’s unaudited consolidated financial statements for the three and nine month periods ended September 30, 2011 includes the accounts of First Franklin for the period March 17, 2011 to September 30, 2011.

On July 12, 2011 Cheviot Mutual Holding Company and the Corporation adopted a Plan of Conversion whereby the mutual holding company would convert from mutual to stock form. As part of the Plan of Conversion the pro forma value of the 62% of the Corporation owed by the Mutual Holding Company would be sold in a subscription and community offering and, if necessary, a syndicated community offering. The Plan of Conversion was conditionally approved by the Federal Reserve Board, and consummation of the transactions contemplated thereby remains subject to certain conditions, including approval by the Mutual Holding Company’s members and the Corporation’s stockholders.

The accompanying unaudited financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Cheviot Financial included in the Annual Report on Form 10-K for the year ended December 31, 2010. However, in the opinion of management, all adjustments (consisting of only normal recurring accruals) which are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three and nine month periods ended September 30, 2011, are not necessarily indicative of the results which may be expected for the entire year.

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

2. Principles of Consolidation

The accompanying consolidated financial statements as of and for the three and nine months ended September 30, 2011 include the accounts of the Corporation and its wholly-owned subsidiary, the Savings Bank. All significant

intercompany items have been eliminated.

3. Liquidity and Capital Resources

Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, scheduled amortization and prepayments of loan principal and mortgage-backed securities, maturities and calls of securities and funds provided by our operations. In addition, we may borrow from the Federal Home Loan Bank of Cincinnati. At September 30, 2011 and December 31, 2010, we had \$42.0 million and \$27.3 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 \$157.2 million and \$115.3 million, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

3. Liquidity and Capital Resources (continued)

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

Our primary investing activities are the origination of one- to four-family real estate loans, commercial real estate, construction and consumer loans, and the purchase of securities. For the nine months ended September 30, 2011, loan originations totaled \$48.4 million, compared to \$41.9 million for the nine months ended September 30, 2010.

Total deposits increased \$222.5 million during the nine months ended September 30, 2011 and increased \$11.9 million during the nine months ended September 30, 2010, respectively. The increase during the nine months ended September 30, 2011 is due to the purchase of First Franklin. Deposit flows are affected by the level of interest rates, the interest rates and products offered by competitors and other factors.

The following table sets forth information regarding the Corporation's obligations and commitments to make future payments under contract as of September 30, 2011.

| | Less than 1 year (In thousands) | Payments due by period More than 1-3 years | More than 4-5 years | More than 5 years | Total |
|--|--|---|---------------------------|-------------------------|-----------|
| Contractual obligations: | | | | | |
| Advances from the Federal Home Loan Bank | \$9,952 | \$3,326 | \$5,318 | \$23,428 | \$42,024 |
| Certificates of deposit | 129,997 | 75,755 | 67,957 | 981 | 274,690 |
| Amount of loan commitments and expiration per period: | | | | | |
| Commitments to originate one- to four-family loans | 4,193 | - | - | - | 4,193 |
| Home equity lines of credit | 28,845 | - | - | - | 28,845 |
| Commercial lines of credit | 263 | - | - | - | 263 |
| Undisbursed loans in process | 3,148 | - | - | - | 3,148 |
| Total contractual obligations | \$176,398 | \$79,081 | \$73,275 | \$24,409 | \$353,163 |

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

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

3. Liquidity and Capital Resources (continued)

At September 30, 2011 and 2010, we exceeded all of the applicable regulatory capital requirements. Our core (Tier 1) capital was \$58.6 million and \$56.9 million, or 10.0% and 16.7% of total assets at September 30, 2011 and 2010, respectively. In order to be classified as “well-capitalized” under federal banking regulations, we were required to have core capital of at least \$36.0 million, or 6.0% of assets as of September 30, 2011. To be classified as a well-capitalized bank, we must also have a ratio of total risk-based capital to risk-weighted assets of at least 10.0%. At September 30, 2011 and 2010, we had a total risk-based capital ratio of 18.3% and 34.8%, respectively.

4. Earnings per Share

Basic earnings per share is computed based upon the weighted-average common shares outstanding during the period, less shares in the ESOP that are unallocated and not committed to be released plus shares in the ESOP that have been allocated. The weighted average common shares outstanding includes 5,455,313 shares held by Cheviot Mutual Holding Company. Weighted-average common shares deemed outstanding gives effect to 107,126 and 142,833 unallocated shares held by the ESOP for the three and nine months ended September 30, 2011 and 2010, respectively.

| | For the nine months ended September 30, | | For the three months ended September 30, | |
|--|--|-----------|---|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Weighted-average common shares outstanding (basic) | 8,757,782 | 8,723,800 | 8,757,782 | 8,722,075 |
| Dilutive effect of assumed exercise of stock options | 8,850 | 9,051 | 9,219 | 9,179 |
| Weighted-average common shares outstanding (diluted) | 8,766,632 | 8,732,851 | 8,767,001 | 8,731,254 |

5. Stock Incentive Plan

On April 26, 2005, the Corporation approved a Stock Incentive Plan that provides for grants of up to 486,018 stock options. During 2011, 2010, and 2009 approximately 4,400, 8,860, and 8,060 option awards for shares were granted, all of which are subject to five year vesting.

The Corporation follows Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) 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 have been reflected as a net increase in shareholders’ 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, and are 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 compensation cost recorded for unvested equity-based awards is based on their grant-date fair value. For the nine months ended September 30, 2011, the Corporation recorded \$15,000 in after-tax compensation cost for equity-based awards that vested during the nine months ended September 30, 2011. The Corporation has \$73,000 unrecognized pre-tax compensation cost related to non-vested equity-based awards granted under its stock incentive plan as of September 30, 2011, which is expected to be recognized over a weighted-average vesting period of approximately 0.2 years.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

5. Stock Option Plan (continued)

A summary of the status of the Corporation's stock option plan as of September 30, 2011 and the year ended December 31, 2010, as well as the changes during the periods then ended are presented below:

| | Nine months ended September 30, 2011 | | Year ended December 31, 2010 | |
|------------------------------------|---|---|---------------------------------|---|
| | Shares | Weighted- average exercise price | Shares | Weighted- average exercise price |
| Outstanding at beginning of period | 421,200 | \$ 11.05 | 412,340 | \$ 11.17 |
| Granted | 4,400 | 9.04 | 8,860 | 8.07 |
| Exercised | - | - | - | - |
| Forfeited | - | - | - | - |
| Outstanding at end of period | 425,600 | \$ 11.02 | 421,200 | \$ 11.05 |
| Options exercisable at period-end | 404,760 | \$ 11.14 | 397,260 | \$ 11.16 |
| Fair value of options granted | | \$ 5.30 | | \$ 4.83 |

The following information applies to options outstanding at September 30, 2011:

| | |
|---|--------------------|
| Number outstanding | 425,600 |
| Exercise price | \$ 8.07 - \$ 13.63 |
| Weighted-average exercise price | \$ 11.14 |
| Weighted-average remaining contractual life | 4.0 years |

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

The fair value of each option was estimated on the date of grant using the modified Black-Scholes options pricing model with the following weighted-average assumptions used for grants in 2011: dividend yield of 5.22%, expected volatility of 44.17%, risk-free interest rate of 2.98% and an expected life of 10 years for each grant.

