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CHEVIOT FINANCIAL CORP
Form 10-Q
August 12, 2009

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, 2009

OR

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

For the transition period from _____ to _____

Commission File No. 0-50529

CHEVIOT FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Federal

56-2423720

(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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one.)

Large accelerated filer 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 12, 2009, the latest practicable date, 8,868,706 shares of the

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registrant's common stock, \$.01 par value, were issued and outstanding.

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

Yes No

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

ASSETS

June 30
2010
(Unaudited)

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Cash and due from banks	\$ 4,0
Federal funds sold	4,8
Interest-earning deposits in other financial institutions	9,8

Cash and cash equivalents	18,7
Investment securities available for sale - at fair value	43,3
Investment securities held to maturity - at cost, approximate market value of \$ - and \$7,074 at June 30, 2009 and December 31, 2008, respectively	
Mortgage-backed securities available for sale - at fair value	5,4
Mortgage-backed securities held to maturity - at cost, approximate market value of \$6,475 and \$6,830 at June 30, 2009 and December 31, 2008, respectively	6,3
Loans receivable - net	251,1
Loans held for sale-at lower of cost or market	8
Real estate acquired through foreclosure - net	1,9
Office premises and equipment - at depreciated cost	5,0
Federal Home Loan Bank stock - at cost	3,3
Accrued interest receivable on loans	1,1
Accrued interest receivable on mortgage-backed securities	
Accrued interest receivable on investments and interest-earning deposits	2
Prepaid expenses and other assets	8
Bank-owned life insurance	3,5
Prepaid federal income taxes	2

Total assets	\$342,5
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits	\$229,7
Advances from the Federal Home Loan Bank	40,3
Advances by borrowers for taxes and insurance	5
Accrued interest payable	1
Accounts payable and other liabilities	2,6
Deferred federal income taxes	4

Total liabilities	273,9
Shareholders' equity	
Preferred stock - authorized 5,000,000 shares, \$.01 par value; none issued	
Common stock - authorized 30,000,000 shares, \$.01 par value; 9,918,751 shares issued at June 30, 2009 and December 31, 2008, respectively	
Additional paid-in capital	43,7
Shares acquired by stock benefit plans	(2,4
Treasury stock - at cost, 1,050,045 and 1,046,247 shares at June 30, 2009 and December 31, 2008, respectively	(12,8
Retained earnings - restricted	40,1
Accumulated comprehensive loss, unrealized losses on securities available for sale, net of related tax effects	(1

Total shareholders' equity	68,5

Total liabilities and shareholders' equity	\$342,5
	=====

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	Six months ended June 30,	
	2009	2008
		(Unaudited)
Interest income		
Loans	\$7,527	\$7,567
Mortgage-backed securities	231	262
Investment securities	654	1,052
Interest-earning deposits and other	25	70
	-----	-----
Total interest income	8,437	8,951
Interest expense		
Deposits	2,636	3,749
Borrowings	928	746
	-----	-----
Total interest expense	3,564	4,495
	-----	-----
Net interest income	4,873	4,456
Provision for losses on loans	452	288
	-----	-----
Net interest income after provision for losses on loans	4,421	4,168
Other income (expense)		
Rental	25	25
Gain on sale of loans	272	9
Gain (loss) on sale of real estate acquired through foreclosure	(49)	(43)
Earnings on bank-owned life insurance	68	65
Other operating	158	159
	-----	-----
Total other income	474	215
General, administrative and other expense		
Employee compensation and benefits	2,284	2,096
Occupancy and equipment	281	278
Property, payroll and other taxes	509	491
Data processing	184	159
Legal and professional	220	192
Advertising	100	100
FDIC expense	157	13
Other operating	426	310
	-----	-----
Total general, administrative and other expense	4,161	3,639
	-----	-----

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Earnings before income taxes	734	744
Federal income taxes		
Current	181	108
Deferred	35	93
	-----	-----
Total federal income taxes	216	201
	-----	-----
NET EARNINGS	\$ 518	\$ 543
	=====	=====
EARNINGS PER SHARE		
Basic	\$.06	\$.06
	===	===
Diluted	\$.06	\$.06
	===	===
Dividends per common share	\$.20	\$.18
	===	===

See accompanying notes to consolidated financial statements.

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the six and three months ended June 30, 2009 and 2008
(In thousands)

	For the six months ended June 30,		
	2009	2008	(Unaudit
Net earnings for the period	\$ 518	\$ 543	
Other comprehensive income (loss), net of tax expense (benefits):			
Unrealized holding gains (losses) on securities during the period, net of tax expense (benefits) of \$10 and \$(110) for the six months ended June 30, 2009 and 2008, respectively, and \$39 and \$(163) for the three months ended June 30, 2009 and 2008, respectively	19	(214)	
	----	----	
Comprehensive income	\$ 537	\$ 329	
	===	===	
Accumulated comprehensive loss	\$(122)	\$(168)	
	===	===	

See accompanying notes to consolidated financial statements

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2009 and 2008
(In thousands)

