Cheviot Financial Corp.
Form 10-Q
November 14, 2012

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

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from ____________ to _______________

Commission File No. 0-50529

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

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

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

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

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

Yes x No o

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

Yes x No o

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 o Accelerated filer o Non-accelerated filer o

Smaller reporting company x

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

Yes o No x

As of November 14, 2012, the latest practicable date, 7,596,537 shares of the registrant’s common stock, $.01 par value, were issued and outstanding.

INDEX

		Page
PART I -	FINANCIAL INFORMATION	
	Consolidated Statements of Financial Condition	3
	Consolidated Statements of Earnings	4
	Consolidated Statements of Comprehensive Income	5
	Consolidated Statements of Cash Flows	6
	Notes to Consolidated Financial Statements	8
	Management's Discussion and Analysis of Financial Condition and Results of Operations	36
	Quantitative and Qualitative Disclosures about Market Risk	46
	Controls and Procedures	46
PART II -	OTHER INFORMATION	47
SIGNATURES		49

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Cash and due from banks	$ 13,045	$ 11,023
Federal funds sold	13,454	18,019
Interest-earning deposits in other financial institutions	8,858	16,098
Cash and cash equivalents	35,357	45,140
Investment securities available for sale - at fair value	191,039	121,042
Mortgage-backed securities available for sale - at fair value	6,386	7,459
Mortgage-backed securities held to maturity - at cost, approximate market value of $3,920 and $4,315 at September 30, 2012 and December 31, 2011, respectively	3,730	4,167
Loans receivable - net	340,273	382,759
Loans held for sale - at lower of cost or market	3,563	1,537
Real estate acquired through foreclosure - net	3,719	3,795
Office premises and equipment - at depreciated cost	11,438	10,200
Federal Home Loan Bank stock - at cost	8,651	8,366
Accrued interest receivable on loans	1,406	1,614
Accrued interest receivable on mortgage-backed securities	22	27
Accrued interest receivable on investments and interest-earning deposits	538	498
Goodwill	10,309	10,309
Core deposit intangible - net	811	1,028
Prepaid expenses and other assets	3,242	4,330
Bank-owned life insurance	10,156	10,330
Prepaid federal income taxes	1,100	1,428
Deferred federal income taxes	1,694	2,275
Total assets	$ 633,434	$ 616,304
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$ 494,929	$ 492,321
Advances from the Federal Home Loan Bank	25,399	31,327
Advances by borrowers for taxes and insurance	1,669	2,464
Accrued interest payable	108	118
Accounts payable and other liabilities	3,951	4,521
Total liabilities	526,056	530,751
Commitments and contingencies	-	12,643

Shareholders’ equity		
Preferred stock - authorized 5,000,000 shares, $.01 par value; none issued		
Common stock - authorized 30,000,000 shares, $.01 par value;		
7,596,557 and 9,918,751 shares issued at September 30, 2012 and December 31, 2011	76	99
Additional paid-in capital	64,282	43,866
Shares acquired by stock benefit plans	(877)	(913)
Treasury stock - at cost, 0 shares at September 30, 2012 and 1,053,843 shares at December 31, 2011	-	(12,860)
Retained earnings - restricted	43,206	42,440
Accumulated comprehensive income, unrealized gains on securities available for sale, net of related tax effects	691	278
Total shareholders’ equity	107,378	72,910
Total liabilities and shareholders’ equity	$633,434	$616,304

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	Nine months ended September 30,		Three months ended September 30,	
	2012	2011	2012	2011
	(Unaudited)			
Interest income				
Loans	$13,824	$14,236	$4,405	$5,384
Mortgage-backed securities	158	208	49	70
Investment securities	2,124	1,624	811	591
Interest-earning deposits and other	291	222	103	85
Total interest income	16,397	16,290	5,368	6,130
Interest expense				
Deposits	3,621	3,503	1,143	1,286
Borrowings	709	912	220	297
Total interest expense	4,330	4,415	1,363	1,583
Net interest income	12,067	11,875	4,005	4,547
Provision for losses on loans	990	400	590	200
Net interest income after provision for losses on loans	11,077	11,475	3,415	4,347
Other income (expense)				
Rental	101	91	29	33
Gain on sale of loans	1,144	429	592	204
Gain (loss) on sale of real estate acquired through foreclosure	60	75	21	(47)
Earnings on bank-owned life insurance	229	208	84	84
Gain on death benefits from life insurance	492	-	-	-
Other operating	1,264	1,086	410	428
Total other income	3,290	1,889	1,136	702
General, administrative and other expense				
Employee compensation and benefits	4,745	4,774	1,590	1,652
Occupancy and equipment	1,278	948	426	413
Property, payroll and other taxes	1,063	892	421	294
Data processing	474	381	164	161
Legal and professional	656	712	262	170
Advertising	225	367	75	87
FDIC expense	326	481	98	177
Other operating	2,121	1,651	822	682
Total general, administrative and other expense	10,888	10,206	3,858	3,636

