Cheviot Financial Corp.
Form 10-Q
August 07, 2015

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 June 30, 2015

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. 001-35399

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

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

3723 Glenmore Avenue, Cincinnati, Ohio 45211
(Address of principal executive office)
Registrant's telephone number, including area code: (513) 661-0457

N/A
Former name, former address and former fiscal year, if changed since last report
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

Small business issuer

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 August 7, 2015, the latest practicable date, 6,795,454 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

June 30, 2015 and December 31, 2014
(In thousands, except share data)

	June 30, 2015 (Unaudited)	**December 31, 2014**
ASSETS		
Cash and due from banks	$ 37,437	$ 22,757
Federal funds sold	-	14,941
Interest-earning deposits in other financial institutions	9,018	4,741
Cash and cash equivalents	46,455	42,439
Investment securities available for sale - at fair value	116,191	126,999
Mortgage-backed securities available for sale - at fair value	8,474	9,400
Loans receivable - net	352,075	335,763
Loans held for sale - at lower of cost or market	2,403	1,332
Real estate acquired through foreclosure - net	1,713	1,815
Office premises and equipment - at depreciated cost	11,215	11,428
Federal Home Loan Bank stock - at cost	8,651	8,651
Accrued interest receivable on loans	1,061	1,031
Accrued interest receivable on mortgage-backed securities	30	35
Accrued interest receivable on investments and interest-earning deposits	775	735
Goodwill	10,309	10,309
Core deposit intangible	330	391
Prepaid expenses and other assets	4,352	3,915
Bank-owned life insurance	16,181	15,960
Prepaid federal income taxes	12	12
Deferred federal income taxes	765	1,022
Total assets	**$ 580,992**	**$ 571,237**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$ 452,237	$ 451,784
Advances from the Federal Home Loan Bank	25,284	14,851
Advances by borrowers for taxes and insurance	1,035	2,651
Accrued interest payable	54	58
Accounts payable and other liabilities	6,319	5,711
Total liabilities	484,929	475,055
Shareholders' equity		
Preferred stock - authorized 5,000,000 shares, $.01 par value; none issued Common stock - authorized 30,000,000 shares, $.01 par value; 6,795,454 and 6,718,795 shares issued at	221	220

June 30, 2015 and December 31, 2014		
Additional paid-in capital	56,485	55,827
Shares acquired by stock benefit plans	(1,449)	(1,470)
Retained earnings - restricted	42,413	43,151
Accumulated comprehensive loss, unrealized losses on securities available for sale, net of related tax benefit	(1,607)	(1,546)
Total shareholders’ equity	96,063	96,182
Total liabilities and shareholders’ equity	**$ 580,992**	**$ 571,237**

See accompanying notes to consolidated financial statements.

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

For the six and three months ended June 30, 2015 and 2014
(In thousands, except per share data)

	Six months ended June 30,		**Three months ended June 30,**	
	2015	**2014**	**2015**	**2014**
Interest income				
Loans	$7,414	$7,445	$3,783	$3,691
Mortgage-backed securities	80	112	40	52
Investment securities	1,377	1,547	689	796
Interest-earning deposits and other	184	178	92	90
Total interest income	9,055	9,282	4,604	4,629
Interest expense				
Deposits	1,531	1,539	753	768
Borrowings	220	286	108	137
Total interest expense	1,751	1,825	861	905
Net interest income	7,304	7,457	3,743	3,724
Provision for losses on loans	423	555	280	355
Net interest income after provision for losses on loans	6,881	6,902	3,463	3,369
Other income				
Rental	52	56	25	31
(Loss) gain on sale of real estate acquired through foreclosure	(9)	25	-	-
Gain on sale of office premises and equipment	7	-	7	-
Gain on sale of loans	465	167	260	101
Gain on sale of investment securities designated as available-for-sale	-	722	-	281
Earnings on bank-owned life insurance	221	233	112	117
Service fee income	723	771	377	401
Other operating	4	5	-	4
Total other income	1,463	1,979	781	935
General, administrative and other expense				
Employee compensation and benefits	3,876	2,882	1,605	1,408
Occupancy and equipment	646	732	326	354
Property, payroll and other taxes	644	569	327	276
Data processing	395	318	196	158
Legal and professional	459	463	246	232
Advertising	150	150	69	75

FDIC expense	170	216	88	99
ATM processing expense	204	183	109	95
Real estate owned impairment	108	493	-	297
Core deposit intangible amortization	61	81	27	34
Other operating	794	903	437	546
Total general, administrative and other expense	7,507	6,990	3,430	3,574
Earnings before income taxes	837	1,891	814	730
Federal income taxes (benefit)				
Current	-	144	-	(210)
Deferred	288	405	266	413
Total federal income taxes	288	549	266	203
NET EARNINGS	**$549**	**$1,342**	**$548**	**$527**
EARNINGS PER SHARE				
Basic	**$.08**	**$.20**	**$.08**	**$.08**
Diluted	**$.08**	**$.20**	**$.08**	**$.08**
Dividends per common share	**$.19**	**$.18**	**$.10**	**$.09**

See accompanying notes to consolidated financial statements.

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

For the six and three months ended June 30, 2015 and 2014
(In thousands)

	For the six months ended June 30,		**For the three months ended June 30,**	
	2015	**2014**	**2015**	**2014**
Net earnings for the period	$549	$1,342	$548	$527
Other comprehensive income (loss), net of tax expense (benefit):				
Unrealized holding (losses) gains on securities during the period, net of tax (benefit) expense of $(31) and $2,421 for the six months ended June 30, 2015 and 2014, respectively, and $(658) and $1,398 for the three months ended June 30, 2015 and 2014, respectively	(61)	4,699	(1,278)	2,713
Comprehensive income (loss)	**$488**	**$6,041**	**$(730)**	**$3,240**
Accumulated comprehensive loss	**$(1,607)**	**$(2,530)**	**$(1,607)**	**$(2,530)**

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the six months ended June 30, 2015 and 2014
(In thousands)

	2015	**2014**
Cash flows from operating activities:		
Net earnings for the period	$549	1,342
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Amortization of premiums and discounts on investment and mortgage-backed securities, net	(10)	(12)
Depreciation	320	361
Amortization of deferred loan origination costs - net	95	23
Amortization of intangible assets	61	81
Amortization of fair value adjustments	(175)	(215)
Proceeds from sale of loans in the secondary market	24,345	10,999
Loans originated for sale in the secondary market	(25,524)	(11,425)
Gain on sale of loans	(465)	(167)
Loss (gain) on sale of real estate acquired through foreclosure	9	(25)
Impairment on real estate acquired through foreclosure	108	493
Gain on sale of office premises and equipment	(7)	-
Gain on sale of investment securities designated as available-for-sale	-	(722)
Net increase in cash surrender value of bank-owned life insurance	(221)	(233)
Amortization of expense related to stock benefit plans	54	38
Provision for losses on loans	423	555
Increase (decrease) in cash due to changes in:		
Accrued interest receivable on loans	(30)	113
Accrued interest receivable on mortgage-backed securities	5	2
Accrued interest receivable on investments and interest earning deposits	(40)	(13)
Prepaid expenses and other assets	(437)	(364)
Accrued interest payable	(4)	(9)
Accounts payable and other liabilities	559	340
Federal income taxes		
Current	-	493
Deferred	288	405
Net cash (used in) provided by operating activities	(97)	2,060
Cash flows provided by (used in) investing activities:		
Principal repayments on loans	39,844	32,298
Loan disbursements	(56,019)	(23,983)
Purchase of investment securities - available for sale	(24,996)	(14,978)
Proceeds from maturity of investment securities - available for sale	35,685	30,000
Proceeds from the sale of corporate securities	-	2,484
Principal repayments on mortgage-backed securities - available for sale	963	742
Principal repayments on mortgage-backed securities - held to maturity	-	236
Proceeds from sale of real estate acquired through foreclosure	81	405