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Cash flows from operating activities:		
	Net earnings for the period	\$ 5
	Adjustments to reconcile net earnings to net cash provided by operating activities:	
	Amortization of premiums and discounts on investment and mortgage-backed securities, net	
	Depreciation	1
	Amortization of deferred loan origination fees - net	(
	Proceeds from sale of loans in the secondary market	16,0
	Loans originated for sale in the secondary market	(15,8
	Gain on sale of loans	(2
	Loss on sale of real estate acquired through foreclosure	
	Federal Home Loan Bank stock dividends	
	Net increase in cash surrender value of bank-owned life insurance	(
	Provision for losses on loans	4
	Amortization of expense related to stock benefit plans	3
	Increase (decrease) in cash due to changes in:	
	Accrued interest receivable on loans	
	Accrued interest receivable on mortgage-backed securities	(
	Accrued interest receivable on investments and interest-earning deposits	1
	Prepaid expenses and other assets	(5
	Accrued interest payable	
	Accounts payable and other liabilities	1,6
	Federal income taxes	
	Current	(1
	Deferred	
	Net cash provided by operating activities	2,6
Cash flows used in investing activities:		
	Principal repayments on loans	41,4
	Loan disbursements	(26,5
	Purchase of investment securities - available for sale	(40,0
	Proceeds from maturity of investment securities - available for sale	20,5
	Proceeds from maturity of investment securities - held to maturity	7,0
	Purchase of mortgage-backed securities - available for sale	(5,2
	Principal repayments on mortgage-backed securities - available for sale	4
	Principal repayments on mortgage-backed securities - held to maturity	5
	Proceeds from sale of real estate acquired through foreclosure	2
	Additions to real estate acquired through foreclosure	(
	Purchase of office premises and equipment	(2
	Net cash used in investing activities	(1,8
Cash flows provided by financing activities:		
	Net increase (decrease) in deposits	13,7
	Proceeds from Federal Home Loan Bank advances	
	Repayments on Federal Home Loan Bank advances	(4,2

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Advances by borrowers for taxes and insurance	(9)
Treasury stock repurchases	(
Stock option expense, net	1
Dividends paid on common stock	(6)

Net cash provided by financing activities	7,9

Net decrease in cash and cash equivalents	8,7
Cash and cash equivalents at beginning of period	10,0

Cash and cash equivalents at end of period	\$ 18,7
	=====

See accompanying notes to consolidated financial statements.

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the six months ended June 30, 2009 and 2008
(In thousands)

Supplemental disclosure of cash flow information:	
Cash paid during the period for:	
Federal income taxes	\$ 2
	=====
Interest on deposits and borrowings	\$3,5
	=====
Supplemental disclosure of noncash investing activities:	
Transfer of loans to real estate acquired through foreclosure	\$1,1
	=====
Loans originated upon sales of real estate acquired through foreclosure	\$
	=====
Recognition of mortgage servicing rights in accordance with SFAS No. 140	\$ 1
	=====

See accompanying notes to consolidated financial statements.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

1. Basis of Presentation

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

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, 2008. 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, 2009, are not necessarily indicative of the results which may be expected for the entire year.

2. Principles of Consolidation

The accompanying consolidated financial statements as of and for the three and six months ended June 30, 2009 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 June 30, 2009 and December 31, 2008, we had \$40.3 million and \$44.6 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 \$101.3 million and \$99.3 million, respectively.

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.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and six months ended June 30, 2009 and 2008

3. Liquidity and Capital Resources (continued)

Our primary investing activities are the origination of one- to four-family real estate loans, commercial real estate, construction and consumer loans, and, to a lesser extent, the purchase of securities. For the six months ended June 30, 2009, loan originations totaled \$42.4 million, compared to \$41.5 million for the six months ended June 30, 2008.

Total deposits increased \$13.7 million during the six months ended June 30, 2009 and decreased \$4.8 million during the six months ended June 30, 2008, 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 June 30, 2009.

	Less than 1 year	Payments due by period More than 1-3 years	More than 4-5 years
			(In thousands)
Contractual obligations:			
Advances from the Federal Home Loan Bank	\$ 12,000	\$ 1,165	\$ 1,271
Certificates of deposit	109,727	21,942	12,810
Amount of loan commitments and expiration per period:			
Commitments to originate one- to four-family loans	3,059	-	-
Home equity lines of credit	11,775	-	-
Undisbursed loans in process	1,838	-	-
	-----	-----	-----
Total contractual obligations	\$ 138,399	\$ 23,107	\$ 14,081
	=====	=====	=====

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.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and six months ended June 30, 2009 and 2008

3. Liquidity and Capital Resources (continued)

At June 30, 2009 and 2008, we exceeded all of the applicable regulatory capital requirements. Our core (Tier 1) capital was \$57.0 million and \$54.5 million, or 17.0% and 16.7% of total assets at June 30, 2009 and 2008, respectively. In order to be classified as "well-capitalized" under federal banking regulations, we were required to have core capital of at least \$20.1 million, or 6.0% of assets as of June 30, 2009. 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 June 30, 2009 and 2008, we had a total risk-based capital ratio of 34.2% and 32.1%, respectively.

4. Earnings Per Share

Basic earnings per share is computed based upon the weighted-average common shares outstanding during the period, less shares in the ESOP that are unallocated and not committed to be released plus shares in the ESOP that have been allocated. The weighted average common shares outstanding includes 5,455,313 shares held by our mutual holding company parent. Weighted-average common shares deemed outstanding gives effect to 178,540 and 214,247 unallocated shares held by the ESOP for the three and six months ended June 30, 2009 and 2008, respectively.