Earnings before income taxes	3,479	3,158	693	1,413
Federal income taxes				
Current	522	(243)	265	168
Deferred	368	977	(71)	276
Total federal income taxes	890	734	194	444
NET EARNINGS	$2,589	$2,424	$499	$969
EARNINGS PER SHARE				
Basic	$.35	$.28	$.07	$.11
Diluted	$.35	$.28	$.07	$.11
Dividends per common share	$.24	$.36	$.08	$.12

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the nine and three months ended September 30, 2012 and 2011
(In thousands)

	For the nine months ended September 30,		For the three months ended September 30,	
	2012	2011	2012	2011
	(Unaudited)			
Net earnings for the period	$2,589	$2,424	$499	$969
Other comprehensive income, net of tax expense:				
Unrealized holding gains on securities during the period, net of tax expense of $213 and $766 for the nine months ended September 30, 2012 and 2011, respectively, and $79 and $120 for the three months ended September 30, 2012 and 2011, respectively	413	1,486	154	232
Comprehensive income	$3,002	$3,910	$653	$1,201
Accumulated comprehensive income	$691	$435	$691	$435

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2012 and 2011
(In thousands)

	2012 (Unaudited)	2011
Cash flows from operating activities:		
Net earnings for the period	$2,589	$2,424
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization of premiums and discounts on investment and mortgage-backed securities, net	10	(81)
Depreciation	569	387
Amortization expense related to stock benefit plans	(8)	10
Amortization of deferred loan origination fees - net	33	88
Amortization of intangible assets	217	180
Amortization of fair value adjustments	(667)	(1,267)
Proceeds from sale of loans in the secondary market	55,185	37,186
Loans originated for sale in the secondary market	(55,883)	(34,897)
Gain on sale of loans	(1,144)	(429)
Gain on sale of real estate acquired through foreclosure	(60)	(75)
Impairment on real estate acquired through foreclosure	523	358
Net increase in cash surrender value of bank-owned life insurance	(229)	(208)
Provision for losses on loans	990	400
Increase (decrease) in cash, net of acquisition, due to changes in:		
Accrued interest receivable on loans	208	(20)
Accrued interest receivable on mortgage-backed securities	5	18
Accrued interest receivable on investments and interest-earning deposits	(40)	100
Prepaid expenses and other assets	1,088	267
Accrued interest payable	(10)	(692)
Accounts payable and other liabilities	(606)	(2,516)
Federal income taxes:		
Current	328	560
Deferred	368	977
Net cash provided by operating activities	3,466	2,770
Cash flows used in investing activities:		
Principal repayments on loans	72,697	33,500
Loan disbursements	(31,143)	(13,473)
Purchase of investment securities – available for sale	(193,192)	(28,346)
Proceeds from maturity of investment securities – available for sale	121,300	44,050
Principal repayments on mortgage-backed securities – available for sale	1,097	1,037
Principal repayments on mortgage-backed securities – held to maturity	437	439
Additions to real estate acquired through foreclosure	-	(100)
Proceeds from sale of real estate acquired through foreclosure	1,870	2,388
Purchase of office premises and equipment	(1,807)	(913)
Purchase of Federal Home Loan Bank stock	(285)	-

Proceeds from bank owned-life insurance	403	-
Cash paid for acquisition, net of cash received	-	(4,200)
Net cash (used in) provided by investing activities	(28,623)	34,382
Cash flows provided by financing activities:		
Net increase in deposits – net of acquisition	3,196	1,813
Proceeds from Federal Home Loan Bank advances – net of acquisition	-	11,000
Repayments on Federal Home Loan Bank advances – net of acquisition	(5,858)	(19,254)
Advances by borrowers for taxes and insurance – net of acquisition	(795)	(960)
Repayments on other borrowings	-	(1,490)
Proceeds from stock conversion	22,133	-
Shares acquired by stock benefit plans	(1,496)	-
Stock option expense, net	16	15
Dividends paid on common stock	(1,822)	(1,224)
Net cash provided by (used in) financing activities	15,374	(10,100)
Net (decrease) increase in cash and cash equivalents	(9,783)	27,052
Cash and cash equivalents at beginning of period	45,140	18,149
Cash and cash equivalents at end of period	$35,357	$45,201

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the nine months ended September 30, 2012 and 2011
(In thousands)

	2012 (Unaudited)	2011
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	$52	$235
Interest on deposits and borrowings	$4,340	$4,479
Supplemental disclosure of noncash investing activities:		
Transfer of loans to real estate acquired through foreclosure	$2,270	$2,350
Loans originated upon sales of real estate acquired through foreclosure	$-	$102
Recognition of mortgage servicing rights	$416	$140
Deferred gain on real estate acquired through foreclosure	$13	$-

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2012 and 2011

1. Basis of Presentation

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

On January 18, 2012 we completed our second step reorganization and sale of common stock. Prior to the completion of the second step conversion, Cheviot Financial was a federal corporation and mid-tier holding company. Following the reorganization Cheviot Financial is the Maryland chartered holding company of the Savings Bank. Reference to Cheviot Financial or the Corporation at December 31, 2011 or September 30, 2011 refer to the federal mid-tier corporation unless otherwise indicated shares outstanding and per share information at December 31, 2011 and September 30, 2011 has been adjusted to reflect the exchange ratio of 0.857%.