Proceeds from sale of office premises and equipment	54	-
Purchase of office premises and equipment	(154)	(28)
Net cash (used in) provided by investing activities	(4,542)	27,176
Cash flows provided by (used in) financing activities:		
Net increase (decrease) in deposits	453	(5,311)
Repayments on Federal Home Loan Bank advances	(1,521)	(3,030)
Federal Home Loan Bank advances	12,000	-
Advances by borrowers for taxes and insurance	(1,616)	(1,285)
Stock option expense, net	91	7
Common stock issued	535	-
Common stock repurchased	-	(1,450)
Dividends paid on common stock	(1,287)	(1,222)
Net cash provided by (used in) financing activities	8,655	(12,291)
Net increase in cash and cash equivalents	4,016	16,945
Cash and cash equivalents at beginning of period	42,439	22,112
Cash and cash equivalents at end of period	**$46,455**	**$39,057**

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

For the six months ended June 30, 2015 and 2014
(In thousands)

	2015	2014
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	$-	$-
Interest on deposits and borrowings	$1,755	$1,833
Supplemental disclosure of noncash investing activities:		
Transfer of loans to real estate acquired through foreclosure	$101	$383
Recognition of mortgage servicing rights	$177	$66
Deferred gain on real estate acquired through foreclosure	$-	$4

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2015 and 2014

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 100% ownership of Cheviot Savings Bank (the "Savings Bank"). The Savings Bank conducts a general banking business in southwestern Ohio which consists of attracting deposits and applying those funds primarily to the origination of real estate loans. The Savings Bank's profitability is significantly dependent on net interest income, which is the difference between interest income from interest-earning assets and the interest expense paid on interest-bearing liabilities. Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances.

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

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Cheviot Financial included in the Annual Report on Form 10-K for the year ended December 31, 2014. 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 six month periods ended June 30, 2015 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 six months ended June 30, 2015 and 2014 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 is the ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of customers and to fund current and planned expenditures. The Corporation's primary sources of funds are deposits, scheduled amortization and prepayments of loan principal and mortgage-backed securities, maturities and calls of securities and funds provided by operations. In addition, the Corporation may borrow from the Federal Home Loan Bank of Cincinnati. At June 30, 2015 and December 31, 2014, the Corporation had $25.3 million and $14.9 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 $143.3 million and $132.1 million, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June, 2015 and 2014

3. Liquidity and Capital Resources (continued)

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

The Corporation's primary investing activities are the origination of one- to four-family real estate loans, commercial real estate, construction and consumer loans, and the purchase of securities. For the six months ended June 30, 2015, loan originations totaled $81.5 million, compared to $35.4 million for the six months ended June 30, 2014.

Total deposits increased $453,000 during the six months ended June 30, 2015, while total deposits decreased $5.5 million during the six months ended June 30, 2014. Deposit flows are affected by the level of interest rates, the interest rates and products offered by competitors and other factors.

The following table sets forth information regarding the Corporation's obligations and commitments to make future payments under contracts as of June 30, 2015.

	Payments due by period				
	Less than 1 year	**More than 1-3 years**	**More than 4-5 years**	**More than 5 years**	**Total**
	(In thousands)				
Contractual obligations:					
Advances from the Federal Home Loan Bank	$12,171	$10,721	$2,392	$ -	$25,284

Certificates of deposit	101,375	60,299	40,889	-	202,563
Lease obligations	113	144	119	129	505
Amount of loan commitments and expiration per period:					
Commitments to originate one- to four-family loans	1,149	-	-	-	1,149
Commitments to originate commercial loans	4,628	-	-	-	4,628
Home equity lines of credit	25,844	-	-	-	25,844
Commercial lines of credit	6,041	-	-	-	6,041
Undisbursed loans in process	14,351	-	-	-	14,351
Total contractual obligations	**$165,672**	**$71,164**	**$43,400**	**$ 129**	**$280,365**

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

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

3. Liquidity and Capital Resources (continued)

The following sets forth our regulatory capital position, compared to requirements to be considered "well-capitalized" as of June 30, 2015 under new Basel III regulatory capital requirements, and prior requirements as of December 31, 2014.

	As of June 30, 2015 (Dollars in Thousands)		
	Required Ratio	**Actual Amount**	**Actual Ratio**
Tier 1 Leverage	5.00 %	$ 78,909	13.9 %
Common Equity Tier 1 Risk-Based Capital	6.50 %	$ 78,909	23.0 %
Tier 1 Risk-Based Capital	8.00 %	$ 78,909	23.0 %
Total Risk-Based Capital	10.00 %	$ 81,294	23.7 %

	As of December 31, 2014 (Dollars in Thousands)		
	Required Ratio	**Actual Amount**	**Actual Ratio**
Tier 1 Leverage	5.00 %	$ 77,752	13.9 %
Tier 1 Risk-Based Capital	6.00 %	$ 77,752	24.5 %
Total Capital	10.00 %	$ 79,988	25.2 %

4. Earnings Per Share

Basic earnings per share is computed based upon the weighted-average common shares outstanding during the period, less shares in the ESOP that are unallocated and not committed to be released plus shares in the ESOP that have been allocated. Weighted-average common shares deemed outstanding gives effect to 158,950 and 168,300 unallocated shares held by the ESOP for the six months ended June 30, 2015 and 2014, respectively.

	For the six months ended June 30,		**For the three months ended June 30,**	
	2015	**2014**	**2015**	**2014**
Weighted-average common shares outstanding (basic)	6,598,132	6,630,407	6,622,343	6,607,066
Dilutive effect of assumed exercise of stock options	94,974	4,991	99,963	5,911
Weighted-average common shares outstanding (diluted)	**6,693,106**	**6,635,398**	**6,722,306**	**6,612,977**

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

5. Equity Incentive Plan

The Corporation established Stock Incentive Plans that provide for grants of up to 891,517 stock options. During 2015, 46,570 stock options were granted in accordance with the 2005 Equity Incentive Plan subject to a five year vesting period in which the options granted will vest ratably annually beginning one year form the date of grant. As of June 30, 2015, all option shares have been granted in accordance with the 2005 Equity Incentive Plan. During 2014, 400,000 stock options were granted in accordance with the 2013 Equity Incentive Plan subject to a five year vesting period in which the options granted will vest ratably annually beginning one year from the date of grant. As of June 30, 2015, 400,000 option awards have been granted under the 2013 Equity Incentive Plan with 75,000 option awards forfeited. The shares in the plan and shares granted prior to the second step conversion have been adjusted to reflect the exchange ratio of 0.857 for the second step conversion that occurred in 2012.

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

The compensation cost recorded for unvested equity-based awards is based on their grant-date fair value. For the six months ended June 30, 2015, the Corporation recorded $91,000 compensation cost for equity-based awards that vested during the six months ended June 30, 2015. The Corporation has $475,000 unrecognized compensation cost related to non-vested equity-based awards granted under its stock incentive plan as of June 30, 2015, which is expected to be recognized over a weighted-average vesting period of approximately 4.0 years.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

5. Equity Incentive Plan (continued)

A summary of the status of the stock option plans as of June 30, 2015 and changes during the period then ended are presented below:

	Six months ended June 30, 2015		**Year ended December 31, 2014**	
	Shares	**Weighted-average exercise price**	**Shares**	**Weighted-average exercise price**
Outstanding at beginning of period	758,947	$ 12.67	369,939	$ 12.80
Granted	46,570	15.46	400,000	12.48
Exercised	(328,831)	13.01	(10,992)	9.94
Forfeited	(75,000)	12.48	-	-
Outstanding at end of period	**401,686**	**$ 12.76**	**758,947**	**$ 12.67**
Options exercisable at period-end	**52,291**	**$ 12.14**	**363,791**	**$ 12.86**
Options expected to be exercisable at year-end	**52,291**		**363,791**	
Fair value of options granted		$ **2.32**		**NA**

The following information applies to options outstanding at June 30, 2015:

Number outstanding	401,686
Exercise price	$8.30 - $ 15.90
Weighted-average exercise price	$12.76
Weighted-average remaining contractual life	8.7 years

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

The fair value of each option granted is estimated on the date of grant using the modified Black-Scholes options-pricing model with the following weighted-average assumptions used for the 2015 and 2014 grant: dividend yield of 2.33% and 2.88%; expected volatility of 15.56% and 14.25%; risk-free interest rates of 2.16% and 2.55%; and expected lives of 10 years.