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

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

6. Investment and Mortgage-backed Securities

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of investment securities at September 30, 2011 and December 31, 2010 are shown below.

| | Amortized cost | September 30, 2011 | | Estimated fair value |
|-----------------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| | | Gross unrealized gains | Gross unrealized losses | |
| (In thousands) | | | | |
| Available for Sale: | | | | |
| U.S. Government agency securities | \$87,233 | \$264 | \$9 | \$87,488 |
| Municipal obligations | 3,140 | 138 | 18 | 3,260 |
| | \$90,373 | \$402 | \$27 | \$90,748 |
| | Amortized cost | December 31, 2010 | | Estimated fair value |
| | | Gross unrealized gains | Gross unrealized losses | |
| (In thousands) | | | | |
| Available for Sale: | | | | |
| U.S. Government agency securities | \$88,529 | \$102 | \$1,622 | \$87,009 |
| Municipal obligations | 1,545 | 5 | 177 | 1,373 |
| | \$90,074 | \$107 | \$1,799 | \$88,382 |

The amortized costs of investment securities at September 30, 2011, by contractual term to maturity, are shown below.

| | September 30, 2011 (In thousands) |
|---------------------|---|
| Less than one year | \$70,846 |
| One to five years | 10,954 |
| Five to ten years | 1,325 |
| More than ten years | 7,248 |
| | \$90,373 |

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

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 September 30, 2011 and December 31, 2010 are shown below.

| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
|---|--|------------------------------|-------------------------------|----------------------------|
| | September 30, 2011 (In thousands) | | | |
| Available for sale: | | | | |
| Federal Home Loan Mortgage Corporation adjustable-rate participation certificates | \$1,185 | \$141 | \$1 | \$1,325 |
| Federal National Mortgage Association adjustable-rate participation certificates | 2,895 | 55 | 3 | 2,947 |
| Government National Mortgage Association adjustable-rate participation certificates | 3,650 | 109 | 16 | 3,743 |
| | \$7,730 | \$305 | \$20 | \$8,015 |
| Held to maturity: | | | | |
| Federal Home Loan Mortgage Corporation adjustable-rate participation certificates | \$409 | \$9 | \$1 | \$417 |
| Federal National Mortgage Association adjustable-rate participation certificates | 444 | 8 | 2 | 450 |
| Government National Mortgage Association adjustable-rate participation certificates | 3,487 | 145 | 1 | 3,631 |
| | \$4,340 | \$162 | \$4 | \$4,498 |

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

6. Investment and Mortgage-backed Securities (continued)

| | December 31, 2010 | | | |
|---|----------------------|----------------------------|-----------------------------|----------------------------|
| | Amortized cost | Gross realized gains | Gross realized losses | Estimated fair value |
| | (In thousands) | | | |
| Available for sale: | | | | |
| Federal Home Loan Mortgage Corporation adjustable-rate participation certificates | \$723 | \$13 | \$- | \$736 |
| Federal National Mortgage Association adjustable-rate participation certificates | 548 | 17 | - | 565 |
| Government National Mortgage Association adjustable-rate participation certificates | 2,908 | 70 | - | 2,978 |
| | \$4,179 | \$100 | \$- | \$4,279 |
| Held to maturity: | | | | |
| Federal Home Loan Mortgage Corporation adjustable-rate participation certificates | \$464 | \$10 | \$1 | \$473 |
| Federal National Mortgage Association adjustable-rate participation certificates | 515 | 7 | - | 522 |
| Government National Mortgage Association adjustable-rate participation certificates | 3,800 | 121 | - | 3,921 |
| | \$4,779 | \$138 | \$1 | \$4,916 |

The amortized cost of mortgage-backed securities, including those designated as available for sale at September 30, 2011, by contractual terms to maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may generally prepay obligations without prepayment penalties.

| | September 30, 2011 (In thousands) |
|-------------------------------------|---|
| Due in one year or less | \$ 570 |
| Due in one year through five years | 2,411 |
| Due in five years through ten years | 3,334 |
| Due in more than ten years | 5,755 |
| | \$ 12,070 |

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

6. Investment and Mortgage-backed Securities (continued)

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at September 30, 2011:

| Description of securities | Less than 12 months | | | 12 months or longer | | | Total | | |
|---------------------------------------|------------------------|------------|-------------------|-----------------------|------------|-------------------|-----------------------|------------|-------------------|
| | 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 | 2 | \$9,991 | \$ 9 | - | \$- | \$ - | 2 | \$9,991 | \$ 9 |
| Municipal obligations | - | - | - | 1 | 697 | 18 | 1 | 697 | 18 |
| Mortgage-backed securities | 14 | 761 | 23 | 5 | 43 | 1 | 19 | 804 | 24 |
| Total temporarily impaired securities | 16 | \$10,752 | \$ 32 | 6 | \$740 | \$ 19 | 22 | \$11,492 | \$ 51 |

Management does not intend to sell any of the debt securities with an unrealized loss and does not believe that it is more likely than not that it will be required to sell a security in an unrealized loss position prior to a recovery in value. The fair values are expected to recover as securities approach maturity dates. The 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 FASB 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 and fair value adjustments arising from the First Franklin acquisition. The Corporation has approximately \$6.4 million of operating losses to carryforward for the next 20 years. These loss carryforwards are subject to the Internal Revenue Code section 382 limitations which allow approximately \$1.1 million of the losses on an annual basis to offset current year taxable income.

The Corporation recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has

a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Corporation has applied this standard to all tax positions for which the statute of limitations remained open. The Corporation was not required to record any liability for unrecognized tax benefits as of September 30, 2011.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

7. Income Taxes (continued)

The Corporation is subject to income taxes in the United States. Tax regulations 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, or state and local, tax examinations for years before 2008.

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

Federal income tax on earnings differs from that computed at the statutory corporate tax rate for the nine months ended September 30, 2011 and 2010:

| | 2011 | | 2010 | |
|--|------------------------|---|-------|---|
| | (Dollars in thousands) | | | |
| Federal income taxes at statutory rate of 34% | \$1,074 | | \$910 | |
| Increase (decrease) in taxes resulting primarily from: | | | | |
| Stock compensation | (7 |) | 49 | |
| Nontaxable interest income | (28 |) | (16 |) |
| Cash surrender value of life insurance | (71 |) | (35 |) |
| Utilization of net operating loss carryforwards, previously reserved | (241 |) | - | |
| Other | 7 | | 4 | |
| Federal income taxes per consolidated financial statements | \$734 | | \$912 | |
| Effective tax rate | 23.2 | % | 34.1 | % |

8. Disclosures about Fair Value of Assets and Liabilities

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

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

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

Securities available for sale: Fair values on available for sale securities were based upon a market approach. Securities which are fixed income instruments that are not quoted on an exchange, but are traded in active markets, are valued using prices obtained from our custodian, which used third party data service providers.

Available for sale securities include U.S. agency securities, municipal bonds and mortgage-backed agency securities.

Fair Value Measurements at September 30, 2011 and December 31, 2010

| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant other unobservable inputs (Level 3) |
|--|--|---|---|
| Securities available for sale at September 30, 2011: | | | |
| U.S. Government agency securities | - | \$87,488 | - |
| Municipal obligations | - | \$3,260 | - |
| Mortgage-backed securities | - | \$8,015 | - |
| Securities available for sale at December 31, 2010: | | | |
| U.S. Government agency securities | - | \$87,009 | - |
| Municipal obligations | - | \$1,373 | - |
| Mortgage-backed securities | - | \$4,279 | - |

The Corporation is predominately an asset-based lender with real estate serving as collateral on a substantial majority of loans. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. In addition, on the acquisition date the Corporation independently fair valued \$25.0 million of First Franklin's impaired loans, as well as \$173.2 million of performing loans. First Franklin's impaired loans subject to fair value adjustments are not included in Cheviot Financial's non-performing loan totals. Such loans are considered performing under Topic ASC 310-30, even though the loans are contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and the resulting loss provisions or future period yield adjustments. The fair values were obtained using independent appraisals, which the Corporation considers to be Level 2 inputs. The aggregate carrying amount of the Corporation's impaired loans at September 30, 2011 was \$5.0 million, compared to \$4.9 million at December 31, 2010.