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

The accompanying unaudited financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Cheviot Financial included in the Annual Report on Form 10-K for the year ended December 31, 2011. However, in the opinion of management, all adjustments (consisting of only normal recurring accruals) which are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three and nine month periods ended September 30, 2012, are not necessarily indicative of the results which may be expected for the entire year.

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

2. Principles of Consolidation

The accompanying consolidated financial statements as of and for the three and nine months ended September 30, 2012 include the accounts of the Corporation and its wholly-owned subsidiary, the Savings Bank. All significant intercompany items have been eliminated.

3. Liquidity and Capital Resources

Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, scheduled amortization and prepayments of loan principal and mortgage-backed securities, maturities and calls of securities and funds provided by our operations. In addition, we may borrow from the Federal Home Loan Bank of Cincinnati. At September 30, 2012 and December 31, 2011, we had $25.4 million and $31.3 million, respectively, in outstanding borrowings from the Federal Home Loan Bank of Cincinnati and had the capacity to increase such borrowings at those dates by approximately $145.2 million and $160.6 million, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

3. Liquidity and Capital Resources (continued)

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

Our primary investing activities are the origination of one- to four-family real estate loans, commercial real estate, construction and consumer loans, and the purchase of securities. For the nine months ended September 30, 2012, loan originations totaled $87.0 million, compared to $48.4 million for the nine months ended September 30, 2011.

Total deposits increased $2.6 million and $222.5 million, including $221.5 million acquired in the acquisition of First Franklin during the nine months ended September 30, 2012 and 2011, respectively. Deposit flows are affected by the level of interest rates, the interest rates and products offered by competitors and other factors.

The following table sets forth information regarding the Corporation’s obligations and commitments to make future payments under contract as of September 30, 2012.

	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	$151	$4,411	$12,669	$8,168	$25,399
Certificates of deposit	125,169	91,687	49,393	3	266,252
Lease obligations	146	113	-	-	259
Amount of loan commitments and expiration per period:					
Commitments to originate one- to four-family loans	6,682	-	-	-	6,682
Home equity lines of credit	28,287	-	-	-	28,287
Commercial lines of credit	1,062	-	-	-	1,062
Undisbursed loans in process	422	-	-	-	422
Total contractual obligations	$161,919	$96,211	$62,062	$8,171	$328,363

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

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

3. Liquidity and Capital Resources (continued)

At September 30, 2012 and 2011, we exceeded all applicable regulatory capital requirements. Our core (Tier 1) capital was $78.2 million and $58.6 million, or 12.6% and 10.0% of total assets at September 30, 2012 and 2011, respectively. In order to be classified as "well-capitalized" under federal banking regulations, we were required to have core capital of at least $38.0 million, or 6.0% of assets as of September 30, 2012. To be classified as a well-capitalized bank, we must also have a ratio of total risk-based capital to risk-weighted assets of at least 10.0%. At September 30, 2012 and 2011, we had a total risk-based capital ratio of 26.3% and 18.3%, respectively.

4. Earnings per Share

Basic earnings per share is computed based upon the weighted-average common shares outstanding during the period, less shares in the ESOP that are unallocated and not committed to be released plus shares in the ESOP that have been allocated. The weighted average common shares outstanding for the three and nine months ended September 30, 2011 includes 5,455,313 shares held by Cheviot Mutual Holding Company. Weighted-average common shares deemed outstanding gives effect to 248,206 and 107,126 unallocated shares held by the ESOP for the three and nine months ended September 30, 2012 and 2011, respectively.

	For the nine months ended September 30,		For the three months ended September 30,	
	2012	2011	2012	2011
Weighted-average common shares outstanding (basic)	7,438,013	8,757,782	7,348,351	8,757,782
Dilutive effect of assumed exercise of stock options	6,947	8,850	6,695	9,219
Weighted-average common shares outstanding (diluted)	7,444,960	8,766,632	7,355,046	8,767,001

5. Stock Incentive Plan

On April 26, 2005, the Corporation approved a Stock Incentive Plan that provides for grants of up to 416,517 stock options. During 2012, 2011, and 2010 approximately 5,600, 3,771, and 7,593 stock options were granted subject to a five year vesting period. The shares in the plan and the shares granted have been adjusted to reflect the exchange ratio of 0.857%.

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

The Corporation elected the modified prospective transition method in applying ASC 718. Under this method, the provisions of ASC 718 apply to all awards granted or modified after the date of adoption, as well as for all unvested options outstanding at December 31, 2005. The compensation cost recorded for unvested equity-based awards is based on their grant-date fair value. For the nine months ended September 30, 2012, the Corporation recorded $16,000 in after-tax compensation cost for equity-based awards that vested during the nine months ended September 30, 2012. The Corporation has $56,000 unrecognized pre-tax compensation cost related to non-vested equity-based awards granted under its stock incentive plan as of September 30, 2012, which is expected to be recognized over a weighted-average vesting period of approximately 2.4 years.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

5. Stock Option Plan (continued)

A summary of the status of the Corporation's stock option plan as of September 30, 2012 and the year ended December 31, 2011, as well as the changes during the periods then ended are presented below:

	Nine months ended September 30, 2012		Year ended December 31, 2011	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding at beginning of period	425,600	$11.10	421,200	$11.05
Stock conversion	(60,861)	1.76	-	-
Granted	5,600	8.30	4,400	9.04
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at end of period	370,339	$12.80	425,600	$11.10
Options exercisable at period-end	353,022	$12.96	404,760	$11.14
Fair value of options granted		$1.28		$5.30

The following information applies to options outstanding at September 30, 2012:

Number outstanding	370,339
Exercise price	$8.30 - $15.90
Weighted-average exercise price	$12.96
Weighted-average remaining contractual life	3.0 years

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

The fair value of each option was estimated on the date of grant using the modified Black-Scholes options pricing model with the following weighted-average assumptions used for grants in 2012: dividend yield of 3.86%, expected volatility of 24.10%, risk-free interest rate of 1.64% and an expected life of 10 years for each grant.

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

11

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

6. Investment and Mortgage-backed Securities

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of investment securities at September 30, 2012 and December 31, 2011 are shown below.

	September 30, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Available for Sale:				
U.S. Government agency securities	$ 187,170	$ 664	$ 51	$ 187,783
Municipal obligations	3,037	223	4	3,256
	$ 190,207	$ 887	$ 55	$ 191,039

	December 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Available for Sale:				
U.S. Government agency securities	$ 117,731	$ 205	$ 65	$ 117,871
Municipal obligations	3,039	160	28	3,171
	$ 120,770	$ 365	$ 93	$ 121,042

The amortized costs of investment securities at September 30, 2012, by contractual term to maturity, are shown below.

	September 30, 2012 (In thousands)
Less than one year	$ 137,116
One to five years	31,223
Five to ten years	16,167
More than ten years	5,701
	$ 190,207

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

6. Investment and Mortgage-backed Securities (continued)

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of mortgage-backed securities at September 30, 2012 and December 31, 2011 are shown below.

	September 30, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Available for sale:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$994	$79	$1	$1,072
Federal National Mortgage Association adjustable-rate participation certificates	1,923	73	1	1,995
Government National Mortgage Association adjustable-rate participation certificates	3,253	113	47	3,319
	$6,170	$265	$49	$6,386
Held to maturity:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$335	$7	$-	$342
Federal National Mortgage Association adjustable-rate participation certificates	327	10	-	337
Government National Mortgage Association adjustable-rate participation certificates	3,068	176	3	3,241
	$3,730	$193	$3	$3,920

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

6. Investment and Mortgage-backed Securities (continued)

	December 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Available for sale:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$ 1,137	$ 44	$ 1	$ 1,180
Federal National Mortgage Association adjustable-rate participation certificates	2,624	46	4	2,666
Government National Mortgage Association adjustable-rate participation certificates	3,548	93	28	3,613
	$ 7,309	$ 183	$ 33	$ 7,459
Held to maturity:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$ 382	$ 7	$ 1	$ 388
Federal National Mortgage Association adjustable-rate participation certificates	410	7	-	417
Government National Mortgage Association adjustable-rate participation certificates	3,375	137	2	3,510
	$ 4,167	$ 151	$ 3	$ 4,315

The amortized cost of mortgage-backed securities, including those designated as available for sale at September 30, 2012, by contractual terms to maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may generally prepay obligations without prepayment penalties.

	September 30, 2012
	(In thousands)

Due in one year or less	$	504
Due in one year through five years		2,120
Due in five years through ten years		2,907
Due in more than ten years		4,369
	$	9,900

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

6. Investment and Mortgage-backed Securities (continued)

The table below indicates the length of time individual securities (all of which are debt securities) have been in a continuous unrealized loss position at September 30, 2012:

Description of securities	Less than 12 months Number of investments	Fair value	Unrealized losses	12 months or longer Number of investments	Fair value	Unrealized losses	Total Number of investments	Fair value	Unrealized losses
	(Dollars in thousands)								
U.S. Government agency securities	6	$ 29,925	$ 51	-	$ -	$ -	6	$ 29,925	$ 51
Municipal obligations	-	-	-	1	711	4	1	711	4
Mortgage-backed securities	4	22	1	13	502	51	17	524	52
Total temporarily impaired securities	10	$ 29,947	$ 52	14	$ 1,213	$ 55	24	$ 31,160	$ 107

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

7. Income Taxes

The Corporation uses an asset and liability approach to accounting for income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are recognized if it is more likely than not that a future benefit will be realized. The Corporation accounts for income taxes in accordance with 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 deferred loan origination fees and costs, Federal Home Loan Bank stock dividends, the general loan loss allowance, deferred compensation, stock benefit plans, goodwill and intangible assets. The Corporation has approximately $4.5 million of net operating losses to carryforward for the next 20 years. These losses are subject to the Internal Revenue Code section 382 limitations which allow approximately $1.1 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.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

7. Income Taxes (continued)

The Corporation is subject to income taxes in the U.S. federal jurisdiction, as well as various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Corporation is no longer subject to U.S. federal, state and local, or non U.S. income tax examinations by tax authorities for the years before 2009.