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

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

6. Investment and Mortgage-backed Securities

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of investment securities at June 30, 2015 and December 31, 2014 are shown below.

	June 30, 2015			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
	(In thousands)			
Available for Sale:				
U.S. Government agency securities	$116,941	$ 37	$ 2,544	$114,434
Municipal obligations	1,691	66	-	1,757
	$118,632	**$ 103**	**$ 2,544**	**$116,191**

	December 31, 2014			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
	(In thousands)			
Available for Sale:				
U.S. Government agency securities	$127,607	$ 7	$ 2,391	$125,223
Municipal obligations	1,691	85	-	1,776
	$129,298	**$ 92**	**$ 2,391**	**$126,999**

The amortized cost of investment securities at June 30, 2015, by contractual term to maturity, are shown below.

June 30,

	2015
	(In thousands)
Less than one year	$ 5,953
One to five years	37,013
Five to ten years	75,666
More than ten years	-
	$ 118,632

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

6. Investment and Mortgage-backed Securities (continued)

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of mortgage-backed securities at June 30, 2015 and December 31, 2014 are shown below.

	June 30, 2015			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In thousands)			
Available for sale:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	**$8,467**	**$ 7**	**$ -**	**$ 8,474**

	December 31, 2014			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In thousands)			
Available for sale:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	**$9,443**	**$ -**	**$ 43**	**$ 9,400**

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

6. Investment and Mortgage-backed Securities (continued)

The amortized cost of mortgage-backed securities, including those designated as available for sale, at June 30, 2015, by contractual terms to maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may generally prepay obligations without prepayment penalties.

	June 30, 2015 (In thousands)
Due in one year or less	$ 1,530
Due in one year through five years	4,042
Due in five years through ten years	1,916
Due in more than ten years	979
	$ 8,467

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at June 30, 2015:

	Less than 12 months			**12 months or longer**			**Total**		
Description of securities	**Number of investments**	**Fair value**	**Unrealized losses**	**Number of investments**	**Fair value**	**Unrealized losses**	**Number of investments**	**Fair value**	**Unrealized losses**
	(Dollars in thousands)								
U.S. Government agency securities	3	$24,806	$ 191	16	$79,593	$ 2,353	19	$104,399	$ 2,544
Municipal obligations	-	-	-	-	-	-	-	-	-
Mortgage-backed securities	-	-	-	-	-	-	-	-	-
	3	**$24,806**	**$ 191**	**16**	**$79,593**	**$ 2,353**	**19**	**$104,399**	**$ 2,544**

Total temporarily impaired securities

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

6. Investment and Mortgage-backed Securities (continued)

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

7. Income Taxes

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

The Corporation’s principal temporary differences between financial income and taxable income result mainly from different methods of accounting for Federal Home Loan Bank stock dividends, the general loan loss allowance, deferred compensation, stock benefit plans, fair value adjustments arising from the First Franklin Corporation acquisition. The Corporation has approximately $1.7 million of net operating losses to carryforward for the next 18 years. These losses are subject to the Internal Revenue Code Section 382 limitations which allow approximately $1.1 million of the losses on an annual basis to offset current year taxable income.

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

The Corporation is subject to income taxes in the U.S. federal jurisdiction, as well as various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Corporation is no longer subject to U.S. federal, state and local, or non U.S. income tax examinations by tax authorities for the years before 2011.

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

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

7. Income Taxes (continued)

Federal income tax on earnings differs from that computed at the statutory corporate tax rate for the periods ended June 30, 2015 and 2014:

	2015	**2014**
	(Dollars in thousands)	
Federal income taxes at statutory rate of 34%	$285	$643
Increase (decrease) in taxes resulting primarily from:		
Stock compensation	85	7
Nontaxable interest income	(11)	(20)
Cash surrender value of life insurance	(75)	(79)
Other	4	(2)
Federal income taxes per financial statements	**$288**	**$549**
Effective tax rate	**34.4%**	**29.0%**

8. Fair Value of Financial Instruments

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

Changes in assumptions could significantly affect the estimated values.

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments at June 30, 2015:

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

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

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

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

8. Fair Value of Financial Instruments (continued)

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

Deposits: The fair value of NOW accounts, passbook accounts, and money market demand deposits is deemed to approximate the amount payable on demand at June 30, 2015. Fair values for fixed-rate certificates of deposit have been estimated using a discounted cash flow calculation using the interest rates currently offered for deposits of similar remaining maturities.

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

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

Commitments to extend credit: For fixed-rate loan commitments, the fair value estimate considers the difference between current levels of interest rates and committed rates. At June 30, 2015, the fair value of the derivative loan commitments was not material.

9. Disclosures about Fair Value of Assets and Liabilities

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

	June 30, 2015		**December 31, 2014**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
		(In thousands)		
Financial assets				

Cash and cash equivalents	$46,455	$46,455	$42,439	$42,439
Investment securities	116,191	116,191	126,999	126,999
Mortgage-backed securities	8,474	8,474	9,400	9,400
Loans receivable –				
net and loans held for sale	354,478	366,675	337,095	358,500
Accrued interest receivable	1,866	1,866	1,801	1,801
Federal Home Loan Bank stock	8,651	8,651	8,651	8,651
	$536,115	**$548,312**	**$526,385**	**$547,790**
Financial liabilities				
Deposits	$452,237	$451,736	$451,784	$451,165
Advances from the Federal Home Loan Bank	25,284	24,889	14,851	15,726
Advances by borrowers for taxes and insurance	1,035	1,035	2,651	2,651
Accrued interest payable	54	54	58	58
	$478,610	**$477,714**	**$469,344**	**$469,600**

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

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

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

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

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

	Total	**Quoted prices in active markets for identical assets**	**Significant other observable inputs (Level 2)**	**Significant other unobservable inputs (Level 3)**

		(Level 1)		
		(In thousands)		
Securities available for sale at June 30, 2015:				
U.S. Government agency securities	$114,434	-	$114,434	-
Municipal obligations	1,757	-	1,757	-
Mortgage-backed securities	8,474	-	8,474	-
Securities available for sale at December 31, 2014:				
U.S. Government agency securities	$125,223	-	$125,223	-
Municipal obligations	1,776	-	1,776	-
Mortgage-backed securities	9,400	-	9,400	-

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

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

Fair value measurements for certain assets and liabilities recognized in the accompanying statements of financial condition and measured at fair value on a nonrecurring basis:

	Total	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant other unobservable inputs (Level 3)**
	(In thousands)			
June 30, 2015:				
Real estate acquired through foreclosure	$1,713	-	$ 1,713	-
Loans held for sale	2,403	-	2,403	-
Impaired loans	15,810	-	15,810	-
December 31, 2014:				
Real estate acquired through foreclosure	$1,815	-	$ 1,815	-
Loans held for sale	1,332	-	1,332	-
Impaired loans	15,382	-	15,382	-