The Corporation has real estate acquired through foreclosure totaling \$4.2 million at September 30, 2011, compared to \$2.0 million at December 31, 2010. 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 \$3.5 million at September 30, 2011 and \$1.1 million at December 31, 2010. The aggregate amount of real estate acquired through foreclosure that is carried at cost was \$734,000 at September 30, 2011.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

9. Effects of Recent Accounting Pronouncements

We adopted the following accounting guidance in 2011, none of which had a material effect, if any, on our consolidated financial position or results of operations.

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

In December 2010, the FASB issued ASU 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this Update are effective for fiscal year, and interim periods within those years, beginning after December 15, 2010. Adoption of this guidance on January 1, 2011 did not have a material effect on the Corporation's results of operation or financial position.

In December 2010, the FASB issued ASU 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the current and comparable prior annual reporting period. The amendments also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Management has provided the required pro forma disclosures in the period of acquisition of First Franklin for the quarter ended March 31, 2011.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

9. Effects of Recent Accounting Pronouncements (continued)

In April 2011, the FASB ASU No. 2011-02, "Receivables (Topic 310) - A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude, under the guidance clarified by ASU 2011-02, that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 will be effective for the Corporation on July 1, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. Adoption of ASU 2011-02 is not expected to have a material impact on the Corporation's financial statements.

In May 2011, the FASB issued ASU 2011-4, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS." This Update provides guidance which is expected to result in common fair value measurement and disclosure requirements between U.S. GAAP and IFRS. It changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. It is not intended for this Update to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the Board's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. We do not anticipate any material impact from this Update.

In June 2011, the FASB issued ASU 2011-5, "Comprehensive Income (Topic 220)." In this Update, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The amendments in this Update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. They also do not change the presentation of related tax effects, before related tax effects, or the portrayal or calculation of earnings per share. The amendments in this Update should be applied retrospectively. The amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. We do not anticipate any material impact from this Update.

In September 2011, the FASB issued ASU 2011-8, "Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment." The amendments in this Update will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The

amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

10. Fair Value of Financial Instruments

Fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practical to estimate the value, is based upon the characteristics of the instruments and relevant market information. Financial instruments include cash, evidence of ownership in an entity or contracts that convey or impose on an entity the contractual right or obligation to either receive or deliver cash for another financial instrument. These fair value estimates are based on relevant market information and information about the financial instruments. Fair value estimates are intended to represent the price for which an asset could be sold or liability could be settled. However, given there is no active market or observable market transactions for many of the Corporation's financial instruments, it has made estimates of many of these fair values which are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimated values. The fair value estimates are determined in accordance with SFAS No. 157.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

10. Fair Value of Financial Instruments (continued)

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments at September 30, 2011:

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.

Deposits: The fair value of NOW accounts, passbook accounts, and money market demand deposits is deemed to approximate the amount payable on demand at September 30, 2011. Fair values for fixed-rate certificates of deposit have been estimated using a discounted cash flow calculation using the interest rates currently offered for deposits of similar remaining maturities.

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

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

Commitments to extend credit: For fixed-rate loan commitments, the fair value estimate considers the difference between current levels of interest rates and committed rates. At September 30, 2011, the fair value of the derivative loan commitments was not material.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

10. Fair Value of Financial Instruments (continued)

The estimated fair values of the Corporation's financial instruments at September 30, 2011 and December 31, 2010 are as follows:

| | September 30, 2011 | | December 31, 2010 | |
|---|----------------------------------|------------|----------------------------------|------------|
| | Carrying Value (In thousands) | Fair Value | Carrying Value (In thousands) | Fair Value |
| Financial assets | | | | |
| Cash and cash equivalents | \$ 45,201 | \$ 45,201 | \$ 18,149 | \$ 18,149 |
| Investment securities | 90,748 | 90,748 | 88,382 | 88,382 |
| Mortgage-backed securities | 12,355 | 12,513 | 9,058 | 9,195 |
| Loans receivable - net | 397,460 | 410,517 | 225,438 | 233,272 |
| Accrued interest receivable | 2,111 | 2,111 | 1,340 | 1,340 |
| Federal Home Loan Bank stock | 8,366 | 8,366 | 3,375 | 3,375 |
| | \$ 556,241 | \$ 569,456 | \$ 345,742 | \$ 353,713 |
| Financial liabilities | | | | |
| Deposits | \$ 480,390 | \$ 480,378 | \$ 257,852 | \$ 257,672 |
| Advances from the Federal Home Loan Bank | 42,024 | 43,216 | 27,300 | 30,597 |
| Accrued interest payable | 163 | 163 | 99 | 99 |
| Advances by borrowers for taxes and insurance | 1,772 | 1,772 | 1,440 | 1,440 |
| | \$ 524,349 | \$ 525,529 | \$ 286,691 | \$ 289,808 |

11. Acquisition Activity

First Franklin Corporation

As previously stated, on March 16, 2011, Cheviot Financial, and its wholly owned subsidiary, Cheviot Savings Bank, completed the acquisition of First Franklin and its wholly-owned subsidiary, Franklin Savings. The acquisition was consummated in accordance with an Agreement and Plan of Merger (the "Merger Agreement"), dated as of October 12, 2010, by and among Cheviot Financial Corp., Cheviot Savings Bank, Cheviot Merger Subsidiary, Inc., First Franklin and Franklin Savings.

At the effective time of the acquisition, each share of common stock, par value \$0.01 per share, of First Franklin (other than shares owned by First Franklin, Cheviot Financial, Cheviot Savings Bank and Merger Subsidiary) was converted into the right to receive \$14.50 in cash. Each First Franklin stock option outstanding at the time of the closing was converted into an amount of cash equal to the positive difference, if any, between \$14.50 and the exercise

price of such stock option. The aggregate cash consideration paid in the acquisition (including the cancellation of stock options) was approximately \$24.7 million.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

11. Acquisition Activity (continued)

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

The business combination resulted in the acquisition of loans with and without evidence of credit quality deterioration. First Franklin's loans were deemed impaired at the acquisition date if Cheviot Financial did not expect to receive all contractually required cash flows due to concerns about credit quality. Such loans were fair valued and the difference between contractually required payments at the acquisition date and cash flows expected to be collected was recorded as a nonaccretable difference. At the acquisition date, Cheviot Financial recorded \$25.0 million of purchased credit-impaired loans subject to a nonaccretable difference of \$5.5 million. The method of measuring carrying value of purchased loans differs from loans originated by the Corporation (originated loans), and as such, the Corporation identifies purchased loans and purchased loans with a credit quality discount and originated loans at amortized cost.

First Franklin's loans without evidence of credit deterioration were fair valued by discounting both expected principal and interest cash flows using an observable discount rate for similar instruments that a market participant would consider in determining fair value. Additionally, consideration was given to management's best estimates of default rates and payment speeds. At acquisition, First Franklin's loan portfolio without evidence of deterioration totaled \$173.2 million and was recorded at a fair value of \$171.6 million.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

11. Acquisition Activity (continued)

The following table summarizes the purchase of First Franklin as of March 16, 2011:

| | | |
|---|-----------|-----------|
| Purchase price | | |
| First Franklin common shares outstanding (in thousands) | 1,693 | |
| Purchase price per share of First Franklin's common stock | \$ 14.50 | |
| Total value of the First Franklin's common stock | \$ 24,549 | |
| Fair value of outstanding employee stock awards, net of tax | 131 | |
| | | |
| Total purchase price | | \$ 24,680 |
| | | |
| Allocation of purchase price | | |
| Stockholders' equity | | \$ 20,755 |
| | | |
| Pre-tax adjustments to reflect acquired assets and liabilities at fair value: | | |
| Loans receivable | (2,462 |) |
| Real estate owned | (750 |) |
| Office premises and equipment | 1,970 | |
| Core deposit intangible | 1,298 | |
| Certificates of deposit | (2,718 |) |
| Advances from the Federal Home Loan Bank | (838 |) |
| Contractual obligations | (4,390 |) |
| Other assets/liabilities | 427 | |
| Pre-tax total adjustments | (7,463 |) |
| | | |
| Deferred income tax benefits, net of valuation allowance | 1,079 | |
| After-tax total adjustments | (6,384 |) |
| Fair value of net assets acquired | 14,371 | |
| | | |
| Goodwill resulting from the First Franklin acquisition | | \$ 10,309 |