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

Federal income tax on earnings differs from that computed at the statutory corporate tax rate for the nine months ended September 30, 2012 and 2011:

	2012	2011
	(Dollars in thousands)	
Federal income taxes at statutory rate of 34%	$ 1,183	$ 1,074
Increase (decrease) in taxes resulting primarily from:		
Stock compensation	(24)	(7)
Nontaxable interest income	(29)	(28)
Cash surrender value of life insurance	(245)	(71)
Utilization of net operating loss carryforwards, previously reserved	-	(241)
Other	5	7
Federal income taxes per consolidated financial statements	$ 890	$ 734
Effective tax rate	25.6 %	23.2 %

8. Disclosures about Fair Value of Assets and Liabilities

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

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3

Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

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

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

Fair Value Measurements at September 30, 2012 and December 31, 2011

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Securities available for sale at September 30, 2012:			
U.S. Government agency securities	-	$ 187,783	-
Municipal obligations	-	$ 3,256	-
Mortgage-backed securities	-	$ 6,386	-
Securities available for sale at December 31, 2011:			
U.S. Government agency securities	-	$ 117,871	-
Municipal obligations	-	$ 3,171	-
Mortgage-backed securities	-	$ 7,459	-

The Corporation is predominately an asset-based lender with real estate serving as collateral on a substantial majority of loans. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. In addition, on the acquisition date the Corporation independently fair valued $25.0 million of First Franklin's impaired loans, as well as $173.2 million of performing loans. First Franklin's impaired loans subject to fair value adjustments are not included in Cheviot Financial's non-performing loan totals. Such loans are considered performing under Topic ASC 310-30, even though the loans are contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and the resulting loss provisions or future period yield adjustments. The fair values were obtained using independent appraisals, which the Corporation considers to be Level 2 inputs. The aggregate carrying amount of the Corporation's impaired loans at September 30, 2012 was $6.2 million, compared to $5.7 million at December 31, 2011.

The Corporation has real estate acquired through foreclosure totaling $3.7 million at September 30, 2012, compared to $3.8 million at December 31, 2011. Real estate acquired through foreclosure is carried at the lower of the cost or fair value less estimated selling expenses at the date of acquisition. Fair values are obtained using independent appraisals, based on comparable sales which the Corporation considers to be Level 2 inputs. The aggregate amount of real estate acquired through foreclosure that is carried at fair value was $3.0 million at September 30, 2012 and $3.1 million at December 31, 2011. The aggregate amount of real estate acquired through foreclosure that is carried at cost was $721,000 and $734,000 at September 30, 2012 and December 31, 2011, respectivley.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

9. Effects of Recent Accounting Pronouncements

We adopted the following accounting guidance in 2012, none of which had a material effect, if any, on our consolidated financial position or results of operations.

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

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

In September 2011, the FASB issued ASU 2011-8, "Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment." The amendments in this Update will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We do not anticipate any material impact from this Update.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

9. Effects of Recent Accounting Pronouncements (continued)

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. This ASU is not expected to have a significant impact on the Company’s financial statements.

In July 2012 the FASB issued ASU 2012-02, Intangibles - goodwill and other (Topic 350). The amendments in this Update will allow an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. Under these amendments, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on qualitative assessment, that it is not more likely than not, the indefinite-lived intangible asset is impaired. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. Effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity’s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.

In August 2012 the FASB issued ASU 2012-03, Technical Amendments and Corrections to SEC Sections—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 114, Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22. Because the amendments in this ASU reflect only guidance modifications that the SEC had previously issued, the amendments have no incremental impact on the Company's financial statements.

In October 2012, the FASB issued ASU 2012-04, Technical Corrections and Improvements: The amendments in this update clarify the Codification or corrects unintended application of guidance and includes amendments identifying when the use of fair value should be linked to the definition of fair value in Topic 820, Fair Value Measurement. Amendments to the Codification without transition guidance are effective upon issuance for both public and nonpublic entities. For public entities, amendments subject to transition guidance will be effective for fiscal periods beginning after December 15, 2012.

10. Fair Value of Financial Instruments

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

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

10. Fair Value of Financial Instruments (continued)

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments at September 30, 2012:

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

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

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

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

Deposits: The fair value of NOW accounts, passbook accounts, and money market demand deposits is deemed to approximate the amount payable on demand at September 30, 2012. Fair values for fixed-rate certificates of deposit have been estimated using a discounted cash flow calculation using the interest rates currently offered for deposits of similar remaining maturities.