	For the six months ended June 30,		
	2009	2008	
Weighted-average common shares outstanding (basic)	8,692,768	8,702,161	8,
Dilutive effect of assumed exercise of stock options	36,436	55,256	--
	-----	-----	
Weighted-average common shares outstanding (diluted)	8,729,204	8,757,417	8, ==
	=====	=====	

5. Stock Option Plan

On April 26, 2005, the Corporation approved a Stock Incentive Plan that provides for grants of up to 486,018 stock options. During 2009, 2008, and 2007 approximately 8,060, 8,060, and 6,460 option awards for shares were granted, all of which are subject to five year vesting.

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In 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 123(R), "Share-Based Payment," which revises SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123(R) requires that cost related to the fair value of all equity-based awards to employees, including grants of employee stock options, be recognized in the financial statements.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and six months ended June 30, 2009 and 2008

5. Stock Option Plan (continued)

The Corporation adopted the provisions of SFAS No. 123(R) effective January 1, 2006, using the modified prospective transition method, and therefore has not restated its financial statements for prior periods. Under this method, the Corporation has applied the provisions of SFAS No. 123(R) to new equity-based awards and to equity-based awards modified, repurchased, or cancelled after January 1, 2006. In addition, the Corporation recognizes compensation cost for the portion of equity-based awards for which the requisite service period has not been rendered ("unvested equity-based awards") that is outstanding as of January 1, 2006. The compensation cost recorded for unvested equity-based awards is based on their grant-date fair values. For the six months ended June 30, 2009, the Corporation recorded \$123,000 in after-tax compensation cost for equity-based awards that vested during the six months ended June 30, 2009. The Corporation has \$269,000 unrecognized pre-tax compensation cost related to non-vested equity-based awards granted under its stock incentive plan as of June 30, 2009, which is expected to be recognized over a weighted-average vesting period of approximately 1.1 years.

A summary of the status of the Corporation's stock option plan as of June 30, 2009, and changes during the period then ended is presented below:

	Six months ended June 30, 2009	Weighted- average exercise price
	Shares	
Outstanding at beginning of period	404,280	\$11.16
Granted	8,060	8.48
Exercised	-	-
Forfeited	-	-
	-----	-----
Outstanding at end of period	412,340	\$11.11
	=====	=====

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Options exercisable at period-end	314,792	\$11.17
	=====	=====
Options expected to be exercisable at year-end		
Fair value of options granted		\$ 3.31
		=====

The following information applies to options outstanding at June 30, 2009:

Number outstanding
 Exercise price
 Weighted-average exercise price
 Weighted-average remaining contractual life

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.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and six months ended June 30, 2009 and 2008

5. Stock Option Plan (continued)

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 2009: dividend yield of 4.48%, expected volatility of 56.38%, risk-free interest rate of 3.25% 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.

6. Income Taxes

The Corporation adopted the provisions of FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes," on January 1, 2007. Previously, the Corporation had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies." As required by Interpretation 48, which clarifies Statement No. 109, "Accounting for Income Taxes," 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 the adoption date, the Corporation applied Interpretation 48 to all tax positions for which the statute of limitations remained open. As a result of the implementation of Interpretation 48, the Corporation was

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not required to record any liability for unrecognized tax benefits as of January 1, 2007. There have been no material changes in unrecognized tax benefits since January 1, 2007. As stated in the Annual Report, the only known tax attribute which can influence the Corporation's effective tax rate is the utilization of charitable contribution carryforwards.

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 2004.

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

7. Disclosures About Fair Value of Assets and Liabilities

Effective January 1, 2008, the Corporation adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value 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. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended June 30, 2009 and 2008

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

- | | |
|---------|---|
| 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. |

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

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.

	June 30, 2009	Quoted prices in active markets for identical assets (Level 1)	Fair Value Measureme June 30, 2009 Significant other observable inputs (Level 2)
	-----	-----	-----
Securities available for sale	\$48,846		\$48,846

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 and other real estate owned are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which the Corporation considers to be Level 2 inputs. The aggregate carrying amount of impaired loans at June 30, 2009 was approximately \$759,000, with total loss recognized of \$71,000. At June 30, 2009, the carrying value of other real estate owned was \$2.0 million.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended June 30, 2009 and 2008

8. Effects of Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements". SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value estimates. In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2 which delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis,

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to fiscal years beginning after November 15, 2008. The Corporation elected to defer the adoption of SFAS No. 157 for its nonfinancial assets and nonfinancial liabilities until January 1, 2009. Adoption of this standard on January 1, 2009 had no impact on the Corporation's results of operations and financial position.