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

11. Acquisition Activity (continued)

The following condensed statement reflects the values assigned to First Franklin's net assets as of the acquisition date:

| | March 16, 2011 (in thousands) |
|--|--|
| Assets: | |
| Cash and cash equivalents | \$ 20,480 |
| Investment securities | 15,618 |
| Mortgage-backed securities | 4,497 |
| Loans receivable – net | 196,519 |
| Real estate acquired through foreclosure | 2,404 |
| Office premises and equipment | 4,927 |
| Goodwill and intangible assets | 11,607 |
| Other assets | 21,509 |
| Total Assets | \$ 277,561 |
| Liabilities: | |
| Deposits | \$ 221,528 |
| Advances from the Federal Home Loan Bank | 23,216 |
| Other borrowings | 1,490 |
| Accrued expenses and other liabilities | 6,647 |
| Total liabilities | 252,881 |
| Fair value of net assets acquired | \$ 24,680 |

The Corporation recorded goodwill and other intangibles associated with the purchase of First Franklin and Franklin Savings 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 September 30, 2011. The carrying amount of the goodwill at September 30, 2011 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 September 30, 2011, 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 net carrying amount of the core deposit intangible at September 30, 2011 was \$1.1 million with \$180,000 in accumulated amortization as of that date.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

11. Acquisition Activity (continued)

As of September 30, 2011, the current year and estimated future amortization expense for the core deposit intangible was:

| | |
|-------|---------|
| 2011 | \$90 |
| 2012 | 282 |
| 2013 | 206 |
| 2014 | 149 |
| 2015 | 116 |
| 2016 | 110 |
| 2017 | 110 |
| 2018 | 55 |
| Total | \$1,118 |

12. Financing Receivables

The recorded investment in loans was as follows as of September 30, 2011:

| | One-to four | | | | | |
|----------------------------|--------------------|--------------------------|--------------|------------|----------|-----------|
| | Family Residential | Multi-family Residential | Construction | Commercial | Consumer | Total |
| Purchased loans | \$125,123 | \$15,411 | \$- | \$43,667 | \$2,918 | \$187,119 |
| Credit quality discount | (2,446) | (208) | - | (2,408) | (1,584) | (6,646) |
| Purchased loans book value | | | | | | |
| (3) | 122,677 | 15,203 | - | 41,259 | 1,334 | 180,473 |
| Originated loans (1) | 182,991 | 11,178 | 5,849 | (2) 21,106 | 262 | 221,386 |
| Ending balance | \$305,668 | \$26,381 | \$5,849 | \$62,365 | \$1,596 | \$401,859 |

(1) Includes loans held for sale

(2) Before consideration of undisbursed Loans-in-process

(3) Loans purchased in acquisition of First Franklin

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 September 30, 2011.

| | Non-impaired Purchased Loans | Credit Impaired Purchased Loans |
|--------------------------------|------------------------------|---------------------------------|
| One-to-four family residential | \$117,061 | \$5,616 |
| Multi-family residential | 14,065 | 1,138 |

| | | |
|--------------|------------|-----------|
| Construction | - | - |
| Commercial | 32,562 | 8,697 |
| Consumer | 63 | 1,271 |
| Total | \$ 163,751 | \$ 16,722 |

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

12. Financing Receivables (continued)

The following summarizes activity in the allowance for credit losses:

| | September 30, 2011 | | | | | |
|--|---|-----------------------------|--------------|------------|----------|-----------|
| | One-to four Family Residential | Multi-family Residential | Construction | Commercial | Consumer | Total |
| Allowance for loan losses: | | | | | | |
| Beginning balance | \$979 | \$49 | \$33 | \$180 | \$1 | \$1,242 |
| Provision | 271 | 100 | - | 29 | - | 400 |
| Charge-offs | (212) | - | (26) | - | (2) | (240) |
| Recoveries | - | - | - | - | 13 | 13 |
| Ending balance | \$1,038 | \$149 | \$7 | \$209 | \$12 | \$1,415 |
| Ending balance: Individually evaluated for impairment | \$373 | \$- | \$- | \$8 | \$- | \$381 |
| Ending balance: Collectively evaluated for impairment | \$665 | \$149 | \$7 | \$201 | \$12 | \$1,034 |
| Loans receivable: | | | | | | |
| Ending balance | \$305,668 | \$26,381 | \$5,849 | \$62,365 | \$1,596 | \$401,859 |
| Ending balance: Individually evaluated for impairment (1) | \$121,909 | \$14,162 | \$- | \$32,909 | \$63 | \$169,043 |
| Ending balance: Collectively evaluated for impairment | \$178,143 | \$11,081 | \$5,849 | \$20,759 | \$262 | \$216,094 |
| Ending balance: Loans acquired with deteriorated credit quality | \$5,616 | \$1,138 | \$- | \$8,697 | \$1,271 | \$16,722 |

(1) Includes loans acquired from First Franklin of \$163,751

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

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 assigned a “pass” grade, with 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 “substandard,” “doubtful,” and “loss.” The Corporation’s 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 September 30, 2011 | | | | | |
|-----------------|--|--------------------------|--------------|------------|----------|-----------|
| | One-to four | | | | | |
| | Family Residential | Multi-family Residential | Construction | Commercial | Consumer | Total |
| Grade: | | | | | | |
| Pass | \$178,406 | \$ 11,081 | \$ 5,849 | \$ 20,760 | \$262 | \$216,358 |
| Special mention | - | - | - | - | - | - |
| Substandard | 4,585 | 97 | - | 346 | - | 5,028 |
| Doubtful | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - |
| Total | \$182,991 | \$ 11,178 | \$ 5,849 | \$ 21,106 | \$262 | \$221,386 |
| | | | | | | |
| | Loans Receivable at December 31, 2010 | | | | | |
| | One-to four | | | | | |
| | Family Residential | Multi-family Residential | Construction | Commercial | Consumer | Total |
| Grade: | | | | | | |
| Pass | \$190,812 | \$ 8,594 | \$ 7,081 | \$ 19,107 | \$207 | \$225,801 |
| Special mention | - | - | - | - | - | - |
| Substandard | 4,989 | - | - | 222 | - | 5,211 |
| Doubtful | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - |
| Total | \$195,801 | \$ 8,594 | \$ 7,081 | \$ 19,329 | \$207 | \$231,012 |
| | | | | | | |
| | Purchased Loans at September 30, 2011 | | | | | |
| | One-to four | | | | | |
| | Family Residential | Multi-family Residential | Construction | Commercial | Consumer | Total |
| Grade: | | | | | | |
| Pass | \$116,605 | \$ 14,899 | \$ - | \$ 38,092 | \$1,306 | \$170,902 |

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| | | | | | | |
|-----------------|-----------|-----------|------|-----------|---------|-----------|
| Special mention | 131 | - | - | 988 | - | 1,119 |
| Substandard | 5,941 | 304 | - | 2,179 | 28 | 8,452 |
| Doubtful | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - |
| Total | \$122,677 | \$ 15,203 | \$ - | \$ 41,259 | \$1,334 | \$180,473 |

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

12. Financing receivables (continued)

The following table summarizes loans by delinquency, nonaccrual status and impaired loans:

Age Analysis of Past Due Originated Loans Receivable
As of September 30, 2011

| | 30-89 Days Past Due | Over 90 days Past Due | Total Past Due | Current and Accruing | Nonaccrual | Total Loans | Recorded Investment 90 Days and Accruing |
|-----------------------------|------------------------|-----------------------------|-------------------|-------------------------|------------|----------------|--|
| Real Estate: | | | | | | | |
| 1-4 family Residential | \$649 | \$4,584 | \$5,233 | \$178,407 | \$4,584 | \$182,991 | - |
| Multi-family Residential | - | 97 | 97 | 11,081 | 97 | 11,178 | - |
| Construction | - | - | - | 5,849 | - | 5,849 | - |
| Commercial | - | 347 | 347 | 20,759 | 347 | 21,106 | - |
| Consumer | - | - | - | 262 | - | 262 | - |
| Total | \$649 | \$5,028 | \$5,677 | \$216,358 | \$5,028 | \$221,386 | - |

Age Analysis of Past Due Originated Loans Receivable
As of December 31, 2010

| | 30-89 Days Past Due | Over 90 days Past Due | Total Past Due | Current and accruing | Nonaccrual | Total Loans | Recorded Investment 90 Days and Accruing |
|-----------------------------|------------------------|-----------------------------|-------------------|-------------------------|------------|----------------|--|
| Real Estate: | | | | | | | |
| 1-4 family Residential | \$1,017 | \$4,695 | \$5,712 | \$191,106 | \$4,695 | \$195,801 | - |
| Multi-family Residential | - | - | - | 8,594 | - | 8,594 | - |
| Construction | - | - | - | 7,081 | - | 7,081 | - |
| Commercial | 46 | 160 | 206 | 19,169 | 160 | 19,329 | - |
| Consumer | - | - | - | 207 | - | 207 | - |
| Total | \$1,063 | \$4,855 | \$5,918 | \$226,157 | \$4,855 | \$231,012 | - |

Age Analysis of Past Due Purchased Loans Receivable
As of September 30, 2011

Recorded

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| | 30-89 Days Past Due | Over 90 days Past Due | Total Past Due | Current and Accruing | Nonaccrual | Total Loans | Investment 90 Days and Accruing |
|--------------|------------------------|-----------------------------|-------------------|-------------------------|------------|----------------|--|
| Real Estate: | | | | | | | |
| 1-4 family | | | | | | | |
| Residential | \$1,744 | \$6,352 | \$8,096 | \$116,325 | \$6,352 | \$122,677 | - |
| Multi-family | | | | | | | |
| Residential | - | 488 | 488 | 14,715 | 488 | 15,203 | - |
| Construction | - | - | - | - | - | - | - |
| Commercial | 11 | 746 | 757 | 40,513 | 746 | 41,259 | - |
| Consumer | - | 11 | 11 | 1,323 | 11 | 1,334 | - |
| Total | \$1,755 | \$7,597 | \$9,352 | \$172,876 | \$7,597 | \$180,473 | - |

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

12. Financing receivables (continued)

Impaired Loans
As of September 30, 2011

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| Purchased loans with no related allowance recorded: | | | | | |
| Real Estate: | | | | | |
| 1-4 family Residential | \$ 5,616 | \$ 5,616 | \$ - | \$ 85 | \$ 105 |
| Multi-family Residential | 1,138 | 1,138 | - | 228 | 17 |
| Construction | - | - | - | - | - |
| Commercial | 8,697 | 8,697 | - | 457 | 11 |
| Consumer | 1,271 | 1,271 | - | 42 | 1 |
| Total | \$ 16,722 | \$ 16,722 | \$ - | \$ 139 | \$ 134 |

Impaired Loans
As of September 30, 2011

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|--|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| Originated loans with no related allowance recorded: | | | | | |
| Real Estate: | | | | | |
| 1-4 family Residential | \$ 4,264 | \$ 4,264 | \$ - | \$ 112 | \$ 66 |
| Multi-family | 97 | 97 | - | 97 | 4 |
| Commercial | 187 | 187 | - | 93 | 4 |
| Consumer | - | - | - | - | - |
| Total | \$ 4,548 | \$ 4,548 | \$ - | \$ 111 | \$ 74 |
| Originated loans with an allowance recorded: | | | | | |
| Real Estate: | | | | | |
| | \$ 211 | \$ 584 | \$ 373 | \$ 26 | \$ - |

| | | | | | |
|--------------|-----------|-----------|--------|--------|--------|
| 1-4 family | | | | | |
| Residential | | | | | |
| Commercial | 152 | 160 | 8 | 152 | - |
| Consumer | - | - | - | - | - |
| Total | \$ 363 | \$ 744 | \$ 381 | \$ 40 | \$ - |
| Total: | | | | | |
| Real Estate: | | | | | |
| 1-4 family | | | | | |
| Residential | \$ 10,091 | \$ 10,464 | \$ 373 | \$ 90 | \$ 171 |
| Multi-family | | | | | |
| Residential | 1,235 | 1,235 | - | 206 | 21 |
| Construction | - | - | - | - | - |
| Commercial | 9,036 | 9,044 | 8 | 411 | 15 |
| Consumer | 1,271 | 1,271 | - | 42 | 1 |
| Total | \$ 21,633 | \$ 22,014 | \$ 381 | \$ 127 | \$ 208 |

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

12. Financing receivables (continued)

Impaired Loans
As of December 31, 2010

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| Originated loans with no related allowance recorded: | | | | | |
| Real Estate: | | | | | |
| 1-4 family Residential | \$ 4,038 | \$ 4,038 | \$ - | \$ 104 | \$ 126 |
| Multi-family Residential | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Commercial | 222 | 222 | - | 111 | 2 |
| Consumer | - | - | - | - | - |
| Total | \$ 4,260 | \$ 4,260 | \$ - | \$ 215 | \$ 128 |

Impaired Loans
As of December 31, 2010

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|--|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| Originated with an allowance recorded: | | | | | |
| Real Estate: | | | | | |
| 1-4 family Residential | \$ 734 | \$ 951 | \$ 217 | \$ 56 | \$ 9 |
| Multi-family Residential | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Commercial | - | - | - | - | - |
| Consumer | - | - | - | - | - |
| Total | \$ 734 | \$ 951 | \$ 217 | \$ 56 | \$ 9 |
| Total: | | | | | |

Real Estate:

| | | | | | |
|--------------------------|----------|----------|--------|--------|--------|
| 1-4 family Residential | \$ 4,772 | \$ 4,989 | \$ 217 | \$ 160 | \$ 135 |
| Multi-family Residential | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Commercial | 222 | 222 | - | 111 | 2 |
| Consumer | - | - | - | - | - |
| Total | \$ 4,994 | \$ 5,211 | \$ 217 | \$ 203 | \$ 137 |

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

12. Financing receivables (continued)

Modifications
As of September 30, 2011

| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|------------------------------|------------------------|--|--|
| Troubled Debt Restructurings | | | |
| Real Estate: | | | |
| 1-4 Family Residential | 2 | \$ 1,272 | \$ 1,274 |
| Multi-family Residential | - | - | - |
| Construction | - | - | - |
| Commercial | - | - | - |
| Consumer | - | - | - |

Number of
Contracts

Troubled Debt Restructurings That Subsequently Defaulted

| | Number of Contracts | Recorded Investment |
|--------------------------|------------------------|------------------------|
| Real Estate: | | |
| 1-4 Family Residential | 2 | \$ 1,274 |
| Multi-family Residential | - | - |
| Construction | - | - |
| Commercial | - | - |
| Consumer | - | - |

Modifications
As of December 31, 2010

| | Number of | Pre-Modification Outstanding Recorded | Post-Modification Outstanding Recorded |
|--|-----------|--|--|
|--|-----------|--|--|

| | Contracts | Investment | Investment |
|------------------------------|-----------|------------|------------|
| Troubled Debt Restructurings | | | |
| Real Estate: | | | |
| 1-4 Family Residential | 6 | \$ 2,283 | \$ 2,361 |
| Multi-family Residential | - | - | - |
| Construction | - | - | - |
| Commercial | - | - | - |
| Consumer | - | - | - |

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2011 and 2010

12. Financing receivables (continued)

| | Number of Contracts | Recorded Investment |
|---|---------------------------|------------------------|
| Troubled Debt Restructurings That Subsequently Defaulted | | |
| Real Estate: | | |
| 1-4 Family Residential | 3 | \$ 1,955 |
| Multi-family Residential | - | - |
| Construction | - | - |
| Commercial | - | - |
| Consumer | - | - |

The modifications related to interest only payments ranging from a three to six month period. Due to the short term cash flow deficiency, no related allowance was recorded as a result of the restructurings.