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

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

Commitments to extend credit: For fixed-rate loan commitments, the fair value estimate considers the difference between current levels of interest rates and committed rates. At September 30, 2012, the fair value of the derivative loan commitments was not material.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

10. Fair Value of Financial Instruments (continued)

The estimated fair values of the Corporation's financial instruments at September 30, 2012 and December 31, 2011 are as follows:

	September 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)		(In thousands)	
Financial assets				
Cash and cash equivalents	$ 35,357	$ 35,357	$ 45,140	$ 45,140
Investment securities	191,039	191,039	121,042	121,042
Mortgage-backed securities	10,116	10,306	11,626	11,774
Loans receivable - net	343,836	387,933	384,296	404,595
Accrued interest receivable	1,966	1,966	2,139	2,139
Federal Home Loan Bank stock	8,651	8,651	8,366	8,366
	$ 590,965	$ 635,252	$ 572,609	$ 593,056
Financial liabilities				
Deposits	$ 494,929	$ 493,537	$ 492,321	$ 492,286
Advances from the Federal Home Loan Bank	25,399	26,019	31,327	32,429
Accrued interest payable	108	108	118	118
Advances by borrowers for taxes and insurance	1,669	1,669	2,464	2,464
	$ 522,105	$ 521,333	$ 526,230	$ 527,297

11. Acquisition Activity

First Franklin Corporation

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

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

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

11. Acquisition Activity (continued)

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

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

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

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

11. Acquisition Activity (continued)

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

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

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

11. Acquisition Activity (continued)

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

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

The Corporation recorded goodwill and other intangibles associated with the purchase of First Franklin and Franklin Savings totaling $11.6 million. Goodwill is not amortized, but is periodically evaluated for impairment. The Corporation did not recognize any impairment during the quarter ended September 30, 2012. The carrying amount of the goodwill at September 30, 2012 was $10.3 million.

Identifiable intangibles are amortized to their estimated residual values over the expected useful lives. Such lives are also periodically reassessed to determine if any amortization period adjustments are required. During the quarter ended September 30, 2012, no such adjustments were recorded. The identifiable intangible asset consists of a core deposit intangible which is being amortized on an accelerated basis over the useful life of such asset. The net carrying amount of the core deposit intangible at September 30, 2012 was $811,000 with $487,000 in accumulated amortization as of that date.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

11. Acquisition Activity (continued)

As of September 30, 2012, the current year and estimated future amortization expense for the core deposit intangible was:

	(In thousands)
2012	$ 65
2013	206
2014	149
2015	116
2016	110
2017	110
2018	55
Total	$ 811

12. Financing Receivables

The recorded investment in loans was as follows as of September 30, 2012:

	One-to four Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Purchased loans	$ 100,497	$ 10,782	$ -	$ 36,647	$ 2,078	$ 150,004
Credit quality discount	(1,696)	(159)	-	(2,172)	(1,114)	(5,141)
Purchased loans book value	98,801	10,623	-	34,475	964	144,863
Originated loans (1)	154,063	13,904	1,385 (2)	30,555	1,164	201,071
Ending balance	$ 252,864	$ 24,527	$ 1,385	$ 65,030	$ 2,128	$ 345,934

(1) Includes loans held for sale

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

The carrying amount of purchased loans consisting of credit-impaired purchased loans and non-impaired purchased loans is shown in the following table as of September 30, 2012.

	Purchased Loans Without Credit Quality	Purchased Loans With Credit Quality Discount

	Discount			
	(In thousands)			
One-to-four family residential	$	94,249	$	4,552
Multi-family residential		9,558		1,065
Construction		-		-
Commercial		25,845		8,630
Consumer		881		83
Total	$	130,533	$	14,330

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

12. Financing Receivables (continued)

The following summarizes activity in the allowance for credit losses:

	September 30, 2012					
	One-to four Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Allowance for loan losses:						
Beginning balance	$978	$162	$13	$285	$9	$1,447
Provision	1,068	37	(9)	(106)	-	990
Charge-offs	(402)	-	-	(31)	(4)	(437)
Recoveries	-	-	-	-	1	1
Ending balance	$1,644	$199	$4	$148	$6	$2,001
Ending balance: Individually evaluated for impairment	$569	$-	$-	$-	$-	$569
Purchased loans: Individually evaluated For impairment	$39	$-	$-	$-	$-	$39
Ending balance: Collectively evaluated for impairment	$670	$199	$4	$148	$6	$1,027
Purchased loans: Collectively evaluated for impairment	$366	$-	$-	$-	$-	$366
Loans receivable:						
Ending balance	$252,864	$24,527	$1,385	$65,030	$2,128	$345,934
Ending balance: Individually evaluated for impairment (1)	$99,740	$9,652	$-	$26,465	$881	$136,738
Ending balance: Collectively evaluated for impairment	$148,572	$13,810	$1,385	$29,935	$1,164	$194,866
Ending balance: Loans acquired with deteriorated credit quality	$4,552	$1,065	$-	$8,630	$83	$14,330

(1) Includes loans acquired from First Franklin of $130,533

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

12. Financing receivables (continued)

	December 31, 2011					
	One-to four Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Allowance for loan losses:						
Beginning balance	$ 979	$ 49	$ 33	$ 180	$ 1	$ 1,242
Provision	481	113	1	105	-	700
Charge-offs	(482)	-	(21)	-	(5)	(508)
Recoveries	-	-	-	-	13	13
Ending balance	$ 978	$ 162	$ 13	$ 285	$ 9	$ 1,447
Ending balance: Individually evaluated for impairment	$ 244	$ -	$ -	$ 8	$ -	$ 252
Ending balance: Collectively evaluated for impairment	$ 734	$ 162	$ 13	$ 277	$ 9	$ 1,195
Ending balance: Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -
Loans receivable:						
Ending balance	$ 290,808	$ 26,210	$ 4,390	$ 63,394	$ 2,210	$ 387,012
Ending balance: Individually evaluated for impairment (1)	$ 116,991	$ 14,001	$ -	$ 28,913	$ 1,690	$ 161,595
Ending balance: Collectively evaluated for impairment	$ 168,243	$ 11,141	$ 4,390	$ 25,280	$ 424	$ 209,478
Ending balance: Loans acquired with deteriorated credit quality	$ 5,574	$ 1,068	$ -	$ 9,201	$ 96	$ 15,939

