CHEVIOT FINANCIAL CORP
Form 10-Q
November 10, 2005

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, 2005

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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

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

Yes [ ] No [X]

As of November 8, 2005, the latest practicable date, 9,918,751 shares of the registrant's common stock, $.01 par value, were issued and outstanding.

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

ASSETS	September 3 20 (Unaudite
Cash and due from banks	$ 2,6
Federal funds sold	6,9
Interest-earning deposits in other financial institutions	5
Cash and cash equivalents	10,1
Investment securities held to maturity - at cost, approximate market value of $26,597 and $26,864 at September 30, 2005 and December 31, 2004, respectively	27,0
Mortgage-backed securities available for sale - at fair value	1,3
Mortgage-backed securities held to maturity - at cost, approximate market value of $22,485 and $29,315 at September 30, 2005 and December 31, 2004, respectively	22,4

Loans receivable - net	218,2
Real estate acquired through foreclosure - net	
Office premises and equipment - at depreciated cost	3,4
Federal Home Loan Bank stock - at cost	3,0
Accrued interest receivable on loans	8
Accrued interest receivable on mortgage-backed securities	
Accrued interest receivable on investments and interest-earning deposits	2
Bank-owned life insurance	3,0
Prepaid expenses and other assets	3
Prepaid federal income taxes	1
Total assets	$290,5
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits	$181,0
Advances from the Federal Home Loan Bank	30,0
Advances by borrowers for taxes and insurance	7
Accounts payable and other liabilities	1,1
Accrued federal income taxes	
Deferred federal income taxes	3
Total liabilities	213,3
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 and outstanding at both September 30, 2005 and December 31, 2004	
Additional paid-in capital	42,7
Retained earnings - restricted	39,1
Shares acquired by stock benefit plans	(4,8
Other comprehensive income (loss), unrealized gains (losses) on securities available for sale, net of related tax effects	
Total shareholders' equity	77,2
Total liabilities and shareholders' equity	$290,5

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)
(In thousands, except per share data)

	Nine months ended September 30, 2005	2004
Interest income		

Loans	$ 9,057	$8,320
Mortgage-backed securities	672	595
Investment securities	710	547
Interest-earning deposits and other	166	153
Total interest income	10,605	9,615
Interest expense		
Deposits	2,862	2,457
Borrowings	739	410
Total interest expense	3,601	2,867
Net interest income	7,004	6,748
Provision for losses on loans	62	-
Net interest income after provision for losses on loans	6,942	6,748
Other income		
Gain on sale of loans	13	59
Loss on sale of real estate acquired through foreclosure	(8)	(13)
Other operating	299	152
Total other income	304	198
General, administrative and other expense		
Employee compensation and benefits	2,683	2,415
Occupancy and equipment	310	304
Property, payroll and other taxes	709	497
Data processing	201	175
Legal and professional	383	240
Advertising	131	117
Charitable contribution	-	1,500
Other operating	402	376
Total general, administrative and other expense	4,819	5,624
Earnings before income taxes	2,427	1,322
Federal income taxes		
Current	744	826
Deferred	60	(118)
Total federal income taxes	804	708
NET EARNINGS	$ 1,623	$ 614
EARNINGS PER SHARE		
Basic	$.17	$.06
Diluted	$.17	$.06
Dividends declared per share	$.18	$.15

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30,
(Unaudited)
(In thousands)