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

	Total	**Quoted prices in active**	**Significant other**	**Significant other unobservable inputs**

		markets for identical assets (Level 1)	observable inputs (Level 2)	(Level 3)
	(In thousands)			
June 30, 2015:				
Financial assets:				
Cash and cash equivalents	$46,455	$ 46,455	$ -	$ -
Mortgage-backed securities	8,474	-	8,474	-
Loans receivable - net	366,675	-	366,675	-
Federal Home Loan Bank stock	8,651	-	8,651	-
Accrued interest receivable	1,866	-	1,866	-
Financial liabilities:				
Deposits	451,736	-	451,736	-
Advances from the Federal Home Loan Bank	24,889	-	24,889	-
Advances by borrowers for taxes and insurance	1,035	-	1,035	-
Accrued interest payable	54	-	54	-

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

	Total	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant other unobservable inputs (Level 3)**
	(In thousands)			
December 31, 2014:				
Financial assets:				
Cash and cash equivalents	$42,439	$ 42,439	$ -	$ -
Mortgage-backed securities	-	-	-	-
Loans receivable - net	358,500	-	358,500	-
Federal Home Loan Bank stock	8,651	-	8,651	-
Accrued interest receivable	1,801	-	1,801	-
Financial liabilities:				
Deposits	451,165	-	451,165	-
Advances from the Federal Home Loan Bank	15,726	-	15,726	-
Advances by borrowers for taxes and insurance	2,651	-	2,651	-
Accrued interest payable	58	-	58	-

10. Intangible Assets

The Corporation recorded goodwill and other intangibles associated with the purchase of First Franklin Corporation and Franklin Savings and Loan in March 2011 totaling $11.6 million. Goodwill is not amortized, but is periodically evaluated for impairment. The Corporation did not recognize any impairment during the six months ended June 30, 2015. The carrying amount of the goodwill at June 30, 2015 was $10.3 million.

Identifiable intangibles are amortized to their estimated residual values over the expected useful lives. Such lives are also periodically reassessed to determine if any amortization period adjustments are required. During the quarter ended June 30, 2015, no such adjustments were recorded. The identifiable intangible asset consists of a core deposit intangible which is being amortized on an accelerated basis over the useful life of such asset. The gross carrying amount of the core deposit intangible at June 30, 2015 was $1.3 million with $968,000 in accumulated amortization as of that date.

As of June 30, 2015, the current year and estimated future amortization expense for the core deposit intangible was:

	(In thousands)
2015	$ 55
2016	110
2017	110
2018	55
Total	**$ 330**

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

11. Financing Receivables

The recorded investment in loans was as follows as of June 30, 2015:

	One-to four Family Residential	**Multi-family Residential**	**Construction**	**Commercial**	**Consumer**	**Total**
			(In thousands)			
Purchased loans	$ 57,980	$ 3,197	$ -	$ 22,979	$ 131	$ 84,287
Fair value discount -Credit impaired purchased loans	(937)	(1)	-	(301)	-	(1,239)
Fair value discount –Non-impaired purchased loans	(210)	(22)	-	(86)	(10)	(328)
Purchased loans book value(3)	56,833	3,174	-	22,592	121	82,720
Originated loans (1)	167,059	24,345	20,530 (2)	73,522	2,085	287,541
Ending balance	**$ 223,892**	**$ 27,519**	**$ 20,530**	**$ 96,114**	**$ 2,206**	**$ 370,261**

(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 June 30, 2015.

Credit

	Non-impaired Purchased Loans	Impaired Purchased Loans
	(In thousands)	
One-to-four family residential	$52,998	$ 3,835
Multi-family residential	2,814	360
Construction	-	-
Commercial	16,630	5,962
Consumer	120	1
Total	**$72,562**	**$ 10,158**

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

11. Financing receivables (continued)

Activity during 2015 for the accretable discount related to acquired credit impaired loans is as follows:

	(In thousands)
Accretable discount at December 31, 2014:	$ 6,205
Reclass from nonaccretable difference to accretable discount	-
Less transferred to other real estate owned	-
Less accretion	(373)
Accretable discount at June 30, 2015:	**$ 5,832**

The recorded investment in loans was as follows as of June 30, 2015. Subsequent to acquisition, we regularly evaluate our estimates of cash flows expected to be collected on purchased impaired loans. If we have probable decreases in cash flows expected to be collected (other than due to decreases in interest rate indices and changes in prepayment assumptions), we charge the provision for credit losses, resulting in an increase to the allowance for loan losses. If we have probable and significant increases in cash flows expected to be collected, we first reverse any previously established allowance for loan losses and then increase interest income as a prospective yield adjustment over the remaining life of the loan, or pool of loans. Estimates of cash flows are impacted by changes in interest rate indices for variable rate loans and prepayment assumptions, both of which are treated as prospective yield adjustments included in interest income. Cheviot Financial's allowance at June 30, 2015 does not include any credit quality discount related to loans acquired from First Franklin, other than $598,000 for certain one-to-four family residential and nonresidential and commercial real estate loans. Due to uncertainties in the evaluation of allowance for loan loss, it is at least reasonably possible that management's estimate of the outcome will change within the next year.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

11. Financing receivables (continued)

The following summarizes activity in the allowance for credit losses:

	June 30, 2015					
	One-to four-Family Residential (In thousands)	**Multi-family Residential**	**Construction**	**Commercial**	**Consumer**	**Total**
Allowance for loan losses:						
Beginning balance	$1,813	$ 209	$7	$ 199	$ 8	$2,236
Provision	109	(51)	4	362	(1)	423
Charge-offs	(286)	-	-	(80)	-	(366)
Recoveries	87	-	-	4	1	92
Ending balance	**$1,723**	**$ 158**	**$11**	**$ 485**	**$ 8**	**$2,385**
Originated loans:						
Individually evaluated for impairment	$154	$ -	$-	$ 7	$ -	$161
Purchased loans:						
Individually evaluated for impairment	$98	$ -	$-	$ 51	$ -	$149
Originated loans:						
Collectively evaluated for impairment	$1,102	$ 158	$11	$ 347	$ 8	$1,626
Purchased loans:						
Loans acquired with deteriorated credit quality	$369	$ -	$-	$ 80	$ -	$449

Loans receivable:

Ending balance	$223,892	$ 27,519	$20,530	$ 96,114	$ 2,206	$370,261
Ending balance: Individually evaluated for impairment	$4,874	$ 193	$-	$ 585	$ -	$5,652
Ending balance: Collectively evaluated for impairment	$215,183	$ 26,966	$20,530	$ 89,567	$ 2,205	$354,451
Ending balance: Loans acquired with deteriorated credit quality	$3,835	$ 360	$-	$ 5,962	$ 1	$10,158

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

11. Financing receivables (continued)

	December 31, 2014					
	One-to four Family Residential	**Multi-family Residential**	**Construction**	**Commercial**	**Consumer**	**Total**
	(In thousands)					
Allowance for loan losses:						
Beginning balance	$1,352	$ 194	$9	$ 131	$ 11	$1,697
Provision	947	15	(2)	64	-	1,024
Charge-offs	(520)	-	-	(39)	(3)	(562)
Recoveries	34	-	-	43	-	77
Ending balance	**$1,813**	**$ 209**	**$7**	**$ 199**	**$ 8**	**$2,236**
Originated loans: Individually evaluated for impairment	$238	$ -	$-	$ 7	$ -	$245
Purchased loans: Individually evaluated for impairment	$135	$ -	$-	$ -	$ -	$135
Originated Loans: Collectively evaluated for impairment	$1,005	$ 209	$7	$ 151	$ 8	$1,380
Purchased loans: Loans acquired with deteriorated credit quality	$435	$ -	$-	$ 41	$ -	$476
Loans receivable:						
Ending balance	$231,626	$ 20,501	$8,327	$ 81,357	$ 921	$342,732

Ending balance: Individually evaluated for impairment	$3,750	$ 95	$-	$ 817	$ -	$4,662
Ending balance: Collectively evaluated for impairment	$223,846	$ 20,046	$8,327	$ 74,211	$ 920	$327,350
Ending balance: Loans acquired with deteriorated credit quality	$4,030	$ 360	$-	$ 6,329	$ 1	$10,720