(1) Includes loans acquired from First Franklin of $155,850.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

12. Financing receivables (continued)

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

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

	Originated Loans at September 30, 2012					
	One-to four Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Grade:						
Pass	$148,749	$ 13,809	$ 1,385	$ 29,010	$1,164	$194,117
Special mention	-	-	-	-	-	-
Substandard	5,314	95	-	1,545	-	6,954
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$154,063	$ 13,904	$ 1,385	$ 30,555	$1,164	$201,071

	Originated Loans at December 31, 2011					
	One-to four Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Grade:						
Pass	$167,988	$ 11,141	$ 4,390	$ 25,058	$424	$209,001
Special mention	-	-	-	-	-	-
Substandard	5,566	96	-	560	-	6,222
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$173,554	$ 11,237	$ 4,390	$ 25,618	$424	$215,223

	Purchased Loans at September 30, 2012					
	One-to four Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Grade:						
Pass	$94,378	$ 10,623	$ -	$ 32,745	$841	$138,587

Special mention	108	-	-	-	-	108
Substandard	4,315	-	-	1,730	123	6,168
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$98,801	$ 10,623	$ -	$ 34,475	$964	$144,863

28

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

12. Financing receivables (continued)

Purchased Loans at December 31, 2011

	One-to four Family Residential (In thousands)	Multi-family Residential	Construction	Commercial	Consumer	Total
Grade:						
Pass	$ 111,091	$ 14,669	$ -	$ 34,699	$ 1,776	$ 162,235
Special mention	110	-	-	983	-	1,093
Substandard	6,053	304	-	2,094	10	8,461
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 117,254	$ 14,973	$ -	$ 37,776	$ 1,786	$ 171,789

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

Age Analysis of Past Due Originated Loans Receivable
As of September 30, 2012

	30-89 Days Past Due (In thousands)	Over 90 days Past Due	Total Past Due	Current and Accruing	Nonaccrual	Total Loans	Recorded Investment 90 Days and Accruing
Real Estate:							
1-4 family Residential	$421	$5,491	$5,912	$148,572	$5,491	$154,063	$-
Multi-family Residential	-	94	94	13,810	94	13,904	-
Construction	-	-	-	1,385	-	1,385	-
Commercial	-	620	620	29,935	620	30,555	-
Consumer	-	-	-	1,164	-	1,164	-
Total	$421	$6,205	$6,626	$194,866	$6,205	$201,071	$-

Age Analysis of Past Due Originated Loans Receivable
As of December 31, 2011

	30-89 Days Past Due (In thousands)	Over 90 days Past Due	Total Past Due	Current and accruing	Nonaccrual	Total Loans	Recorded Investment 90 Days and Accruing

Real Estate:							
1-4 family							
Residential	$2,460	$5,311	$7,771	$168,243	$5,311	$173,554	$-
Multi-family	-	96	96	11,141	96	11,237	-
Construction	-	-	-	4,390	-	4,390	-
Commercial	457	338	795	25,280	338	25,618	-
Consumer	-	-	-	424	-	424	-
Total	$2,917	$5,745	$8,662	$209,478	$5,745	$215,223	$-

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

12. Financing receivables (continued)

Age Analysis of Past Due Purchased Loans Receivable
As of September 30, 2012

	30-89 Days Past Due	Over 90 days Past Due	Total Past Due	Current and Accruing	Nonaccrual	Total Loans	Recorded Investment 90 Days and Accruing
	(In thousands)						
Real Estate:							
1-4 family Residential	$500	$3,725	$4,225	$95,076	$3,725	$98,801	$-
Multi-family Residential	-	-	-	10,623	-	10,623	-
Construction	-	-	-	-	-	-	-
Commercial	23	1,650	1,673	32,825	1,650	34,475	-
Consumer	-	39	39	925	39	964	-
Total	$523	$5,414	$5,937	$139,449	$5,414	$144,863	$-

Age Analysis of Past Due Purchased Loans Receivable
As of December 31, 2011

	>30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current & Accruing	Nonaccrual	Total Loans	Recorded Investment 90 Days and Accruing
	(In thousands)						
Real Estate:							
1-4 family Residential	$1,165	$4,839	$6,004	$112,415	$4,839	$117,254	$-
Multi-family	-	300	300	14,673	300	14,973	-
Construction	-	-	-	-	-	-	-
Commercial	67	1,225	1,292	36,551	1,225	37,776	-
Consumer	-	10	10	1,776	10	1,786	-
Total	$1,232	$6,374	$7,606	$165,415	$6,374	$171,789	$-