	20
Cash flows from operating activities:	
Net earnings for the period	$ 1,6
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:	
Amortization of premiums and discounts on investment and mortgage-backed securities, net	
Depreciation	1
Amortization of deferred loan origination (fees) costs - net	(
Proceeds from sale of loans in the secondary market	1,5
Loans originated for sale in the secondary market	(1,5
Gain on sale of loans	(
Loss on sale of real estate acquired through foreclosure	
Federal Home Loan Bank stock dividends	(1
Provision for losses on loans	
Amortization of expense related to stock benefit plans	1
Increase (decrease) in cash due to changes in:	
Accrued interest receivable on loans	(1
Accrued interest receivable on mortgage-backed securities	
Accrued interest receivable on investments and interest-earning deposits	(
Prepaid expenses and other assets	(1
Accounts payable and other liabilities	1
Federal income taxes	
Current	(2
Deferred	
Net cash provided by operating activities	1,5
Cash flows provided by (used in) investing activities:	
Principal repayments on loans	32,0
Loan disbursements	(46,5
Purchase of U.S. Government and agency obligations	(1,9
Proceeds from maturity of U.S. Government and agency obligations	2,0
Purchase of mortgage-backed securities	
Principal repayments on mortgage-backed securities	6,9
Proceeds from sale of real estate acquired through foreclosure	1
Purchase of office premises and equipment	(6
Purchase of bank - owned life insurance	(3,0
Net increase in the cash surrender value of life insurance	(
Net cash used in investing activities	(11,2
Cash flows provided by (used in) financing activities:	
Net increase (decrease) in deposits	1,0
Proceeds from FHLB advances	16,6
Repayments of Federal Home Loan Bank advances	(2,7
Advances by borrowers for taxes and insurance	(2
Purchase of shares for stock benefit plans	(1,6

Proceeds from issuance of common stock	
Dividends paid on common stock	(8
Net cash provided by (used in) financing activities	12,1
Net increase (decrease) in cash and cash equivalents	2,4
Cash and cash equivalents at beginning of period	7,7
Cash and cash equivalents at end of period	$10,1

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the nine months ended September 30,
(Unaudited)
(In thousands)

	20
Supplemental disclosure of cash flow information: Cash paid during the period for:	
Federal income taxes	$1,0
Interest on deposits and borrowings	$3,6
Supplemental disclosure of noncash investing activities:	
Transfers from loans to real estate acquired through foreclosure	$ 1
Recognition of mortgage servicing rights in accordance with SFAS No. 140	$

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2005 and 2004

1. Basis of Presentation

In January 2004, Cheviot Financial Corp. ("Cheviot Financial" or the "Corporation") completed a Plan of Reorganization (the "Plan" or the "Reorganization") pursuant to which Cheviot Savings Bank (the "Savings Bank") reorganized into a two-tier mutual holding company structure with the establishment of Cheviot Financial, as parent of the Savings Bank, with the Savings Bank converting to stock form and issuing all the Savings Bank's outstanding stock to Cheviot Financial. Pursuant to the Plan, Cheviot Financial Corp. sold 4,388,438 common shares in a minority stock offering, representing approximately 44% of its outstanding common stock at $10.00 per share to the Savings Bank's depositors and a newly formed Employee Stock Ownership Plan ("ESOP"). The net proceeds of the offering totaled approximately $39.3 million. In addition, 75,000 shares, or approximately one percent of its outstanding shares, were issued to a charitable foundation established by Cheviot Savings Bank. The remaining 5,455,313 shares of common stock of Cheviot Financial were issued to Cheviot Mutual Holding Company, the federally chartered mutual holding company of Cheviot Financial Corp.

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, 2004. 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, 2005, 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 nine months ended September 30, 2005, include the accounts of the Corporation and its wholly-owned subsidiary, the Savings Bank. All significant intercompany items have been eliminated.

3. Earnings Per Share

Basic earnings per share is computed based upon the weighted-average common shares outstanding during the period, less shares in the ESOP that are unallocated and not committed to be released plus shares in the ESOP that have been allocated. Weighted-average common shares deemed outstanding totaled 9,597,383 for the three and nine month periods ended September 30, 2005, which gives effect to 321,368 unallocated ESOP shares and 35,707 allocated ESOP shares. For the three and nine months ended September 30, 2004, weighted-average shares deemed outstanding totaled 9,561,676, which gives effect to 357,075 unallocated ESOP shares.