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141(R), "Business Combinations" ("SFAS No. 141(R)"), which requires all assets acquired and liabilities assumed in a business combination (with a few exceptions, such as deferred tax assets and liabilities) to be measured at fair value in accordance with SFAS No.157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 141(R) is effective prospectively for fiscal years beginning on or after December 15, 2008. The Corporation adopted SFAS No. 141(R) during the first quarter of 2009, and the adoption was not applicable to its consolidated financial statements for the periods reported.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"), which is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Corporation adopted SFAS No. 161 during the first quarter of 2009, and the adoption did not have a material effect on its consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position ("FSP") FAS 107-1 and Accounting Principles Board ("APB") 28-1, "Interim Disclosures about Fair Value of Financial Instruments", to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, "Interim Financial Reporting", to require those disclosures in summarized financial information at interim reporting periods. This FSP shall be effective for interim reporting periods ending after June 15, 2009. The Corporation adopted FSP FAS 107-1 and APB 28-1 during the second quarter of 2009.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments", to amend the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The FSP shall be effective for interim and annual reporting periods ending after June 15, 2009. The Corporation adopted FSP FAS 115-2 and FAS 124-2 during the second quarter of 2009.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended June 30, 2009 and 2008

8. Effects of Recent Accounting Pronouncements (continued)

Also in April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly", to provide additional guidance for estimating fair value in accordance with SFAS No. 157, "Fair Value Measurements", when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. It shall be effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The Corporation adopted FSP FAS 157-4 during the second quarter of 2009, and the adoption did not have a material effect on its consolidated financial statements.

The Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 111, "Other Than Temporary Impairment of Certain Investments in Equity Securities" ("SAB No. 111"), in April 2009 in response to the FASB's April 2009 release of Final FSP FAS 115-2 and FAS 124-2. SAB No. 111 amends and replaces "Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities", ("Topic 5.M"), in the SEC's Staff Accounting Bulletin series. With the amendments in SAB No. 111, debt securities are excluded from the scope of Topic 5.M, but the SEC staff's views on equity securities are still included within the topic. According to the revision to Topic 5.M, the SEC does not interpret the FASB's use of the term other-than-temporary to mean permanent. The Corporation has considered this interpretative guidance for the disclosures in its interim financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS No. 165"), which sets forth the circumstances under which an entity should recognize events occurring after the balance sheet date and the disclosures that should be made. Also, this statement requires disclosure of the date through which the entity has evaluated subsequent events (for public companies, and other companies that expect to widely distribute their financial statements, this date is the date of financial statement issuance, and for nonpublic companies, the date the financial statements are available to be issued). The effective date is for interim and annual periods ending after June 15, 2009. The Corporation adopted SFAS No. 165 during the second quarter of 2009, and the adoption did not have a material effect on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets" ("SFAS No. 166"), which is a revision to SFAS No. 140, eliminates the concept of a qualifying special purpose entity (QSPE), changes the requirements for derecognizing financial assets, and requires additional disclosures, including information about continuing exposure to risks related to transferred financial assets. SFAS No. 166 is effective for financial asset transfers occurring after the beginning of fiscal years beginning after November 15, 2009. The disclosure requirements must be applied to transfers that occurred before and after the effective date. The Corporation is currently evaluating the impact on its financial statements of adopting SFAS No. 166.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS No. 167"), which revises FIN 46(R), contains new criteria for determining the primary beneficiary, eliminates the exception to consolidating QSPE's, requires continual reconsideration of conclusions reached in determining the primary beneficiary, and requires additional disclosures. SFAS No. 167 is effective as of the beginning of fiscal years beginning after November 15, 2009 and is applied using a cumulative effect adjustment to retained earnings for any carrying amount

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adjustments (e.g., for newly-consolidated VIE's). The Corporation has not evaluated the effect of the adoption of SFAS No. 167 on its consolidated financial statements.

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. Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended June 30, 2009 and 2008

8. Effects of Recent Accounting Pronouncements (continued)

Also in June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 168"). The Codification will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities and will supersede all non-SEC accounting and reporting standards. This statement is effective for financial statements issued for interim and annual financial statements ending after September 15, 2009. The Corporation is currently evaluating the impact of adopting SFAS No. 168.

9. 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.

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments at June 30, 2009:

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

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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.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended June 30, 2009 and 2008

9. Fair Value of Financial Instruments (continued)

Deposits: The fair value of NOW accounts, passbook accounts, and money market demand deposits is deemed to approximate the amount payable on demand at June 30, 2009. 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, 2009, the fair value of the derivative loan commitments was not material.

	June 30, 2009	
	Carrying Value	Fair Value
	(In thousands)	
Financial assets		
Cash and cash equivalents	\$ 18,731	\$ 18,7
Investment securities	43,350	43,3
Mortgage-backed securities	11,864	11,9
Loans receivable - net	252,010	261,3

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Federal Home Loan Bank stock	3,369	3,369
	-----	-----
	\$329,324	\$338,700
Financial liabilities		
Deposits	\$229,782	\$229,782
Advances from the Federal Home Loan Bank	40,336	42,900
Advances by borrowers for taxes and insurance	541	541
	-----	-----
	\$270,659	\$273,264

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Cheviot Financial Corp.

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

Forward Looking Statements

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

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 to be a critical accounting policy.

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

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

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

Discussion of Financial Condition Changes at December 31, 2008 and at June 30, 2009

Total assets increased \$10.5 million, or 3.2%, to \$342.5 million at June 30, 2009, from \$332.0 million at December 31, 2008. The increase in total assets reflects increases in cash and cash equivalents and mortgage-backed securities, which was partially offset by a decrease in loans receivable and investment securities. The change in the composition of our interest earning assets reflects management's decision to increase its liquidity during a period of low interest rates during the economic downturn.