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

11. Financing receivables (continued)

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

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

	Originated Loans at June 30, 2015					
	One-to four-Family Residential	**Multi-family Residential**	**Construction**	**Commercial**	**Consumer**	**Total**
	(In thousands)					
Grade:						
Pass	$ 163,955	$ 24,152	$20,530	$ 72,517	$ 2,085	$283,239
Special mention	-	-	-	-	-	-
Substandard	3,104	193	-	1,005	-	4,302
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	**$ 167,059**	**$ 24,345**	**$20,530**	**$ 73,522**	**$ 2,085**	**$287,541**

Originated Loans at December 31, 2014

	One-to four Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
			(In thousands)			
Grade:						
Pass	$ 165,711	$ 17,090	$8,327	$ 56,191	$ 802	$248,121
Special mention	-	-	-	-	-	-
Substandard	2,407	95	-	1,022	-	3,524
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	**$ 168,118**	**$ 17,185**	**$8,327**	**$ 57,213**	**$ 802**	**$251,645**

			Purchased Loans at June 30, 2015			
	One-to four-Family Residential	**Multi-family Residential**	**Construction**	**Commercial**	**Consumer**	**Total**
			(In thousands)			
Grade:						
Pass	$ 54,131	$ 3,174	$-	$ 19,279	$ 121	$76,705
Special mention	-	-	-	-	-	-
Substandard	2,702	-	-	3,313	-	6,015
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	**$ 56,833**	**$ 3,174**	**$-**	**$ 22,592**	**$ 121**	**$82,720**

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

11. Financing receivables (continued)

Purchased Loans at December 31, 2014

	One-to four Family Residential	**Multi-family Residential**	**Construction**	**Commercial**	**Consumer**	**Total**
	(In thousands)					
Grade:						
Pass	$60,918	$ 3,316	$ -	$ 20,441	$ 18	$84,693
Special mention	-	-	-	-	-	-
Substandard	2,590	-	-	3,703	101	6,394
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	**$63,508**	**$ 3,316**	**$ -**	**$ 24,144**	**$ 119**	**$91,087**

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

Age Analysis of Past Due Originated Loans Receivable

As of June 30, 2015

	>30-89 Days	**90 Days**	**Total Past**	**Current**	**Total Loan**	**Recorded Investment 90 Days and**

	Past Due	or more	Due	& Accruing	Nonaccrual	Receivables	Accruing
	(In thousands)						
Real Estate:							
1-4 family Residential	$574	$1,298	$1,872	$ 164,408	$ 2,402	$ 167,059	$ -
Multi-family	-	193	193	24,152	193	24,345	-
Construction	-	-	-	20,530	-	20,530	-
Commercial	-	161	161	73,361	161	73,522	-
Consumer	-	-	-	2,085	-	2,085	-
Total	**$574**	**$1,652**	**$2,226**	**$ 284,536**	**$ 2,756**	**$ 287,541**	**$ -**

Age Analysis of Past Due Originated Loans Receivable

As of December 31, 2014

	>30-89 Days Past Due	90 Days or more	Total Past Due	Current & Accruing	Nonaccrual	Total Loan Receivables	Recorded Investment 90 Days and Accruing
	(In thousands)						
Real Estate:							
1-4 family Residential	$999	$1,317	$2,316	$ 165,088	$ 2,031	$ 168,118	$ -
Multi-family	-	95	95	17,090	95	17,185	-
Construction	-	-	-	8,327	-	8,327	-
Commercial	-	143	143	57,051	162	57,213	
Consumer	-	-	-	802	-	802	-
Total	**$999**	**$1,555**	**$2,554**	**$ 248,358**	**$ 2,288**	**$ 251,645**	**$ -**

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

11. Financing receivables (continued)

Age Analysis of Past Due Purchased Loans Receivable

As of June 30, 2015

	>30-89 Days Past Due	90 Days or More	Total Past Due	Current & Accruing	Nonaccrual	Total Loan Receivables	Recorded Investment 90 Days and Accruing
	(In thousands)						
Real Estate:							
1-4 family Residential	$892	$1,746	$ 2,638	$ 53,680	$ 2,297	$ 56,833	$ -
Multi-family	-	-	-	3,174	-	3,174	-
Construction	-	-	-	-	-	-	-
Commercial	78	388	466	22,090	424	22,592	-
Consumer	-	-	-	121	-	121	-
Total	**$970**	**$2,134**	**$ 3,104**	**$ 79,065**	**$ 2,721**	**$ 82,720**	**$ -**

Age Analysis of Past Due Purchased Loans Receivable

As of December 31, 2014

Recorded Investment

	30-89 Days Past Due	**90 Days or More**	**Total Past Due**	**Current & Accruing**	**Nonaccrual**	**Total Loan Receivables**	**90 Days and Accruing**
	(In thousands)						
Real Estate:							
1-4 family Residential	$1,846	$1,737	$ 3,583	$ 59,518	$ 2,144	$ 63,508	$ -
Multi-family	-	-	-	3,316	-	3,316	-
Construction	-	-	-	-	-	-	-
Commercial	187	619	806	23,302	655	24,144	-
Consumer	-	-	-	119	-	119	-
Total	**$2,033**	**$2,356**	**$ 4,389**	**$ 86,255**	**$ 2,799**	**$ 91,087**	**$ -**

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

11. Financing receivables (continued)

	Impaired Loans As of June 30, 2015				
	Recorded Investment (In thousands)	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
Purchased loans with a credit quality discount and no related allowance recorded:					
Real Estate:					
1-4 family Residential	$3,808	$3,808	$-	$3,892	$30
Multi-family	360	360	-	360	3
Construction	-	-	-	-	-
Commercial	5,962	5,962	-	6,146	23
Consumer	1	1	-	1	-
Total	**$10,131**	**$10,131**	**$-**	**$10,399**	**$56**
Purchased loans with a credit quality discount and an allowance recorded:					
Real Estate:					
1-4 family Residential	$27	$27	$12	$40	$-
Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	**$27**	**$27**	**$12**	**$40**	**$-**
Purchased loans with no credit quality discount and no related allowance recorded:					
Real Estate:					
1-4 family Residential	$1,984	$1,984	$-	$1,652	$-

Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	133	133	-	394	-
Consumer	-	-	-	-	-
Total	**$2,117**	**$2,117**	**$-**	**$2,046**	**$-**
Purchased loans with an allowance recorded:					
Real Estate:					
1-4 family	$488	$488	$86	$545	$-
Residential					
Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	291	291	51	342	-
Consumer	-	-	-	-	-
Total	**$779**	**$779**	**$137**	**$887**	**$-**

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

11. Financing receivables (continued)

	Recorded Investment (In thousands)	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
Originated loans with no related allowance recorded					
Real Estate:					
1-4 family Residential	$1,814	$1,814	$-	$1,589	$-
Multi-family Residential	193	193	-	144	-
Construction	-	-	-	-	-
Commercial	114	114	-	115	-
Consumer	-	-	-	-	-
Total	**$2,121**	**$2,121**	**$-**	**$1,848**	**$-**
Originated loans with an allowance recorded:					
Real Estate:					
1-4 family Residential	$588	$588	$154	$627	$-
Multi-family Residential	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	47	47	7	47	-
Consumer	-	-	-	-	-
Total	**$635**	**$635**	**$161**	**$674**	**$-**
Total:					
Real Estate:					
1-4 family Residential	$8,709	$8,709	$252	$8,345	$30
Multi-family Residential	553	553	-	504	3

Construction	-	-	-	-	-
Commercial	6,547	6,547	58	7,044	23
Consumer	1	1	-	1	-
Total	**$15,810**	**$15,810**	**$310**	**$15,894**	**$56**