Diluted earnings per share is computed taking into consideration common shares outstanding and dilutive potential common share equivalents. The Corporation had no dilutive or potentially dilutive securities during the three and nine month periods ended September 30, 2004. The Corporation approved a Stock Incentive Plan on April 26, 2005, which provides for the issuance of 486,018 shares under option. On May 5, 2005, approximately 384,000 option shares were granted subject to five year vesting. A tabular presentation of diluted earnings per share has not been presented as diluted shares are essentially equal to basic shares outstanding due to the proximity of the strike price and market price.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2005 and 2004

4. Stock Option Plan

The Corporation has a stock option plan that provides for grants of up to 468,018 stock options. The Corporation accounts for its stock option plan in accordance with SFAS No. 123, "Accounting for Stock-based Compensation," which contains a fair value based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, SFAS No. 123 permits entities to continue to account for stock options and similar equity instruments under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Entities that continue to account for stock options using APB Opinion No. 25 are required to make pro-forma disclosures of net earnings and earnings per share, as if the fair value-based method of accounting defined in SFAS No. 123 had been applied.

The Corporation applies APB Opinion No. 25 and related interpretations in accounting for its stock option plan. Accordingly, no compensation cost has been recognized for the plan. Had compensation cost for the Corporation's stock incentive plan been determined based on the fair value at the grant dates for awards under the plan consistent with the accounting method utilized in SFAS No. 123, the Corporation's net earnings and earnings per share would have been reduced to the pro-forma amounts indicated below for the nine and three months ended September 30:

		Nine months ended September 30, 2005
Net earnings (In thousands)	As reported	$1,623
	Stock-based compensation, net of tax	(21)
	Pro-forma	$1,602
Earnings per share		
Basic	As reported	$.17
	Stock-based compensation, net of tax	-
	Pro-forma	$.17
Diluted	As reported	$.17
	Stock-based compensation, net of tax	-

Pro-forma	$.17

The fair value of each option granted is estimated on the date of grant using the modified Black-Scholes options-pricing model with the following weighted-average assumptions used for grants: dividend yield of 2.15%; expected volatility of 39.8%; risk-free interest rates of 4.19%; and expected lives of 10 years.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2005 and 2004

4. Stock Option Plan (continued)

A summary of the status of the Corporation's stock option plan as of September 30, 2005, and changes during the period then ended is presented below:

	N Shares
Outstanding at beginning of period	-
Granted	383,700
Exercised	-
Forfeited	-
Outstanding at end of period	383,700
Options exercisable at period-end	-

The following information applies to options outstanding at September 30, 2005:

Number outstanding	383,700
Exercise price $11.15	
Weighted-average exercise price	11.15
Weighted-average remaining contractual life	4.6 years
Fair value of options granted	$3.36

5. Effects of Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (the "FASB") issued a revision to Statement of Financial Accounting Standards ("SFAS") No. 123 which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily on accounting for transactions in which an entity obtains employee services in share-based transactions. This Statement, SFAS No. 123 (R) "Share-Based Payment", requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, with limited exceptions. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award - the requisite service period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met.

Initially, the cost of employee services received in exchange for an award of liability instruments will be measured based on current fair value; the fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

5. Effects of Recent Accounting Pronouncements (continued)

Excess tax benefits, as defined by SFAS 123(R) will be recognized as an addition to additional paid in capital. Cash retained as a result of those excess tax benefits will be presented in the statement of cash flows as financing cash inflows. The write-off of deferred tax assets relating to unrealized tax benefits associated with recognized compensation cost will be recognized as income tax expense unless there are excess tax benefits from previous awards remaining in additional paid in capital to which it can be offset.

As stated previously, Cheviot Financial's shareholders approved a Stock Incentive Plan at the Corporation's Annual Meeting held on April 26, 2005. The Stock Incentive Plan provides for the award of restricted stock and options to purchase common stock. The Corporation will recognize compensation costs on granted option shares pursuant to SFAS No. 123(R) in calendar 2006. Such costs should approximate the annualized interim costs set forth in the table above.

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.

Discussion of Financial Condition Changes from December 31, 2004 to September 30, 2005

Total assets increased $14.0 million, or 5.0%, to $290.5 million at September 30, 2005, from $276.6 million at December 31, 2004. The increase in total assets reflects the purchase of the bank-owned life insurance totaling $3.0 million during the nine month period ended September 30, 2005, as well as growth in interest-earning deposits and loans receivable, which were partially offset by a decrease in mortgage-backed securities.