Cash, federal funds sold and interest-earning deposits increased \$8.7 million, or 87.1%, to \$18.7 million at June 30, 2009, from \$10.0 million at December 31, 2008. The increase in cash and cash equivalents at June 30, 2008, was due to a \$8.1 million increase in interest-earning deposits and a \$776,000 increase in federal funds sold, which was partially offset by a \$111,000 decrease in cash and due from banks. Investment securities increased \$12.4 million to \$43.3 million at June 30, 2009. At June 30, 2009, \$43.3 million of investment securities were classified as available for sale. As of June 30, 2009, none of the investment securities are considered impaired.

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Cheviot Financial Corp.

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

Discussion of Financial Condition Changes at December 31, 2008 and at June 30, 2009 (continued)

Mortgage-backed securities increased \$4.3 million, or 56.9%, to \$11.9 million at June 30, 2009, from \$7.6 million at December 31, 2008. The increase in mortgage-backed securities was due primarily to purchases of \$5.3 million, which was partially offset by principal prepayments and repayments totaling \$1.0 million. At June 30, 2009, \$6.4 million of mortgage-backed securities were classified as held to maturity, while \$5.5 million were classified as available for sale. As of June 30, 2009, none of the mortgage-backed securities are considered impaired.

Loans receivable, including loans held for sale, decreased \$16.5 million, or 6.1%, to \$252.0 million at June 30, 2009, from \$268.5 million at December 31,

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2008. The decrease reflects loan principal repayments of \$41.5 million and sales of \$16.1 million, partially offset by loan originations totaling \$42.4 million.

The allowance for loan losses totaled \$996,000 and \$709,000 at June 30, 2009 and December 31, 2008, 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 \$164,000 increase in the provision for losses on loans during the six months ended June 30, 2009 is a reflection of these factors, weaker economic conditions in the greater Cincinnati area, loan charge-offs of \$134,000 and the need to allocate approximately \$32,000 in specific reserves for two residential properties totaling \$131,000 which were acquired through foreclosure during the six months ended June 30, 2009. 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, 2009.

Non-performing and impaired loans totaled \$759,000 and \$1.8 million at June 30, 2009 and December 31, 2008, respectively. At June 30, 2009, non-performing and impaired loans were comprised of seven loans secured by one- to four-family residential real estate. The decrease in impaired loans was mainly the result of transferring \$1.2 million of impaired loans to other real estate owned. At June 30, 2009 and December 31, 2008 real estate acquired through foreclosure totaled \$2.0 million and \$1.1 million, respectively. The allowance for loan losses represented 36.2% and 38.4% of non-performing and impaired loans at June 30, 2009 and December 31, 2008, respectively. Although management believes that the Corporation's allowance for loan losses conforms to generally accepted accounting principles based upon the available facts and circumstances, there can be no assurance that additions to the allowance will not be necessary in future periods, which would adversely affect our results of operations.

Deposits increased \$13.7 million, or 6.4%, to \$229.8 million at June 30, 2009, from \$216.0 million at December 31, 2008. Advances from the Federal Home Loan Bank of Cincinnati decreased by \$4.3 million, or 9.6%, to \$40.3 million at June 30, 2009, from \$44.6 million at December 31, 2008.

Shareholders' equity increased \$326,000, or 0.5%, to \$68.6 million at June 30, 2009, from \$68.2 million at December 31, 2008. The increase primarily resulted from net earnings of \$518,000, amortization of stock benefit plans of \$373,000, which was partially offset by dividends paid of \$680,000. At June 30, 2009, Cheviot Financial had the ability to purchase an additional 364,616 shares under its announced stock repurchase plan.

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Cheviot Financial Corp.

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

Discussion of Financial Condition Changes at December 31, 2008 and at June 30, 2009 (continued)

Liquidity and Capital Resources

We monitor our liquidity position on a daily basis using reports that recap all deposit activity and loan commitments. A significant portion of our deposit base is made up of time deposits. At June 30, 2009, \$109.7 million of time deposits are due to mature within twelve months. The daily deposit activity report allows us to price our time deposits competitively. Because of this and our deposit retention experience, we anticipate that a significant portion of maturing time deposits will be retained.

Borrowings from the Federal Home Loan Bank of Cincinnati decreased \$4.3 million during the six months ended June 30, 2009. We have the ability to increase such borrowings by approximately \$101.3 million.

Comparison of Operating Results for the Six-Month Periods Ended June 30, 2009
and 2008

General

Net earnings for the six months ended June 30, 2009 totaled \$518,000, a \$25,000 decrease from the \$543,000 net earnings reported for the same period in 2008. The decrease in net earnings reflects an increase in general, administrative and other expenses of \$522,000, an increase of \$164,000 in the provision for losses on loans and an increase of \$15,000 in federal income taxes, which were partially offset by an increase of \$417,000 in net interest income and an increase in other income of \$259,000 for the 2009 period.