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

11. Financing receivables (continued)

	Recorded Investment	Impaired Loans As of December 31, 2014 Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
		(In thousands)			
Purchased loans with a credit quality discount and no related allowance recorded:					
Real Estate:					
1-4 family Residential	$ 3,977	$ 3,977	$ -	$ 3,578	$ 61
Multi-family	360	360	-	708	-
Construction	-	-	-	-	-
Commercial	6,329	6,329	-	6,460	286
Consumer	1	1	-	1	-
Total	**$ 10,667**	**$ 10,667**	**$ -**	**$ 10,747**	**$ 347**
Purchased loans with a credit quality discount and an allowance recorded:					
Real Estate:					
1-4 family Residential	$ 53	$ 53	$ 19	$ 16	$ -
Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	**$ 53**	**$ 53**	**$ 19**	**$ 16**	**$ -**
Purchased loans with no credit quality discount and no related allowance recorded:					
Real Estate:					
1-4 family Residential	$ 1,080	$ 1,080	$ -	$ 1,863	$ 23

Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	655	655	-	328	10
Consumer	-	-	-	8	-
Total	**$ 1,735**	**$1,735**	**$ -**	**$ 2,199**	**$ 33**
Purchased loans with an allowance recorded:					
Real Estate:					
1-4 family Residential	$ 639	$639	$ 113	$ 263	$ 12
Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	**$ 639**	**$639**	**$ 113**	**$ 263**	**$ 12**

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

11. Financing receivables (continued)

	Impaired Loans As of December 31, 2014				
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
	(In thousands)				
Originated loans with no related allowance recorded					
Real Estate:					
1-4 family					
Residential	$1,365	$ 1,365	$ -	$ 1,786	$ 30
Multi-family	95	95	-	95	-
Construction	-	-	-	-	-
Commercial	115	115	-	397	7
Consumer	-	-	-	-	-
Total	**$1,575**	**$ 1,575**	**$ -**	**$ 2,278**	**$ 37**
Originated loans with an allowance recorded:					
Real Estate:					
1-4 family					
Residential	$666	$ 666	$ 238	$ 214	$ 9
Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	47	47	7	20	-
Consumer	-	-	-	-	-
Total	**$713**	**$ 713**	**$ 245**	**$ 234**	**$ 9**
Total:					
Real Estate:					
1-4 family					
Residential	$7,780	$ 7,780	$ 370	$ 7,720	$ 135
Multi-family	455	455	-	803	-
Construction	-	-	-	-	-

Commercial	7,146	7,146	7	7,205	303
Consumer	1	1	-	9	-
Total	**$15,382**	**$ 15,382**	**$ 377**	**$ 15,737**	**$ 438**

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

11. Financing receivables (continued)

	Modifications As of June 30, 2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars in thousands)	
Troubled Debt Restructurings			
Real Estate:			
1-4 Family Residential	4	$ 430	$ 430
Multi-family Residential	-	-	-
Construction	-	-	-
Commercial	-	-	-
Consumer	-	-	-

	Modifications For the six months ended June 30, 2015	
	Number of Contracts	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted		
Real Estate:		
1-4 Family Residential	-	$ -
Multi-family Residential	-	-
Construction	-	-

Commercial	-	-
Consumer	-	-

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2015 and 2014

11. Financing receivables (continued)

	Modifications As of December 31, 2014		
	Number of Contracts	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
		(In thousands)	
Troubled Debt Restructurings			
Real Estate:			
1-4 Family Residential	8	$ 2,529	$ 2,529
Multi-family Residential	-	-	-
Construction	-	-	-
Commercial	1	100	100
Consumer	-	-	-

	Number of Contracts	**Recorded Investment**
		(In thousands)
Troubled Debt Restructurings That Subsequently Defaulted		
Real Estate:		
1-4 Family Residential	5	$ 724
Multi-family Residential	-	-
Construction	-	-
Commercial	1	99
Consumer	-	-

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

Cheviot Financial Corp.

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

Forward Looking Statements

This report on Form 10-Q contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include, among other things:

- statements of our goals, intentions and expectations;
- statements regarding our business plans and prospects and growth and operating strategies;
- statements concerning trends in our provision for loan losses and charge-offs;
- statements regarding the trends in factors affecting our financial condition and results of operations, including asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors that could affect the actual outcome of future events: significantly increased competition among depository and other financial institutions; inflation and changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments; general economic conditions, either nationally or in our market areas, including employment prospects, real estate values and conditions that are worse than expected; decreased demand for our products and services and lower revenue and earnings because of a recession or other events; adverse changes and volatility in the securities markets or credit markets; legislative or regulatory changes that adversely affect our business, including changes in regulatory costs and capital requirements; our ability to enter new markets successfully and take advantage of growth opportunities, and the possible short-term dilutive effect of potential acquisitions or de novo branches, if any; changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board or the Public Company Accounting Oversight Board; changes in monetary and fiscal policy of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve and changes in the level of government support of housing finance; changes in policy and/or assessment rates of taxing authorities that adversely affect us; changes in our organization, or compensation and benefit plans and changes in expense trends (including, but not limited to trends affecting non-performing assets, charge-offs and provisions for loan losses); the impact of the governmental effort to restructure the U.S. financial and regulatory system, including the extensive reforms enacted in the Dodd-Frank Act and the continuing impact of our coming under the jurisdiction of new federal regulators; the inability of third-party providers to perform their obligations to us; and the ability of the U.S. Government to manage federal debt limits.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by any forward-looking statements. Any forward-looking statement made by us in this report speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise, except as may be required by law.

Cheviot Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (CONTINUED)

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 for fair value estimations to be the 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 underlying collateral, the financial strength of the borrower, results of internal loan review and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change.

The analysis has two components, specific and general allocations. Specific allocations are made for unconfirmed losses related to loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. If the fair value of the loan is less than the loan's carrying value, a charge-off is recorded for the difference. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. 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 allowance. 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.

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 fair value 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 fair value discount.

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Cheviot Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (CONTINUED)

Critical Accounting Policies (continued)

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 June 30, 2015 and December 31, 2014

At June 30, 2015, total assets were $581.0 million, compared with $571.2 million at December 31, 2014. Total assets increased $9.8 million, or 1.7%, primarily due to an increase in loans receivable of $17.4 million, which was partially offset by a decrease in investment securities of $10.8 million. The increase in loans receivable resulted from loan originations of $81.5 million, which was partially offset by the sale of loans in the secondary market of $24.3 million and principal repayments of $39.8 million.

Cash, federal funds and interest-earning deposits increased $4.0 million, or 9.5% to $46.5 million at June 30, 2015. The increase in cash and cash equivalents at June 30, 2015 was due to a $14.7 million increase in cash and due from banks and an increase of $4.3 million in interest-earning deposits, which was partially offset by a decrease in federal funds sold of $14.9 million.

The decrease in investment securities was a result of investment securities called at par of $35.7 million, which was partially offset by purchases of $25.0 million in securities designated as available for sale. At June 30, 2015, all investment securities were classified as available for sale. During this period of prolonged low interest rates the Bank is investing in shorter-term and more liquid investments in order to be prepared for investment opportunities when interest rates begin to increase.

Cheviot Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (CONTINUED)

Discussion of Financial Condition Changes at June 30, 2015 and December 31, 2014 (continued)

Mortgage-backed securities decreased $926,000, or 9.9%, to $8.5 million at June 30, 2015, from $9.4 million at December 31, 2014. The decrease in mortgage-backed securities was due primarily to $963,000 in principal repayments. At June 30, 2015, all mortgage-backed securities were classified as available for sale.

Loans receivable, including loans held for sale, increased $17.4 million, or 5.2%, to $354.5 million at June 30, 2015, from $337.1 million at December 31, 2014. The increase in loans receivable resulted from loan originations of $81.5 million, which was partially offset by the sale of loans in the secondary market of $24.3 million and principal repayments of $39.8 million.