Cash, federal funds sold and interest-earning deposits increased $2.5 million, or 31.7%, to $10.2 million at September 30, 2005, from the $7.7 million total at December 31, 2004. The increase in cash and cash equivalents was due to a $2.6 million increase in federal funds sold and an increase in interest-earning deposits of $76,000, which was partially offset by a decrease in cash and cash due from banks of $182,000, or 6.4%, at September 30, 2005. Investment securities decreased $11,000, or .04%, to $27.1 million at September 30, 2005. All investment securities are classified as held to maturity.

Mortgage-backed securities decreased $7.0 million, or 22.7%, to $23.7 million at September 30, 2005, from $30.7 million at December 31, 2004. The decrease in mortgage-backed securities was due primarily to principal prepayments and repayments totaling $6.9 million. At September 30, 2005, $22.4 million of mortgage-backed securities were classified as held to maturity, while $1.3 million were classified as available for sale. Since June 2004, management has focused on investing in shorter term investments in an effort to further enhance the Corporation's interest rate risk position in a rising interest rate environment.

Loans receivable increased $14.4 million, or 7.1%, to $218.2 million at September 30, 2005, from $203.8 million at December 31, 2004. The increase reflects loan originations totaling $46.6 million and sales of $1.6 million, partially offset by loan principal repayments of $32.0 million.

The allowance for loan losses totaled $785,000 and $732,000 at September 30, 2005 and December 31, 2004, 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. This segment of the loss analysis resulted in an additional $30,000 to the provision for loss for the quarter ended September 30, 2005. 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 September 30, 2005.

Discussion of Financial Condition Changes from December 31, 2004 to September 30, 2005 (continued)

Non-performing and impaired loans totaled $205,000 and $251,000 at September 30, 2005 and December 31, 2004, respectively. At September 30, 2005, non-performing and impaired loans were comprised of loans secured by one-to four-family residential real estate totaling $111,000 and nonresidential real estate totaling $94,000. The allowance for loan losses represented 382.9% and 291.6% of non-performing and impaired loans at September 30, 2005 and December 31, 2004, respectively. Although management believes that its allowance for loan losses conforms with 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 $1.0 million, or 0.6%, to $181.0 million at September 30, 2005, from $180.0 million at December 31, 2004. Advances from the Federal Home Loan Bank of Cincinnati increased by $13.8 million, or 85.2%, to $30.0 million at September 30, 2005, from $16.2 million at December 31, 2004. The Corporation utilized the advance proceeds as the primary funding source for growth in the loan portfolio.

Shareholders' equity decreased $714,000 , or 0.9%, to $77.2 million at September 30, 2005, from $77.9 million at December 31, 2004. The decrease resulted from the repurchase of shares for stock benefit plans of $1.6 million and dividends paid of $804,000, which were partially offset by net earnings of $1.6 million and amortization of ESOP expense of $100,000.

Cheviot Savings Bank is required to maintain minimum regulatory capital pursuant to federal regulations. At September 30, 2005, the Savings Bank's regulatory capital substantially exceeded all minimum regulatory capital requirements.

Comparison of Operating Results for the Nine-Month Periods Ended September 30, 2005 and 2004

General

Net earnings for the nine months ended September 30, 2005 totaled $1.6 million, a $1.0 million increase from the $614,000 net earnings reported for the September 2004 period. The increase in net earnings reflects an $805,000 decrease in general and administrative expenses in 2005. During the 2004 period, Cheviot Financial contributed $1.5 million to the Cheviot Savings Bank Charitable Foundation. In addition, net interest income increased by $256,000 and other income increased by $106,000, which were partially offset by a $96,000 increase in federal income taxes for the 2005 quarter.