Net Interest Income

Total interest income decreased \$514,000, or 5.7%, to \$8.4 million for the six-months ended June 30, 2009, from the comparable period in 2008. Interest income on loans decreased \$40,000, or 0.5%, to \$7.6 million during the 2009 period. This decrease was due primarily to an 8 basis point decrease in the average yield on loans to 5.88% for the 2009 period from 5.96% for the 2008 period, which was partially offset by a \$1.9 million, or 0.8%, increase in the average balance of loans outstanding for the six months ended June 30, 2009.

Interest income on mortgage-backed securities decreased \$31,000, or 11.8%, to \$231,000 for the six months ended June 30, 2009, from \$262,000 for the same period in 2008, due primarily to a 153 basis point decrease in the average yield, which was partially offset by a \$1.8 million increase in the average balance of securities outstanding period to period. Interest income on investment securities decreased \$398,000, or 37.8%, to \$654,000 for the six months ended June 30, 2009, compared to \$1.1 million for the same period in 2008, due primarily to an 142 basis point decrease in the average yield to 4.16% in the 2009 period, and a decrease of \$6.2 million, or 16.6% in the average balance of investment securities outstanding. Interest income on other interest-earning deposits decreased \$45,000, or 64.3% to \$25,000 for the six months ended June 30, 2009, as compared to the same period in 2008.

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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, 2009
and 2008 (continued)

Interest expense decreased \$931,000, or 20.7% to \$3.6 million for the six months ended June 30, 2009, from \$4.5 million for the same period in 2008. Interest expense on deposits decreased by \$1.1 million, or 29.7%, to \$2.6 million for the six months ended June 30, 2009, from \$3.7 million for the same period in 2008 due primarily to a 109 basis point decrease in the average costs of deposits to 2.39% during the 2009 period, which was partially offset by a \$5.5 million, or 2.6%, increase in the average balances outstanding. Interest expense on borrowings increased by \$182,000, or 24.4%, due primarily to a \$9.0 million, or 26.9%, increase in the average balance outstanding, which was partially offset by a 9 basis point decrease in the average cost of borrowings. The decrease in the average cost of deposits and borrowings reflects lower shorter term interest rates in 2009 as compared to 2008, as actions by the Federal Reserve to reduce shorter term interest rates resulted in a steepening of the yield curve and a reduction of short term and medium term interest rates.

As a result of the foregoing changes in interest income and interest expense, net interest income increased by \$417,000, or 9.4%, to \$4.9 million for the six months ended June 30, 2009. The average interest rates spread increased to 2.64% for the six months ended June 30, 2009 from 2.23% for the six months ended June 30, 2008. The net interest margin increased to 3.09% for the six months ended June 30, 2009 from 2.91% for the six months ended June 30, 2008.

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 \$452,000 provision for losses on loans for the six months ended June 30, 2009, compared to a \$288,000 provision for losses on loans for the six months ended June 30, 2008. The decision to make a provision for loan losses during the six months ended June 30, 2009 reflects the amount necessary to maintain an adequate allowance based on the five year historical loss experience and other external factors. These other external factors, economic conditions, and collateral value changes, have had a negative impact on non-owner-occupied loans in the portfolio. There can be no assurance that the loan loss allowance will be sufficient to cover losses on non-performing loans in the future; however, management believes they have identified all known and inherent losses that are probable and that can be reasonably estimated within the loan portfolio, and that the allowance is adequate to absorb such losses.

Other Income

Other income increased \$259,000, or 120.5%, to \$474,000 for the six months ended June 30, 2009, compared to the same period in 2008, due primarily to an increase in the gain on the sale of loans of \$263,000, which was partially offset by an increase of \$6,000 in the loss on sale of real estate acquired through foreclosure.

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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, 2009
and 2008 (continued)

----- General, Administrative and Other Expense -----

General, administrative and other expense increased \$522,000, or 14.3%, to \$4.2 million for the six months ended June 30, 2009, from \$3.6 million for the comparable period in 2008. This increase is a result of an increase of \$188,000 in employee compensation and benefits, an increase of \$25,000 in data processing expense, an increase of \$144,000 in FDIC expense and a \$116,000 increase in other operating expense. The increase in employee compensation and benefits is a result of the increase in compensation expense for additional employees and an increase in the health costs as a result of overall company growth. The increase in data processing expense is a result of the conversion of the core computer operating system in May 2009. The increase in FDIC expense is a result of the special assessment from the Federal Deposit Insurance Corporation of approximately \$140,000. The increase in other operating expense is a result of real estate taxes, maintenance and insurance expense on properties acquired through foreclosure.

FDIC Premiums -----

The Federal Deposit Insurance Corporation ("FDIC") imposed an assessment against institutions for deposit insurance. This assessment is based on the risk category of the institution and currently ranges from 5 to 43 basis points of the institution's deposits. Federal law requires that the designated reserve ratio for the deposit insurance fund be established by the FDIC at 1.15% to 1.50% of estimated insured deposits. If this reserve ratio drops below 1.15% or the FDIC expects it to do so within six months, the FDIC must, within 90 days, establish and implement a plan to restore the designated reserve ratio to 1.15% of estimated insured deposits within five years (absent extraordinary circumstances). On December 22, 2008, the FDIC issued final rules increasing the current assessment rates for all institutions by 7 basis points and up to 50 basis points for certain financial institutions for the first quarter of 2009. It is expected that the FDIC will adopt a new risk based assessment system.