The collateral value was updated with recent appraisals which gave no indication of impairment.

Cheviot Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three and nine months ended September 30, 2011 and 2010

ITEM 2.

Forward Looking Statements

This report on Form 10-Q contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements are subject to significant risks, assumptions and uncertainties that could affect the actual outcome of future events. Because of these uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Recent Developments

Adoption of Plan of Conversion

On July 12, 2011 Cheviot Mutual Holding Company and the Corporation adopted a Plan of Conversion whereby the mutual holding company would convert from mutual to stock form. As part of the Plan of Conversion the pro forma value of the 62% of the Corporation owed by the Mutual Holding Company would be sold in a subscription and community offering and, if necessary, a syndicated community offering. The Plan of Conversion is subject to regulatory approval as well as the approval of the Mutual Holding Company's members and the Corporation's stockholders.

Acquisition of First Franklin Corporation

On March 16, 2011, Cheviot Financial, and its wholly owned subsidiary, Cheviot Savings Bank, completed the acquisition of First Franklin and its wholly-owned subsidiary, Franklin Savings. The acquisition was consummated in accordance with an Agreement and Plan of Merger (the "Merger Agreement"), dated as of October 12, 2010, by and among Cheviot Financial Corp., Cheviot Savings Bank, Cheviot Merger Subsidiary, Inc., First Franklin and Franklin Savings.

At the effective time of the acquisition, each share of common stock, par value \$0.01 per share, of First Franklin (other than shares owned by First Franklin, Cheviot Financial, Cheviot Savings Bank and Merger Subsidiary) was converted into the right to receive \$14.50 in cash. Each First Franklin stock option outstanding at the time of the closing was converted into an amount of cash equal to the positive difference, if any, between \$14.50 and the exercise price of such stock option. The aggregate cash consideration paid in the acquisition (including the cancellation of stock options) totaled of approximately \$24.7 million.

The business combination resulted in the acquisition of loans with and without evidence of credit quality deterioration. First Franklin's loans were deemed impaired at the acquisition date if Cheviot Financial did not expect to receive all contractually required cash flows due to concerns about credit quality. Such loans were fair valued and the difference between contractually required payments at the acquisition date and cash flows expected to be collected was recorded as a nonaccretable difference. At the acquisition date, Cheviot Financial recorded \$25.0 million of purchased credit-impaired loans subject to a fair value adjustment of \$5.5 million. The method of measuring carrying

value of purchased loans differs from loans originated by the Corporation (originated loans), and as such, the Corporation identifies purchased loans and purchased loans with a credit quality discount and originated loans at amortized cost.

Cheviot Financial Corp.

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

For the three and nine months ended September 30, 2011 and 2010

Recent Developments (continued)

First Franklin's loans without evidence of credit deterioration were fair valued by discounting both expected principal and interest cash flows using an observable discount rate for similar instruments that a market participant would consider in determining fair value. Additionally, consideration was given to management's best estimates of default rates and payment speeds. At acquisition, First Franklin's loan portfolio without evidence of credit deterioration totaled \$173.2 million and was recorded at a fair value of \$171.6 million.

As a result of the acquisition, the Corporation now has a total of 12 branches located in Hamilton County. At acquisition, First Franklin had total assets of \$265.8 million, deposits of \$218.8 million and stockholders' equity of \$16.4 million. We recognize that components of our non-interest expense will increase as we integrate the personnel and operations of First Franklin. We believe however that these costs will more than be offset by the synergies which can be expected from a larger financial institution and the enhanced profitability potential we will have operating as an institution with approximately \$600 million in assets.

Legislative Developments

Effective July 21, 2011 Cheviot Financial Corp. became subject to regulation and supervision by the Board of Governors of the Federal Reserve System and the Savings Bank became regulated by the FDIC, in each case, instead of the Office of Thrift Supervision. Compliance with new regulations and being supervised by one or more new regulatory agencies could increase our expenses.

Critical Accounting Policies

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

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

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

The analysis has two components, specific and general allocations. Specific percentage allocations can be made for unconfirmed losses related to loans that are determined to be impaired. Impairment is measured by determining the

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

Cheviot Financial Corp.

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

Critical Accounting Policies (continued)

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

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.

We classify our 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. We obtain our estimated fair values 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 our financial position, results of operations and cash flows. If the estimated value of investments is less than the cost or amortized cost, we evaluate 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 we determine that the impairment is other-than-temporary, we expense the impairment of the investment in the period in which the event or change occurred. We also consider 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 September 30, 2011 and at December 31, 2010

Total assets increased \$242.4 million, or 67.7%, to \$600.5 million at September 30, 2011, from \$358.1 million at December 31, 2010. The increase in total assets is primarily the result of the First Franklin acquisition. As a result of the acquisition, Cheviot Financial Corp. recorded increases in cash and cash equivalents, mortgage-backed securities and loans receivable.

Cheviot Financial Corp.

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

Discussion of Financial Condition Changes at September 30, 2011 and at December 31, 2010 (continued)

Cash, federal funds sold and interest-earning deposits increased \$27.1 million, or 149.1%, to \$45.2 million at September 30, 2011, from \$18.1 million at December 31, 2010. The increase in cash and cash equivalents at September 30, 2011 was due to a \$15.0 million increase in federal funds sold, a \$8.9 million increase in interest-earning deposits and a \$3.1 million increase in cash and due from banks. We acquired \$20.5 million in cash and cash equivalents in the First Franklin acquisition. Investment securities increased \$2.4 million to \$90.7 million at September 30, 2011. At September 30, 2011, all investment securities were classified as available for sale. As of September 30, 2011, none of our investment securities are considered impaired.

Mortgage-backed securities increased \$3.3 million, or 36.4%, to \$12.4 million at September 30, 2011, from \$9.1 million at December 31, 2010. The increase in mortgage-backed securities was due primarily to \$4.5 million of mortgage-backed securities designated as available for sale acquired from First Franklin. During the nine months ended September 30, 2011, there were principal prepayments and repayments totaling approximately \$1.5 million. At September 30, 2011, \$4.3 million of mortgage-backed securities were classified as held to maturity, while \$8.0 million were classified as available for sale. As of September 30, 2011, none of the mortgage-backed securities are considered other than temporarily impaired.

Loans receivable, including loans held for sale, increased \$172.0 million, or 76.3%, to \$397.5 million at September 30, 2011, from \$225.4 million at December 31, 2010. The increase in loans receivable is the result of acquiring approximately \$198.7 million in net loans receivable in the First Franklin acquisition. In addition, the change in net loans receivable reflects loan sales of 15 or 30 year fixed rate mortgage loans totaling \$37.2 million and loan principal repayments of \$33.5 million, which were partially offset by loan originations of \$48.4 million. The acquisition of First Franklin resulted in changes to the overall composition of the loan portfolio. The portfolio is currently comprised of approximately 48% in fixed rate mortgages and 52% in variable rate mortgages. In addition, as a result of the acquisition, the Company increased the amount of commercial loans to 15.8% of total loans compared to 8.4% of total loans at December 31, 2010.

