

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

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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 March 31, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-35399

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

Maryland  
(State or other jurisdiction of  
incorporation or  
organization)

90-0789920  
(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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one.)

Large accelerated filer                      Accelerated filer                      Non-accelerated filer

Smaller reporting company

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

Yes                      No

As of May 7, 2015, the latest practicable date, 6,795,454 shares of the 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

March 31, 2015 and December 31, 2014

(In thousands, except share data)

|  | March 31,<br>2015<br>(Unaudited) | December<br>31,<br>2014 |
|--|----------------------------------|-------------------------|
| <b>ASSETS</b>  |                                  |                         |
| Cash and due from banks  | \$9,882                          | \$22,757                |
| Federal funds sold   | 16,570                           | 14,941                  |
| Interest-earning deposits in other financial institutions                | 6,101                            | 4,741                   |
| Cash and cash equivalents  | 32,553                           | 42,439                  |
| Investment securities available for sale – at fair value                 | 138,735                          | 126,999                 |
| Mortgage-backed securities available for sale - at fair value            | 8,933                            | 9,400                   |
| Loans receivable - net   | 336,387                          | 335,763                 |
| Loans held for sale - at lower of cost or market                         | 1,648                            | 1,332                   |
| Real estate acquired through foreclosure - net                           | 1,642                            | 1,815                   |
| Office premises and equipment - at depreciated cost                      | 11,327                           | 11,428                  |
| Federal Home Loan Bank stock - at cost                                   | 8,651                            | 8,651                   |
| Accrued interest receivable on loans                                     | 1,031                            | 1,031                   |
| Accrued interest receivable on mortgage-backed securities                | 32                               | 35                      |
| Accrued interest receivable on investments and interest-earning deposits | 426                              | 735                     |
| Goodwill   | 10,309                           | 10,309                  |
| Core deposit intangible  | 357                              | 391                     |
| Prepaid expenses and other assets  | 4,214                            | 3,915                   |
| Bank-owned life insurance  | 16,070                           | 15,960                  |
| Prepaid federal income taxes   | 13                               | 12                      |
| Deferred federal income taxes  | 374                              | 1,022                   |
| Total assets   | \$572,702                        | \$571,237               |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                              |                                  |                         |
| Deposits   | \$455,523                        | \$451,784               |
| Advances from the Federal Home Loan Bank                                 | 13,857                           | 14,851                  |
| Advances by borrowers for taxes and insurance                            | 1,661                            | 2,651                   |
| Accrued interest payable   | 56                               | 58                      |
| Accounts payable and other liabilities                                   | 4,718                            | 5,711                   |
| Total liabilities  | 475,815                          | 475,055                 |

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Shareholders' equity

|   |            |            |
|---|------------|------------|
| Preferred stock - authorized 5,000,000 shares, \$.01 par value; none issued   |            |            |
| Common stock - authorized 30,000,000 shares, \$.01 par value; 6,753,145 and 6,718,795 shares issued at March 31, 2015 and December 31, 2014 | 221        | 220        |
| Additional paid-in capital  | 55,921     | 55,827     |
| Shares acquired by stock benefit plans  | (1,470 )   | (1,470 )   |
| Retained earnings - restricted  | 42,544     | 43,151     |
| Accumulated comprehensive loss, unrealized losses on securities available for sale, net of related tax benefit                              | (329 )     | (1,546 )   |
| Total shareholders' equity  | 96,887     | 96,182     |
| <br>  |            |            |
| Total liabilities and shareholders' equity  | \$ 572,702 | \$ 571,237 |

See accompanying notes to consolidated financial statements.

## Cheviot Financial Corp.

## CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

For the three months ended March 31, 2015 and 2014

(In thousands, except per share data)

|  | 2015    | 2014    |
|--|---------|---------|
| Interest income  |         |         |
| Loans  | \$3,631 | \$3,754 |
| Mortgage-backed securities   | 40      | 59      |
| Investment securities  | 688     | 751     |
| Interest-earning deposits and other                                    | 93      | 89      |
| Total interest income  | 4,452   | 4,653   |
| Interest expense   |         |         |
| Deposits   | 779     | 771     |
| Borrowings   | 112     | 149     |
| Total interest expense   | 891     | 920     |
| Net interest income  | 3,561   | 3,733   |
| Provision for losses on loans  | 143     | 200     |
| Net interest income after provision for losses on loans                | 3,418   | 3,533   |
| Other income   |         |         |
| Rental   | 28      | 25      |
| Gain (loss) on sale of real estate acquired through foreclosure        | (9      | ) 25    |
| Gain on sale of loans  | 205     | 67      |
| Gain on sale of investment securities designated as available for sale | -       | 440     |
| Earnings on bank-owned life insurance                                  | 110     | 116     |
| Service fee income   | 345     | 370     |
| Other operating  | 2       | 1       |
| Total other income   | 681     | 1,044   |
| General, administrative and other expense                              |         |         |
| Employee compensation and benefits                                     | 2,271   | 1,474   |
| Occupancy and equipment  | 320     | 378     |
| Property, payroll and other taxes                                      | 317     | 293     |
| Data processing  | 200     | 160     |
| Legal and professional   | 213     | 231     |
| Advertising  | 81      | 75      |
| FDIC expense   | 81      | 117     |
| ATM processing expense   | 95      | 88      |
| Real estate owned impairment   | 108     | 196     |
| Core deposit intangible amortization                                   | 34      | 47      |