The allowance for loan losses totaled $2.4 million and $2.2 million at June 30, 2015 and December 31, 2014, 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. The $423,000 provision for losses on loans during the six months ended June 30, 2015 reflected these factors. The analysis of the allowance for loan losses requires an element of judgment and is subject to the possibility that the allowance may need to be increased, with a corresponding reduction in earnings. To the best of management's knowledge, all known and inherent losses that are probable and that can be reasonably estimated have been recorded at June 30, 2015.

Originated non-performing and impaired loans totaled $2.8 million and $2.3 million at June 30, 2015 and December 31, 2014, respectively. At June 30, 2015, originated non-performing and impaired loans were comprised of 31 loans secured by one- to four-family residential real estate totaling $2.4 million, one multi-family loan totaling $193,000 and three commercial and non-residential loans totaling $161,000. At June 30, 2015 and December 31, 2014 real estate acquired through foreclosure was $1.7 million and $1.8 million, respectively. The allowance for loan losses represented 64.8% and 71.0% of Cheviot Financial's originated non-performing and impaired loans at June 30, 2015 and December 31, 2014, 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 totaled $452.2 million at June 30, 2015, an increase of $453,000, or 0.1% from $451.8 million at December 31, 2014. Advances from the Federal Home Loan Bank of Cincinnati increased by $10.4 million, or 70.3%, to $25.3 million at June 30, 2015, from $14.9 million at December 31, 2014. The increase is a result of new advances of $12.0 million, which were partially offset by $1.5 million in repayments during the six months ended June 30, 2015. The increase in borrowings were used to fund the increase in loans receivable, described above.

Cheviot Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (CONTINUED)

Discussion of Financial Condition Changes at June 30, 2015 and December 31, 2014 (continued)

Shareholders' equity at June 30, 2015 was $96.1 million, a decrease of $119,000, or 0.1%, from December 31, 2014. The decrease primarily resulted from dividend payments on common stock of $1.3 million, which was partially offset by net earnings of $549,000 and common stock issued for stock options exercised of $535,000. At June 30, 2015, tangible book value per share was $12.57 as compared to $12.72 at December 31, 2014. Tangible book value per share was affected by the decrease in the fair market value of investment securities designated as available for sale as other comprehensive loss increased during the 2015 period. At June 30, 2015 other comprehensive loss was $1.6 million. Over time, the impact of the other comprehensive loss on our tangible book value per share would decrease as investments are called or mature at par, however, a sudden increase in interest rates can have an adverse effect, as increases in rates may increase accumulated comprehensive loss.

Liquidity

We monitor our liquidity position on a daily basis using reports that summarize all deposit activity and loan commitments. A significant portion of our deposit base is comprised of time deposits. At June 30, 2015, $101.4 million of time deposits are due to mature within one year. 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. At June 30, 2015, we had loan commitments of $5.8 million. Our loan commitments are funded or expire within 45 days from the date of the commitment.

Cheviot Financial Corp. is a separate legal entity from Cheviot Savings Bank and must provide for its own liquidity to pay dividends and for other corporate purposes. Cheviot Financial Corp.'s primary source of liquidity is dividend payments from Cheviot Savings Bank. The ability of Cheviot Savings Bank to pay dividends is subject to regulatory requirements. At June 30, 2015, Cheviot Financial Corp. (on an unconsolidated basis) had liquid assets of $6.7 million.

Borrowings from the Federal Home Loan Bank of Cincinnati increased $10.4 million during the six months ended June 30, 2015. At June 30, 2015, we had the ability to increase such borrowings by approximately $143.3 million. The additional borrowings can be used to offset any decrease in customer deposits or to fund loan commitments. The Corporation’s other liabilities were primarily limited to $505,000 of lease obligations.

Comparison of Operating Results for the Six-Month Periods Ended June 30, 2015 and 2014

General

Net earnings for the six months ended June 30, 2015 totaled $549,000, a $793,000, or 59.1% decrease from the $1.3 million in net earnings reported for the June 2014 period. The decrease in net earnings reflects an increase of $517,000 in general, administrative and other expense, a decrease in other income of $516,000 and a decrease of $153,000 in net interest income, which were partially offset by a decrease in the provision for losses on loans of $132,000, and a decrease of $261,000 in the provision for federal income taxes. The reduction in net earnings for the six months ended June 30, 2015 was due primarily to the $765,000 payment we made to our former President and Chief Executive Officer as part of a previously announced settlement agreement executed in connection with his retirement.

Cheviot Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (CONTINUED)

Comparison of Operating Results for the Six-Month Periods Ended June 30, 2015 and 2014 (continued)

Net Interest Income

Total interest income decreased $227,000, or 2.4%, to $9.1 million for the six months ended June 30, 2015, from the comparable period in 2014. Interest income on loans decreased $31,000, or 0.4%, to $7.4 million during the 2015 period from the 2014 period. This decrease was due primarily to a 15 basis point decrease in the average yield to 4.32% from 4.47% in the 2014 period, which was partially offset by an $11.4 million increase in the average balance of loans outstanding.

Interest income on mortgage-backed securities decreased $32,000, or 28.6%, to $80,000 for the six months ended June 30, 2015, from $112,000 for the 2014 period, due primarily to a decrease of $3.2 million in the average balance of securities outstanding and by a seven basis point decrease in yield period over period. Interest income on investment securities decreased $170,000, or 11.0%, to $1.4 million for the six months ended June 30, 2015, compared to $1.5 million for the same period in 2014, due primarily to a decrease of $16.1 million, or 10.8%, in the average balance of investment securities outstanding and by a one basis point decrease in the average yield to 2.06% for the 2015 period. Interest income on other interest-earning deposits increased $6,000, or 3.4%, to $184,000 for the six months ended June 30, 2015, as compared to the same period in 2014.

Interest expense decreased $74,000, or 4.1%, to $1.8 million for the six months ended June 30, 2015, from the comparable period in 2014. Interest expense on deposits decreased by $8,000, or 0.5%, to $1.5 million, due primarily to an $11.7 million decrease in the average balance outstanding, which was partially offset by a two basis point increase in the average costs of deposits to 0.68% during the 2015 period. Interest expense on borrowings decreased by $66,000, or 23.1%, due primarily to a $1.5 million, or 8.3%, decrease in the average balance outstanding and by a 51 basis point decrease in the average cost of borrowings.

As a result of the foregoing changes in interest income and interest expense, net interest income decreased by $153,000, or 2.1%, to $7.3 million for the six months ended June 30, 2015. The average interest rate spread decreased two basis points to 2.92% for the six months ended June 30, 2015 from 2.94% for the six months ended June 30, 2014. The net interest margin decreased to 2.96% for the six months ended June 30, 2015 from 2.97% for the six months ended June 30, 2014.

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 $423,000 provision for losses on loans for the six months ended June 30, 2015 and $555,000 for the six months ended June 30, 2014. Non-performing originated loans were 1.0% and 0.9% of net originated loans at June 30, 2015 and December 31, 2014, respectively. The 2015 provision for loan losses reflects the amount necessary to maintain an adequate allowance based on the Corporation's historical loss experience and other external factors. These other external factors, economic conditions, and collateral value changes, have had a negative impact on non-owner-occupied loans in the portfolio. There can be no assurance that the loan loss allowance will be sufficient to cover losses on non-performing loans in the future; however, management believes they have identified all known and inherent losses that are probable and that can be reasonably estimated within the loan portfolio, and that the allowance is adequate to absorb such losses.

Cheviot Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (CONTINUED)

Comparison of Operating Results for the Six-Month Periods Ended June 30, 2015 and 2014 (continued)

Other Income

Other income decreased $516,000, or 26.1%, to $1.5 million for the six months ended June 30, 2015, compared to the same period in 2014 The decrease is due primarily due to the absence during the 2015 period of a gain on sale of investment securities designated as available-for-sale of $722,000 and a decrease of $48,000 in service fee income, which was partially offset by a $298,000 increase in the gain on sale of loans.