The allowance for loan losses totaled \$1.4 million and \$1.2 million at September 30, 2011 and December 31, 2010, 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 our historic loss experience by applying such loss percentage to the loan types to be collectively evaluated in the portfolio. During the nine months ended September 30, 2011 the Corporation recorded a \$400,000 provision for loan losses reflecting these factors as well as replenishing the allowance for charge-offs. 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. Under applicable accounting guidelines, loans acquired in the acquisition were marked to fair value. Therefore, as of September 30, 2011, the Company has not provided loan losses for the loans acquired in the acquisition. To the best of management's knowledge, all known and inherent losses that are probable and that can be reasonably estimated have been recorded at September 30, 2011.

Cheviot Financial Corp.

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

Discussion of Financial Condition Changes at September 30, 2011 and at December 31, 2010 (continued)

Non-performing and impaired loans totaled \$4.9 million at both September 30, 2011 and December 31, 2010, respectively. At September 30, 2011, non-performing and impaired loans were comprised of 44 loans secured by one-to four-family residential real estate and two loans secured by nonresidential real estate. At September 30, 2011 and December 31, 2010, real estate acquired through foreclosure totaled \$4.2 million and \$2.0 million, respectively. The allowance for loan losses represented 29.1% and 25.6% of non-performing and impaired loans at September 30, 2011 and December 31, 2010, 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 our results of operations.

Deposits increased \$222.5 million, or 86.3%, to \$480.4 million at September 30, 2011, from \$257.9 million at December 31, 2010. Deposits assumed at the time of the acquisition were approximately \$218.8 million, net of a fair value adjustment of \$2.7 million. Deposits acquired include savings deposits totaling approximately \$77.7 million and time deposits of approximately \$141.1 million with an overall average rate of 1.90%. Advances from the Federal Home Loan Bank of Cincinnati increased by \$14.7 million, or 53.9%, to \$42.0 million at September 30, 2011, from \$27.3 million at December 31, 2010. The increase is a result of assuming \$22.4 million in advances as a result of the acquisition of First Franklin. During the nine months ended September 30, 2011, the Corporation had proceeds from Federal Home Loan Bank advances of \$11.0 million, which was partially offset by repayments of \$19.3 million.

Shareholders' equity increased \$2.7 million, or 3.9%, to \$72.1 million at September 30, 2011, from \$69.4 million at December 31, 2010. The increase primarily resulted from net earnings of \$2.4 million and amortization of stock benefit plans of \$25,000, which were partially offset by dividends paid of \$1.2 million. Dividends declared by the Corporation were waived by the Corporation's mutual holding parent company. At September 30, 2011, Cheviot Financial had the ability to purchase an additional 360,818 shares under its announced stock repurchase plan. The repurchase plan has been suspended as a result of Cheviot Mutual Holding Company's adoption of a Plan of Conversion providing for the conversion of our mutual holding company to stock form and the related stock offering.

Liquidity and Capital Resources

We monitor our liquidity position on a daily basis using reports that recap all deposit activity and loan commitments. A significant portion of our deposit base is made up of time deposits. At September 30, 2011, \$130.0 million of time deposits are due to mature within twelve months. The daily deposit activity report allows us to price our time deposits competitively. Because of this and our deposit retention experience, we anticipate that a significant portion of maturing time deposits will be retained.

Borrowings from the Federal Home Loan Bank of Cincinnati increased \$14.7 million during the nine months ended September 30, 2011. We have the ability to increase such borrowings by approximately \$157.2 million. The additional borrowings can be used to offset any decrease in customer deposits or to fund loan commitments.

Cheviot Financial Corp.

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

Comparison of Operating Results for the Nine-Month Periods Ended September 30, 2011 and 2010

General

Net earnings for the nine months ended September 30, 2011 totaled \$2.4 million, a \$660,000 increase from the \$1.8 million of net earnings reported for the same period in 2010. The increase in net earnings reflects a growth in net interest income of \$3.7 million, an increase in other income of \$1.0 million, and a decrease in the provision for federal income taxes of \$178,000, which were partially offset by an increase of \$150,000 in the provision for losses on loans and an increase of \$4.1 million in general, administrative and other expense.

Net Interest Income

Total interest income increased \$4.4 million, or 37.6%, to \$16.3 million for the nine-months ended September 30, 2011, from the comparable period in 2010. Generally, increases in interest income from loans, investment securities, interest earning assets, deposits and other interest earning assets reflect higher balances resulting from the First Franklin acquisition. Interest income on loans increased \$4.0 million, or 39.4%, to \$14.2 million during the 2011 period. This increase was due primarily to an increase of \$116.6 million, or 48.1%, in average loans outstanding, which was partially offset by a decrease in the average yield on loans to 5.29% for the 2011 period from 5.62% for the 2010 period.

Interest income on mortgage-backed securities decreased \$20,000, or 8.8%, to \$208,000 for the nine months ended September 30, 2011, from \$228,000 for the same period in 2010, due primarily to a 70 basis point decrease in the average yield, which was partially offset by a \$1.9 million increase in the average balance of securities. Interest income on investment securities increased \$339,000, or 26.4%, to \$1.6 million for the nine months ended September 30, 2011, compared to \$1.3 million for the same period in 2010, due primarily to an increase of \$28.7 million, or 43.9%, increase in the average balance of investment securities outstanding, which was partially offset by a decrease in the average yield of 32 basis points to 2.31% in the 2011 period. Interest income on other interest-earning deposits increased \$107,000, or 93.0% to \$222,000 for the nine months ended September 30, 2011, as compared to the same period in 2010.

Interest expense increased \$782,000, or 21.5% to \$4.4 million for the nine months ended September 30, 2011, from \$3.6 million for the same period in 2010. Interest expense on deposits increased by \$874,000, or 33.2%, to \$3.5 million for the nine months ended September 30, 2011, from \$2.6 million for the same period in 2010 due primarily to a 38 basis point decrease in the average cost of deposits to 1.12% during the 2011 period, which was partially offset by a \$182.8 million, or 78.2%, increase in the average balances 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 \$92,000, or 9.2%, due primarily to a 84 basis point decrease in the average cost of borrowings, which was partially offset by an increase of \$5.5 million, or 16.0% in the average balance outstanding.

As a result of the foregoing changes in interest income and interest expense, net interest income increased by \$3.7 million, or 44.7%, to \$11.9 million for the nine months ended September 30, 2011. The average interest rate spread increased to 3.27% for the nine months ended September 30, 2011 from 3.05% for the nine months ended September 30, 2010. The net interest margin decreased to 3.32% for the nine months ended September 30, 2011 from 3.37% for the nine months ended September 30, 2010.

Cheviot Financial Corp.

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

Comparison of Operating Results for the Nine-Month Periods Ended September 30, 2011 and 2010 (continued)

Provision for Losses on Loans

As a result of an analysis of historical experience, the volume and type of lending conducted by the Savings Bank, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to the Savings Bank's market area, and other factors related to the collectability of the Savings Bank's loan portfolio, management recorded a \$400,000 provision for losses on loans for the nine months ended September 30, 2011, compared to a \$250,000 provision for losses on loans for the nine months ended September 30, 2010. Non-performing loans were 2.3% and 1.5% of total originated loans at September 30, 2011 and September 30, 2010, respectively. The provision for loan losses for the nine months ended September 30, 2011 reflects the amount necessary to maintain an adequate allowance based on the Corporation's historical loss experience, as well as consideration of 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 it has 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 \$1.0 million, or 124.3%, to \$1.9 million for the nine months ended September 30, 2011, compared to the same period in 2010, due primarily to an increase in other operating income of \$762,000, an increase in the gain on sale of loans of \$40,000, an increase of \$98,000 in the gain on sale of real estate acquired through foreclosure and an increase of \$104,000 in earnings on bank-owned life insurance. The increase in other operating income is a result of increased service fees on deposit accounts and an increase in service fees received from the Federal Home Loan Bank as a result of increased loan sales in the secondary market. During the nine months ended September 30, 2011, the Corporation sold 27 real estate owned properties resulting in proceeds of \$2.5 million.