Net Interest Income

Total interest income increased $990,000, or 10.3%, to $10.6 million for the nine-months ended September 30, 2005, from the comparable period in 2004. Interest income on loans increased $737,000, or 8.9%, to $9.1 million during the 2005 period, from $8.3 million for the 2004 period. This increase was due primarily to a $13.8 million, or 7.1%, increase in the average balance of loans outstanding, and a 10 basis point increase in the weighted-average yield on loans, to 5.79% for 2005 period from 5.69% for the nine months ended September 30, 2004.

Comparison of Operating Results for the Nine-Month Periods Ended September 30, 2005 and 2004 (continued)

Net Interest Income (continued)

Interest income on mortgage-backed securities increased $77,000, or 12.9%, to $672,000 for the nine months ended September 30, 2005, from $595,000 for the 2004 period, due primarily to a 52 basis point increase in the average yield, partially offset by a $1.4 million decrease in the average balance of securities outstanding. Interest income on investment securities increased $163,000, or 29.8%, to $710,000 for the nine months ended September 30, 2005, compared to $547,000 for the same period in 2004, due primarily to an 89 basis point increase in the average yield to 3.27% in the 2005 period, which was partially offset by a $1.7 million, or 5.4% decrease in the average balance of investment securities outstanding. Interest income on interest-earning deposits increased $13,000, or 8.5%, to $166,000 for the nine months ended September 30, 2005, due primarily to a 164 basis point increase in the weighted-average yield, to 3.02% for the nine months ended September 30, 2005, partially offset by a $7.5 million decrease in the average balance of interest-earning deposits, compared to the same period in 2004.

Interest expense increased $734,000, or 25.6%, to $3.6 million for the nine months ended September 30, 2005, from $2.9 million for the same period in 2004. Interest expense on deposits increased by $405,000, or 16.5%, to $2.9 million from $2.5 million due primarily to a $5.6 million, or 3.1%, decline in the weighted-average balance outstanding, which was partially offset by a 36 basis point increase in the weighted average cost of deposits to 2.15% in the 2005 period. Interest expense on borrowings increased by $329,000, or 80.2%, due primarily to a $9.6 million, or 77.1%, increase in the average balance outstanding and an 8 basis point increase in the average cost of borrowings. The increase in the yields on interest-earning assets and cost of interest-bearing liabilities were due primarily to the overall increase in short-term interest rates during 2005. Such increases generally reflect the Federal Reserve's increases in interbank rates during the period.

As a result of the foregoing changes in interest income and interest expense, net interest income increased by $256,000, or 3.8%, to $7.0 million for the nine months ended September 30, 2005, from $6.7 million for the comparable period ended September 30, 2004. The average interest rate spread decreased to 2.79% for the nine months ended September 30, 2005 from 2.82% for the nine months ended September 30, 2004. The net interest margin increased to 3.43% for the nine months ended September 30, 2005 from 3.35% for the nine months ended September 30, 2004.

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 collectibility of the Savings Bank's loan portfolio, management recorded a $62,000 provision for losses on loans for the nine-months ended September 30, 2005. Management's analysis of the allowance resulted in no provision for losses on loans for the nine months ended September 30, 2004. There can be no assurance that the loan loss allowance will be sufficient to cover losses on nonperforming loans in the future.

Other Income

Other income increased $106,000, or 53.5%, to $304,000 for the nine months ended September 30, 2005, compared to the same period in 2004, due primarily to an increase in other operating income of $147,000, or 96.7%, to $299,000 for the nine months ended September 30, 2005 from $152,000 for the prior period and a decrease in the loss on sale of real estate acquired through foreclosure of $5,000, which were partially offset by a decrease in the gain on sale of loans of $46,000, or 78.0%.