In addition, the Emergency Economic Stabilization Act of 2008 (EESA) temporarily increased the limit on FDIC insurance coverage for deposits to \$250,000 through December 31, 2009, and the FDIC took action to provide coverage for newly-issued senior unsecured debt and non-interest bearing transaction accounts in excess of the \$250,000 limit, for which institutions will be assessed additional premiums.

On February 27, 2009, the FDIC announced an amendment to its restoration plan for the Deposit Insurance Fund by imposing an emergency special assessment on all insured financial institutions. This special assessment of \$140,000 occurred on June 30, 2009, and will be payable by us on September 30, 2009. It is expected that an additional special assessment may occur in 2009.

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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, 2009
and 2008 (continued)

Federal Income Taxes

The provision for federal income taxes increased \$15,000, or 7.5%, to \$216,000 for the six months ended June 30, 2009, from \$201,000 for the same period in 2008. The effective tax rate was 29.4% and 27.0% for the six month periods ended June 30, 2009 and 2008. The difference between the Corporation's effective tax rate in the 2009 and 2008 periods and the 34% statutory corporate rate is due primarily to the tax-exempt earnings on bank-owned life insurance, tax exempt interest on municipal obligations and tax benefits for the contribution to the Cheviot Savings Bank Foundation.

Comparison of Operating Results for the Three-Month Periods Ended June 30,
2009 and 2008

General

Net earnings for the three months ended June 30, 2009 totaled \$225,000, a \$221,000 decrease from the \$446,000 earnings reported in the June 2008 period. The decrease in net earnings reflects an increase in general, administrative and other expenses of \$350,000 and an increase in the provision for losses on loans of \$90,000, which were partially offset by an increase of \$76,000 in net interest income, an increase in other income of \$90,000 and a decrease of \$53,000 in federal income taxes for the 2009 quarter.

Net Interest Income

Total interest income decreased \$315,000, or 7.1%, to \$4.1 million for the three-months ended June 30, 2009, from the comparable quarter in 2008. Interest income on loans decreased \$83,000, or 2.2%, to \$3.7 million during the 2009 quarter from \$3.8 million for the 2008 quarter. This decrease was due primarily to a \$7.6 million, or 3.0%, decrease in the average balance of loans outstanding, which was partially offset by a 5 basis point increase in the average yield on loans to 5.90% for the 2009 quarter from 5.85% for the three months ended June 30, 2008.

Interest income on mortgage-backed securities increased \$3,000, or 2.4%, to \$126,000 for the three months ended June 30, 2009, from \$123,000 for the comparable 2008 quarter, due primarily to a \$3.3 million increase in the average balance of securities outstanding, which was partially offset by a 147 basis point decrease in the average yield period to period. Interest income on investment securities decreased \$212,000, or 42.6%, to \$286,000 for the three months ended June 30, 2009, compared to \$498,000 for the same quarter in 2008, due primarily to a 266 basis point decrease in the average yield to 3.12% in the 2009 quarter, which was partially offset by an increase of \$2.2 million, or 6.3% in the average balance of investment securities outstanding. Interest income on other interest-earning deposits decreased \$23,000, or 60.5% to \$15,000 for the three months ended June 30, 2009.

Interest expense decreased \$391,000, or 18.5% to \$1.7 million for the three months ended June 30, 2009, from \$2.1 million for the same quarter in 2008.

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Interest expense on deposits decreased by \$477,000, or 27.4%, to \$1.3 million, from \$1.7 million, due primarily to a 100 basis point decrease in the average costs of deposits to 2.25% during the 2009 quarter due to the lower rate repricings of certificates of deposit, as deposit rates were lower in 2009 as compared to 2008. This was partially offset by a \$9.9 million, or 4.6%, increase in the average balance outstanding. Interest expense on borrowings increased by \$86,000, or 23.2%, due primarily to a \$7.0 million, or 20.0%, increase in the average balance outstanding and a 12 basis point increase in the average cost of borrowings.

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Cheviot Financial Corp.

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

Comparison of Operating Results for the Three-Month Periods Ended June 30, 2009
and 2008(continued)

As a result of the foregoing changes in interest income and interest expense, net interest income increased by \$76,000, or 3.3%, to \$2.4 million for the three months ended June 30, 2009, as compared to the same quarter in 2008. The average interest rate spread increased to 2.66% for the three months ended June 30, 2009 from 2.38% for the three months ended June 30, 2008. The net interest margin increased slightly to 3.05% for the three months ended June 30, 2009 from 3.02% for the three months ended June 30, 2008.

Provision for Losses on Loans

Management recorded a \$115,000 provision for losses on loans for the three months ended June 30, 2009, compared to a \$25,000 provision for losses on loans for the three months ended June 30, 2008. The decision to make a provision for loan losses during the three months ended June 30, 2009 reflects the amount necessary to maintain an adequate allowance based on the five year historical loss experience and other external factors. There can be no assurance that the loan loss allowance will be sufficient to cover losses on non-performing loans in the future, however management believes they have identified all known and inherent losses that are probable and that can be reasonably estimated within the loan portfolio, and that the allowance for loan losses is adequate to absorb such losses.