General, Administrative and Other Expense

General, administrative and other expense increased \$4.1 million, or 66.6%, to \$10.2 million for the nine months ended September 30, 2011, from \$6.1 million for the comparable period in 2010. The increase is a result of \$1.5 million in employee compensation and benefits, an increase of \$243,000 in legal and professional expense, an increase of \$267,000 in FDIC expense and a \$1.1 million increase in other operating expense. The increase in employee compensation and benefits is a result of the additional employees and related costs resulting from the acquisition of First Franklin. The increase in legal and professional expenses is a result of merger related costs and expenses related to resolving real estate owned properties. The increase in FDIC expense is a result of an increase in deposit insurance following the First Franklin merger. The increase in other operating expense is a result of maintenance expense, real estate tax expense and the fair market value adjustments on real estate owned property.

Cheviot Financial Corp.

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

Comparison of Operating Results for the Nine-Month Periods Ended September 30, 2011 and 2010 (continued)

FDIC Premiums

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

These actions increased our FDIC insurance premiums for the first nine months of 2011 to \$481,000 from \$214,000 for the same period in 2010.

Federal Income Taxes

The provision for federal income taxes decreased \$178,000, or 19.5%, to \$734,000 for the nine months ended September 30, 2011, from \$912,000 for the same period in 2010. The effective tax rate was 23.2% and 34.1% for the nine month periods ended September 30, 2011 and 2010. During the nine months ended September 30, 2011 the Corporation was able to reverse approximately \$709,000 in valuation allowance previously reserved for as a result of the acquisition of First Franklin. The amount of deferred federal income taxes recorded in the First Franklin acquisition approximated the amount includable in regulatory capital. Cheviot Financial has approximately \$6.4 million in remaining operating loss carryforwards to offset future taxable income for 20 years. These losses are subject to the annual allowable Internal Revenue Code Section 382 net operating loss limitations of \$1.1 million.

Comparison of Operating Results for the Three-Month Periods Ended September 30, 2011 and 2010

General

Net earnings for the three months ended September 30, 2011 totaled \$969,000, a \$286,000 increase from the \$683,000 earnings reported in the September 2010 period. The increase in net earnings reflects an increase in net interest income of \$1.8 million, an increase of \$229,000 in other operating income, which was partially offset by an increase of \$1.6 million in general, administrative and other expenses, an increase of \$154,000 in federal income taxes for the 2011 quarter end and an increase in the provision for losses on loans of \$50,000. The results for the entire three month period ended September 30, 2011 include operations acquired in the First Franklin acquisition.

Net Interest Income

Total interest income increased \$2.3 million, or 59.6%, to \$6.1 million for the three-months ended September 30, 2011, from the comparable quarter in 2010. Interest income on loans increased \$2.1 million, or 63.1%, to \$5.4 million during the 2011 quarter from \$3.3 million for the 2010 quarter. This increase was due primarily to a \$165.9 million, or 69.5%, increase in the average balance of loans outstanding, which was partially offset by a 21 basis point

decrease in the average yield on loans to 5.32% for the 2011 quarter from 5.53% for the three months ended September 30, 2010.

Cheviot Financial Corp.

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

Comparison of Operating Results for the Three-Month Periods Ended September 30, 2011 and 2010 (continued)

Net Interest Income (continued)

Interest income on mortgage-backed securities increased \$4,000, or 6.1%, to \$70,000 for the three months ended September 30, 2011, from \$66,000 for the comparable 2010 quarter, due primarily to a \$3.1 million, or 32.5% increase in the average balance of securities outstanding, which was partially offset by a 55 basis point decrease in the average yield. Interest income on investment securities increased \$155,000, or 35.6%, to \$591,000 for the three months ended September 30, 2011, compared to \$436,000 for the same quarter in 2010, due primarily to an increase of \$26.8 million, or 40.2% in the average balance of investment securities outstanding, which was partially offset by a 8 basis point decrease in the average yield to 2.53% in the 2011 quarter. Interest income on other interest-earning deposits increased \$47,000, or 123.7% to \$85,000 for the three months ended September 30, 2011.

Interest expense increased \$453,000, or 40.1% to \$1.6 million for the three months ended September 30, 2011, from \$1.1 million for the same quarter in 2010. Interest expense on deposits increased by \$442,000, or 52.4%, to \$1.3 million, from \$844,000, due primarily to a \$236.7 million, or 99.7% increase in the average balance of deposits outstanding, which was partially offset by a 33 basis point decrease in the average costs of deposits to 1.09%. 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 increased by \$11,000, or 3.8%, due primarily to a \$13.4 million increase in the average balance outstanding, which was partially offset by a 112 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 increased by \$1.8 million, or 67.7%, to \$4.5 million for the three months ended September 30, 2011, as compared to the same quarter in 2010. The average interest rate spread increased to 3.45% for the three months ended September 30, 2011 from 3.02% for the three months ended September 30, 2010. The net interest margin increased to 3.47% for the three months ended September 30, 2011 from 3.33% for the three months ended September 30, 2010.

Provision for Losses on Loans

Management recorded a \$200,000 provision for losses on loans for the three months ended September 30, 2011, compared to a \$150,000 provision for losses on loans for the three months ended September 30, 2010. The provision for loan losses during the three months ended September 30, 2011 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 \$229,000, or 48.4%, to \$702,000 for the three months ended September 30, 2011, compared to the same quarter in 2010, due primarily to an increase in other operating income of \$312,000 and an increase in earnings on bank-owned life insurance of \$49,000, which was partially offset by a decrease in the gain on the sale of loans of \$102,000, an increase of \$46,000 in the loss on sale of real estate acquired through foreclosure. The increase

in other operating income is a result of increased service fees on deposit accounts and an increase in service fees received from the Federal Home Loan Bank as a result of increased loan sales in the secondary market.

Cheviot Financial Corp.

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

Comparison of Operating Results for the Three-Month Periods Ended September 30, 2011 and 2010 (continued)

General, Administrative and Other Expense

General, administrative and other expense increased \$1.6 million, or 76.4%, to \$3.6 million for of the three months ended September 30, 2011. This increase is a result of an increase in employee compensation and benefits of \$618,000, an increase of \$110,000 in FDIC expense and an increase of \$481,000 in other operating expenses. The increase in employee compensation and benefits is a result of the additional employees and related costs resulting from the acquisition of First Franklin. The increase in FDIC expense is a result of an increase in deposit insurance due to the First Franklin merger. The increase in other operating expense is a result of maintenance expense, real estate tax expense and the fair market value adjustments on real estate owned property.

Federal Income Taxes

The provision for federal income taxes increased \$154,000, or 53.1%, to \$444,000 for the three months ended September 30, 2011, from \$290,000 for the same quarter in 2010. The effective tax rate was 31.4% and 29.8% for the three month periods ended September 30, 2011 and 2010, respectively. The amount of deferred federal income taxes recorded in the acquisition approximated the amount of deferred taxes recorded in regulatory capital. Cheviot Financial has approximately \$6.4 million in remaining operating loss carryforwards to offset future taxable income for 20 years. These losses are subject to the Internal Revenue Code Section 382 net operating loss limitations of \$1.1 million allowed on an annual basis.

Cheviot Financial Corp.

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

For the three and nine months ended September 30, 2011 and 2010

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, 2010.

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 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
Legal Proceedings

ITEM 1.

None.

ITEM 1A.

Risk Factors

Not applicable.

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

The Corporation announced a repurchase plan on January 16, 2008 which provides for the repurchase of 5% or 447,584 shares of our common stock. As of September 30, 2011, the Corporation had purchased 86,766 shares pursuant to the program.

| Period | Total # of shares purchased | Average price paid | Total # of shares purchased as part of publicly announced plans |
|--------|-----------------------------------|--------------------------|--|
|--------|-----------------------------------|--------------------------|--|