Comparison of Operating Results for the Nine-Month Periods Ended September 30, 2005 and 2004 (continued)

General, Administrative and Other Expense

General, administrative and other expense decreased $805,000, or 14.3%, to $4.8 million for the nine months ended September 30, 2005, from $5.6 million for the comparable period in 2004. This decrease is a result of a $1.5 million expense recorded during the first quarter of 2004 in connection with the Corporation's contribution to the Cheviot Savings Bank Charitable Foundation. This decrease was partially offset by an increase of $268,000, or 11.1% in employee compensation and benefits expenses, an increase of $212,000, or 42.7% in property, payroll and other taxes and an increase of $143,000, or 59.6% in legal and professional expenses. The increase in employee compensation and benefits is due primarily to an increase in expense related to stock benefit plans, an increase in contributions to the retirement plan and an increase in the number of employees as a result of the Corporation's growth. The increase in property, payroll and other taxes is due primarily to an increase in the Ohio franchise tax imposed as a result of the overall increase in the net worth of the Corporation following the completion of its mutual holding company reorganization and minority stock offering in 2004. The increase in legal and professional expense was due primarily to expenses associated with the reporting requirements of a public company and professional services in connection with the implementation and design of Sarbanes-Oxley systems documentation.

Federal Income Taxes

The provision for federal income taxes increased $96,000, or 13.6%, to $804,000 for the nine months ended September 30, 2005, from $708,000 for the same period in 2004, due primarily to a $1.1 million increase in pre-tax earnings. The effective tax rate was 33.1% for the nine month period ended September 30, 2005. The federal income tax provision for the 2004 period totaled $708,000, reflecting an effective tax rate of 53.6%. The difference between the 2004 provision and taxes payable at the 34% statutory corporate rate results from the inability to fully deduct contributions to the Cheviot Savings Bank Foundation.

Comparison of Operating Results for the Three-Month Periods Ended September 30, 2005 and 2004

General

Net earnings for the three months ended September 30, 2005 totaled $560,000, a $156,000 decrease from the $716,000 net earnings reported in the September 2004 period. The decrease in net earnings reflects a $222,000 increase in general and administrative expense in 2005, which was partially offset by an increase in other income of $31,000 and a decrease of $91,000 in federal income taxes for the 2005 quarter.

Net Interest Income

Total interest income increased $334,000, or 10.0%, to $3.7 million for the three-months ended September 30, 2005, from the comparable quarter in 2004. Interest income on loans increased $263,000, or 9.1%, to $3.1 million during the 2005 period from $2.9 million for the 2004 period. This increase was due primarily to a $12.8 million, or 6.3%, increase in the average balance of loans outstanding, and a 15 basis point increase in the weighted-average yield on loans to 5.81% for 2005 quarter from 5.66% for the three months ended September 30, 2004.

Comparison of Operating Results for the Three-Month Periods Ended September 30, 2005 and 2004 (continued)

Net Interest Income (continued)

Interest income on mortgage-backed securities increased $5,000, or 2.2%, to $233,000 for the three months ended September 30, 2005, from $228,000 for the 2004 quarter, due primarily to an 89 basis point increase in the average yield period to period, which was partially offset by a $6.9 million decrease in the average balance of securities outstanding. Interest income on investment securities increased $29,000, or 12.9%, to $253,000 for the three months ended September 30, 2005, compared to $224,000 for the same quarter in 2004, due primarily to a 49 basis point increase in the average yield to 3.36% in the 2005 quarter, which was partially offset by a $1.2 million, or 3.9% decrease in the average balance of investment securities outstanding. Interest income on other interest-earning deposits increased $37,000, or 185.0%, to $57,000 for the three months ended September 30, 2005, due primarily to a 119 basis point increase in the weighted-average yield, to 3.27% for the three months ended September 30, 2005 and a $3.0 million increase in the average balance of interest-earning deposits.

Interest expense increased $360,000, or 36.3%, to $1.4 million for the three months ended September 30, 2005, from $1.0 million for the same period in 2004. Interest expense on deposits increased by $246,000, or 30.7%, to $1.0 million from $801,000 due primarily to a 56 basis point increase in the weighted average costs of deposits to 2.35% in the 2005 period, which was partially offset by a $618,000 decrease in the weighted-average balance outstanding. Interest expense on borrowings increased by $114,000, or 60.0%, due primarily to a $10.4 million, or 61.7%, increase in the average balance outstanding, which was partially offset by a 3 basis point decrease in the average cost of borrowings. The increase in the yields on interest-earning assets and costs of interest-bearing liabilities were due primarily to the overall increase in market rates in the September 2005 quarter.