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

12. Financing receivables (continued)

	Impaired Loans As of September 30, 2012				
	Recorded Investment	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	$4,552	$4,552	$-	$5,063	$175
Multi-family Residential	1,065	1,065	-	1,066	41
Construction	-	-	-	-	-
Commercial	8,630	8,630	-	8,916	403
Consumer	83	83	-	90	12
Total	$14,330	$14,330	$-	$15,135	$631
Purchased loans with no credit quality discount and no related allowance recorded:					
Real Estate:					
1-4 family Residential	$2,132	$2,132	$-	$2,258	$39
Multi-family Residential	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	67	67	-	150	-
Consumer	41	41	-	32	1
Total	$2,240	$2,240	$-	$2,440	$40
Purchased loans with an allowance recorded:					
Real Estate:					
1-4 family Residential	$30	$69	$39	$15	$-
Multi-family Residential	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$30	$69	$39	$15	$-
Originated loans with no related allowance recorded					
Real Estate:					

1-4 family Residential	$3,977	$3,977	$-	$4,504	$47
Multi-family	94	94	-	95	1
Commercial	620	620	-	403	2
Consumer	-	-	-	-	-
Total	$4,691	$4,691	$-	$5,002	$50

31

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

12. Financing receivables (continued)

	Impaired Loans As of September 30, 2012				
	Recorded Investment (In thousands)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Originated loans with an allowance recorded:					
Real Estate:					
1-4 family Residential	$946	$1,515	$569	$613	$4
Commercial	-	-	-	76	-
Consumer	-	-	-	-	-
Total	$946	$1,515	$569	$689	$4
Total:					
Real Estate:					
1-4 family Residential	$11,637	$12,245	$608	$12,453	$265
Multi-family Residential	1,159	1,159	-	$1,161	42
Construction	-	-	-	-	-
Commercial	9,317	9,317	-	9,545	405
Consumer	124	124	-	122	13
Total	$22,237	$22,845	$608	$23,281	$725

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

12. Financing receivables (continued)

Impaired Loans
As of December 31, 2011

	Recorded Investment	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	$5,574	$5,574	$-	$6,329	$135
Multi-family	1,068	1,068	-	1,121	17
Construction	-	-	-	-	-
Commercial	9,201	9,201	-	8,912	18
Consumer	96	96	-	986	4
Total	$15,939	$15,939	$-	$17,348	$174
Purchased loans with no credit quality discount and no related allowance recorded:					
Real Estate:					
1-4 family					
Residential	$2,385	$2,385	$-	$2,385	$77
Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	233	233	-	233	10
Consumer	22	22	-	22	2
Total	$2,640	$2,640	$-	$2,640	$89
Originated loans with no related allowance recorded					
Real Estate:					
1-4 family					
Residential	$5,031	$5,031	$-	$4,670	$108
Multi-family	96	96	-	39	4
Commercial	186	186	-	217	16
Consumer	-	-	-	-	-
Total	$5,313	$5,313	$-	$4,926	$128
Originated loans with an allowance recorded:					
Real Estate:					
1-4 family					
Residential	$280	$524	$244	$395	$-
Multi-family	-	-	-	-	-

Commercial	152	160	8	91	-
Consumer	-	-	-	-	-
Total	$432	$684	$252	$486	$-
Total:					
Real Estate:					
1-4 family					
Residential	$13,270	$13,514	$244	$13,779	$320
Multi-family	1,164	1,164	-	1,160	21
Construction	-	-	-	-	-
Commercial	9,772	9,780	8	9,453	44
Consumer	118	118	-	1,008	6
Total	$24,324	$24,576	$252	$25,400	$391

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

12. Financing receivables (continued)

Modifications
For three months ended September 30, 2012

Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment (Dollars in thousands)	Post-Modification Outstanding Recorded Investment
Real Estate:			
1-4 Family Residential	1	$ 83	$ 83
Multi-family Residential	-	-	-
Construction	-	-	-
Commercial	-	-	-
Consumer	-	-	-

Troubled Debt Restructurings That Subsequently Defaulted	Number of Contracts	Recorded Investment (Dollars in thousands)
1-4 Family Residential	-	-
Multi-family Residential	-	-
Construction	-	-
Commercial	-	-
Consumer	-	-

Modifications
For nine months ended September 30, 2012

Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment (Dollars in thousands)	Post-Modification Outstanding Recorded Investment
Real Estate:			
1-4 Family Residential	15	$ 1,500	$ 1,487
Multi-family Residential	-	-	-
Construction	-	-	-
Commercial	-	-	-

Consumer	-	-	-

Troubled Debt Restructurings That Subsequently Defaulted	Number of Contracts	Recorded Investment (Dollars in thousands)
1-4 Family Residential	-	-
Multi-family Residential	-	-
Construction	-	-
Commercial	-	-
Consumer	-	-

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2012 and 2011

12. Financing receivables (continued)
Modifications
As of December 31, 2011

	Number of Contracts	Pre-Modification Outstanding Recorded Investment (Dollars in thousands)	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real Estate:			
1-4 Family Residential	5	$ 811	$ 800
Multi-family Residential	-	-	-
Construction	-	-	-
Commercial	-	-	-
Consumer	-	-	-

	Number of Contracts	Recorded Investment (Dollars in thousands)
Troubled Debt Restructurings		