General, Administrative and Other Expense

General, administrative and other expense increased $517,000, or 7.4%, to $7.5 million for the six months ended June 30, 2015, from $7.0 million for the comparable period in 2014. This increase is primarily a result of an increase in employee compensation and benefits of $994,000, an increase of $75,000 in property, payroll and other taxes and an increase in data processing of $77,000, which was partially offset by a decrease of $375,000 in real estate owned impairment, a decrease of $86,000 in occupancy and equipment expense and a decrease of $46,000 in FDIC expense.

As previously announced, on February 3, 2015 we entered into a severance agreement (the "Agreement") with our former President and Chief Executive Officer in connection with his retirement, in exchange for which we paid the former President and Chief Executive officer a total of approximately $765,000 upon his retirement. The execution of this Agreement and resulting payments caused the majority of the increase in employee compensation and benefits and related property, payroll and other taxes for the six months ended June 30, 2015.

Federal Income Taxes

The provision for federal income taxes decreased $261,000, or 47.5%, for the six months ended June 30, 2015. Cheviot Financial has approximately $1.7 million in remaining operating loss carryforwards to offset future taxable income for 18 years. These losses are subject to the Internal Revenue Code Section 382 net operating loss limitations of $1.1 million allowed on an annual basis. The effective tax rate for the six months ended June 30, 2015 and 2014 was 34.4% and 29.0%, respectively.

Comparison of Operating Results for the Three-Month Periods Ended June 30, 2015 and 2014

General

Net earnings for the three months ended June 30, 2015 totaled $548,000, a $21,000 increase from the $527,000 earnings reported in the June 2014 period. The increase in net earnings reflects a decrease in general, administrative and other expenses of $144,000, a decrease of $75,000 in the provision for losses on loans and an increase of $19,000 in net interest income, which were partially offset by a decrease in other income of $154,000 and by an increase of $63,000 in the provision for federal income taxes.

Total interest income decreased $25,000, or 0.5%, to $4.6 million for the three months ended June 30, 2015, from the comparable quarter in 2014. Interest income on loans increased $92,000, or 2.5%, to $3.8 million during the 2015 quarter from $3.7 million for the 2014 quarter. This increase was due primarily to a $19.6 million, or 5.9% increase in the average balance of loans outstanding, which was partially offset by a 12 basis point decrease in the average yield on loans to 4.32% for the 2015 quarter from 4.44% for the three months ended June 30, 2014.

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 June 30, 2015 and 2014 (continued)

Net Interest Income

Interest income on mortgage-backed securities decreased $12,000, or 23.1%, to $40,000 for the three months ended June 30, 2015, from $52,000 for the comparable 2014 quarter, due primarily to a $3.1 million, or 26.3% decrease in the average balance of securities outstanding, which was partially offset by an eight basis point increase in the average yield. Interest income on investment securities decreased $107,000, or 13.4%, to $689,000 for the three months ended June 30, 2015, compared to $796,000 for the same quarter in 2014, due primarily to a decrease of $12.3 million, or 8.3% in the average balance of investment securities outstanding and by an 12 basis point decrease in the average yield to 2.04% in the 2015 quarter. Interest income on other interest-earning deposits increased $2,000, or 2.2% to $92,000 for the three months ended June 30, 2015.

Interest expense decreased $44,000, or 4.9% to $861,000 for the three months ended June 30, 2015, from $905,000 for the same quarter in 2014. Interest expense on deposits decreased by $15,000, or 2.0%, to $753,000, from $768,000, due primarily to a $12.2 million decrease in the average balance of deposits outstanding. Interest expense on borrowings decreased by $29,000, or 21.2%, due primarily to a 85 basis point decrease in the average cost of borrowings, which was partially offset by a $1.2 million increase in the average balance outstanding.

As a result of the foregoing changes in interest income and interest expense, net interest income increased by $19,000, or 0.5%, to $3.7 million for the three months ended June 30, 2015, as compared to the same quarter in 2014. The average interest rate spread decreased to 2.90% for the three months ended June 30, 2015 from 2.95% for the three months ended June 30, 2014. The net interest margin decreased to 2.94% for the three months ended June 30, 2015 from 2.98% for the three months ended June 30, 2014.

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 $280,000 provision for losses on loans for the three months ended June 30, 2015 and $355,000 for the three months ended June 30, 2014. Non-performing originated loans were 1.0% and 0.9% of net originated loans at June 30, 2015 and December 31, 2014, respectively. The 2015 provision for loan losses reflects the amount necessary to maintain an adequate allowance based on our historical loss experience and other external factors. These other external factors, economic conditions, and collateral value changes, have had a negative impact on non-owner-occupied loans in the portfolio. There can be no assurance that the loan loss allowance will be sufficient to cover losses on non-performing loans in the future; however, management believes they have identified all known and inherent losses that are probable and that can be reasonably estimated within the loan portfolio, and that the allowance is adequate to absorb such losses.

Other Income

Other income decreased $154,000, or 16.5%, to $781,000 for the three months ended June 30, 2015, compared to the same quarter in 2014. The decrease is due primarily to the absence of the gain on sale of investment securities of $281,000, which was partially offset by an increase in the gain on sale of loans of $159,000.

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 June 30, 2015 and 2014 (continued)

General, Administrative and Other Expense

General, administrative and other expense decreased $144,000, or 4.0%, to $3.4 million for of the three months ended June 30, 2015. This decrease is primarily a result of the absence of $297,000 in real estate owned impairment and a decrease in other operating expense of $109,000, which were partially offset by an increase in employee compensation and benefits of $197,000, an increase of $51,000 in property, payroll and other taxes and an increase in data processing of $38,000.

Federal Income Taxes

The provision for federal income taxes increased $63,000, or 31.0%, for the three months ended June 30, 2015. Cheviot Financial has approximately $1.7 million in remaining operating loss carryforwards to offset future taxable income for 18 years. These losses are subject to the Internal Revenue Code Section 382 net operating loss limitations of $1.1 million allowed on an annual basis. The effective tax rate for the three months ended June 30, 2015 and 2014 was 32.7% and 27.8%, respectively.

Cheviot Financial Corp.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the Corporation’s market risk since the Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2014.

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, as of the end of the period covered by this Quarterly Report, the Corporation’s disclosure controls and procedures are effective.

There were no changes in the Corporation’s internal control over financial reporting during the quarter ended June 30, 2015, or in other factors that has materially affected, or could reasonably be likely to materially affect, these controls subsequent to the date of their evaluation by the Corporation’s Chief Executive Officer and Chief Financial Officer.

Cheviot Financial Corp.

PART II

ITEM 1. Legal Proceedings

None.

ITEM 1A. Risk Factors

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

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

On October 15, 2013, the Corporation amended the authorization of a stock repurchase plan. Under this program the Corporation is authorized to repurchase 341,845 shares constituting 5% of the outstanding shares of common stock. As of June 30, 2015, the Corporation had repurchased 127,000 shares at an average price of $11.37.

During the three months ended June 30, 2015, there were no stock repurchases in accordance with the stock repurchase plan.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable

ITEM 5. Other Information

None.

ITEM 6. Exhibits

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

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

Cheviot Financial Corp.

PART II (Continued)

101	The following financial statements of the Corporation at June 30, 2015 and December 31, 3014, and for the three and six months ended June 30, 2015 and 2014 formatted in XBRL: Consolidated Statements of Financial Condition; Consolidated Statements of Earnings; Consolidated Statements of Comprehensive Income; Consolidated Statements of Cash Flows; and Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Cheviot Financial Corp.

Date:	August 7, 2015	By:	/s/ Mark T. Reitzes
			Mark T. Reitzes
			President and Chief Executive Officer
Date:	August 7, 2015	By:	/s/ Scott T. Smith
			Scott T. Smith
			Chief Financial Officer