Other Income

Other income increased \$90,000, or 58.8%, to \$243,000 for the three months ended June 30, 2009, compared to the same quarter in 2008, due primarily to an increase in the gain on the sale of loans of \$136,000, which was partially offset by an increase in the loss on sale of real estate acquired through foreclosure of \$45,000.

General, Administrative and Other Expense

General, administrative and other expense increased \$350,000, or 19.1%, to \$2.2 million for of the three months ended June 30, 2009. This increase is a result of an increase of \$88,000 in employee compensation and benefits, an increase of \$141,000 in FDIC expense and an increase of \$60,000 in other operating expense.

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The increase in employee compensation and benefits is a result of the increase in compensation expense for additional employees and an increase in the health costs as a result of overall company growth. The increase in FDIC expense is a result of the special assessment from the Federal Deposit Insurance Corporation of approximately \$140,000. The increase in other operating expense is a result of real estate taxes, maintenance and insurance expense on properties acquired through foreclosure.

Federal Income Taxes

The provision for federal income taxes decreased \$53,000, or 32.7%, to \$109,000 for the three months ended June 30, 2009, from \$162,000 for the same quarter in 2008, due primarily to a \$274,000, or 45.1%, decrease in pre-tax earnings. The effective tax rate was 32.6% and 26.6% for the three month periods ended June 30, 2009 and 2008, respectively. The difference between the Corporation's effective tax rate in the 2009 and 2008 periods and the 34% statutory corporate rate is due primarily to the tax-exempt earnings on bank-owned life insurance, tax exempt interest on municipal obligations and tax benefits for the contribution to the Cheviot Savings Bank Foundation.

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Cheviot Financial Corp.

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

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, 2008.

ITEM 4 CONTROLS AND PROCEDURES

The Corporation's Chief Executive Officer and Chief Financial Officer evaluated the disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures are effective.

There were no changes in the Corporation's internal controls or in other factors that could materially affect, or could reasonably be likely to materially affect, these controls subsequent to the date of their evaluation by the Corporation's Chief Executive Officer and Chief Financial Officer.

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PART II

ITEM 1. Legal Proceedings

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None.

ITEM 1A. Risk Factors

There have been no changes to the Corporation's risk factors since the filing of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2008.

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

The Corporation announced a repurchase plan on January 16, 2008 which provides for the repurchase of 5% or 447,584 shares of our common stock. As of June 30, 2009, the Corporation had purchased 82,968 shares pursuant to the program.

Period -----	Total # of shares purchased -----	Average price paid per share -----
April 1-30, 2009	-	\$ -
May 1-31, 2009	3,798	\$7.51
June 1-30, 2009	-	\$ -

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Submission of Matters to a Vote of Security Holders

The Corporation held its Annual Meeting of Shareholders on April 28, 2009. Two matters were presented to the shareholders for a vote: The shareholders elected two directors by the following votes:

	For ---	Withheld -----
Steven R. Hausfeld	8,276,609	61,272
Thomas J. Linneman	7,847,004	490,877

In addition, the following are the continuing directors of the Corporation:

Edward L. Kleemeier
John T. Smith
Robert L. Thomas
James E. Williamson

The shareholders ratified the selection of Clark, Schaefer, Hackett & Co. as the Corporation's auditors for the 2009 calendar year by the following vote:

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For: 8,318,567 Against: 17,766 Abstain: 1,548 Broker Non-Vote: 0

ITEM 5. Other Information

None.

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Cheviot Financial Corp.

PART II (CONTINUED)

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.

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Cheviot Financial Corp.

SIGNATURES

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

Date: August 12, 2009

By: /s/ Thomas J. Linneman

Thomas J. Linneman
President and Chief Executive
Officer

Date: August 12, 2009

By: /s/ Scott T. Smith

Scott T. Smith
Chief Financial Officer

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Exhibit 31.1

CERTIFICATION 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

I, Thomas J. Linneman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cheviot Financial Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the

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registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2009

/s/ Thomas J. Linneman

Thomas J. Linneman
President and Chief Executive Officer
(principal executive officer)

Exhibit 31.2

CERTIFICATION 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

I, Scott T. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cheviot Financial Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within

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those entities, particularly during the period in which this quarterly report is being prepared;

- b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2009

/s/ Scott T. Smith

Scott T. Smith
Chief Financial Officer
(principal financial officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Cheviot Financial Corp. (the "Company"), on Form 10-Q for the period ended June 30, 2009, as filed with the Securities and Exchange Commission on the date of this Certification (the "Report"), I, Thomas J. Linneman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Cheviot Financial Corporation and will be retained by Cheviot Financial Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Thomas J. Linneman

Thomas J. Linneman
President and Chief Executive Officer

Date: August 12, 2009

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Cheviot Financial Corp. (the "Company"), on Form 10-Q for the period ended June 30, 2009, as filed with the Securities and Exchange Commission on the date of this Certification (the "Report"), I, Scott T. Smith, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Cheviot Financial Corporation and will be retained by Cheviot Financial Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Scott T. Smith

Scott T. Smith
Chief Financial Officer

Date: August 12, 2009