As a result of the foregoing changes in interest income and interest expense, net interest income decreased by $26,000, or 1.1%, to $2.3 million for the three months ended September 30, 2005. The average interest rate spread decreased to 2.67% for the three months ended September 30, 2005 from 2.93% for the three months ended September 30, 2004. The net interest margin decreased to 3.36% for the three months ended September 30, 2005 from 3.49% for the three months ended September 30, 2004.

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 collectibility of the Savings Bank's loan portfolio, management recorded a $30,000 provision for losses on loans for the three-months ended September 30, 2005. Management's analysis in the 2004 period resulted in no provision for losses on loans for the three months ended September 30, 2004. There can be no assurance that the loan loss allowance will be sufficient to cover losses on nonperforming loans in the future.

Other Income

Other income increased $31,000, or 38.3%, to $112,000 for the three months ended September 30, 2005, compared to the same quarter in 2004, due primarily to an increase in other operating income of $50,000, or 90.9%, to $105,000 for the three months ended September 30, 2005 from $55,000 for the prior period consisting of a $25,000 increase in the surrender value of life insurance, which was partially offset by a decrease in the gain on sale of loans of $17,000 and an increase in the loss on sale of real estate acquired through foreclosure of $2,000.

Comparison of Operating Results for the Three-Month Periods Ended September 30, 2005 and 2004 (continued)

General, Administrative and Other Expense

General, administrative and other expense increased $222,000, or 16.4%, to $1.6 million for the three months ended September 30, 2005, from $1.4 million for the comparable quarter in 2004. This increase is a result of an increase of $110,000 in employee compensation and benefits, an increase of $71,000 in property, payroll, and other taxes and a $13,000 increase in other operating expenses. The increase in employee compensation and benefits is due primarily to an increase in expense related to stock benefit plans, an increase in contributions to the retirement plan and an increase in the number of employees as a result of the Corporation's growth. The increase in property, payroll, and other taxes is due primarily to an increase in Ohio franchise tax imposed as a result of the overall increase in the net worth of the Corporation following the completion of its mutual holding company reorganization and minority stock offering in 2004. The increase in other operating expenses was due primarily to additional printing and administrative expenses as a result of being a public company.

Federal Income Taxes

The provision for federal income taxes decreased $91,000, or 24.6%, to $279,000 for the three months ended September 30, 2005, from $370,000 for the same quarter in 2004, due primarily to a $247,000, or 22.7%, decrease in pre-tax earnings. The effective tax rate was 33.3% and 34.1% for the three month periods ended September 30, 2005 and 2004. The difference between the Corporation's 33.3% effective tax rate in the 2005 period and the 34% statutory corporate rate is due primarily to the tax exempt earnings on bank owned life insurance.

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, 2004.

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 significant changes in the Corporation's internal controls or in other factors that could materially affect, or could reasonably be likely to materially affect, these controls subsequent to the date of their evaluation by the Corporation's Chief Executive Officer and Chief Financial Officer.

Cheviot Financial Corp.

PART II

ITEM 1. Legal Proceedings

None.

ITEM 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The Corporation announced a repurchase plan on March 29, 2005. This program provides for the repurchase of 5%, or 495,937 shares of our common stock. As of September 30, 2005, the Corporation had not repurchased any shares pursuant to the repurchase program.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

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

None.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

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

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

32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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: November 10, 2005 By: /s/ Thomas J. Linneman

Thomas J. Linneman
President and Chief Executive Officer

Date: November 10, 2005 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, President and Chief Executive Officer of Cheviot Financial Corp., 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)) 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. 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

   c. 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: November 10, 2005

/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, Chief Financial Officer of Cheviot Financial Corp., 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)) 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. 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

   c. 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: November 10, 2005

/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 September 30, 2005, 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:

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: November 10, 2005

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 September 30, 2005, 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: November 10, 2005