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|   |       |       |
|---|-------|-------|
| Other operating                                 | 356   | 357   |
| Total general, administrative and other expense | 4,076 | 3,416 |
| Earnings before federal income taxes            | 23    | 1,161 |
| Federal income taxes                            |       |       |
| Current   | -     | -     |
| Deferred  | 22    | 346   |
| Total federal income taxes                      | 22    | 346   |
| NET EARNINGS                                    | \$1   | \$815 |
| EARNINGS PER SHARE                              |       |       |
| Basic   | \$.00 | \$.12 |
| Diluted   | \$.00 | \$.12 |
| Dividends declared per share                    | \$.09 | \$.09 |

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months ended March 31, 2015 and 2014

(In thousands)

|   | 2015    | 2014         |
|---|---------|--------------|
| Net earnings for the period   | \$1     | \$815        |
| Other comprehensive loss, net of related tax expense:   |         |              |
| Unrealized holding gains on securities during the period, net of tax expense of \$627 and \$1,023 for the periods ended March 31, 2015 and 2014, respectively | 1,217   | 1,985        |
| Comprehensive income  | \$1,218 | \$2,800      |
| Accumulated comprehensive loss  | \$(329  | ) \$(5,244 ) |

See accompanying notes to consolidated financial statements.



## Cheviot Financial Corp.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the three months ended March 31, 2015 and 2014

(In thousands)

|   | 2015    |   | 2014    |
|---|---------|---|---------|
| Cash flows from operating activities:   |         |   |         |
| Net earnings for the period   | \$1     |   | \$815   |
| 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      | (3      | ) | (3      |
| Depreciation  | 157     |   | 184     |
| Amortization of deferred loan origination costs - net   | 49      |   | 14      |
| Proceeds from sale of loans in the secondary market   | 9,348   |   | 3,886   |
| Loans originated for sale in the secondary market   | (9,569  | ) | (4,002  |
| Gain on sale of loans   | (205    | ) | (67     |
| Gain on sale of investments designated as available for sale                                  | -       |   | (440    |
| Amortization of expense related to stock benefit plans  | 15      |   | 4       |
| Provision for losses on loans   | 143     |   | 200     |
| Amortization of fair value adjustments  | (93     | ) | (82     |
| (Gain) loss on real estate acquired through foreclosure                                       | 9       |   | (21     |
| Impairment on real estate acquired through foreclosure  | 108     |   | 196     |
| Net increase in cash surrender value of bank-owned life insurance                             | (110    | ) | (116    |
| Increase (decrease) in cash, due to changes in:   |         |   |         |
| Accrued interest receivable on loans  | -       |   | 55      |
| Accrued interest receivable on mortgage-backed securities                                     | 3       |   | 1       |
| Accrued interest receivable on investments and interest-earning deposits                      | 309     |   | 266     |
| Prepaid expenses and other assets   | (299    | ) | (98     |
| Accrued interest payable  | (2      | ) | (4      |
| Accounts payable and other liabilities  | (980    | ) | 397     |
| Federal income taxes  |         |   |         |
| Current   | 1       |   | 346     |
| Deferred  | 22      |   | 346     |
| Net cash flows provided by (used in) operating activities                                     | (1,096  | ) | 1,877   |
| Cash flows provided by (used in) investing activities:  |         |   |         |
| Principal repayments on loans   | 14,152  |   | 15,539  |
| Loan disbursements  | (14,794 | ) | (11,215 |
| Purchase of investment securities – available for sale  | (24,996 | ) | -       |
| Proceeds from maturity of investment securities – available for sale                          | 15,000  |   | 15,000  |
| Proceeds from the sale of corporate securities  | -       |   | 1,603   |
| Principal repayments on mortgage-backed securities – available for sale                       | 574     |   | 319     |
| Principal repayments on mortgage-backed securities – held to maturity                         | -       |   | 121     |
| Proceeds from the sale of real estate acquired through foreclosure                            | 81      |   | 405     |

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|   |           |          |
|---|-----------|----------|
| Purchase of office premises and equipment                 | (56 )     | (9 )     |
| Net cash flows provided by (used in) investing activities | (10,039 ) | 21,763   |
| Cash flows provided by (used in) financing activities:    |           |          |
| Net increase (decrease) in deposits                       | 3,739     | (2,655 ) |
| Repayments on Federal Home Loan Bank advances             | (972 )    | (1,439 ) |
| Advances by borrowers for taxes and insurance             | (990 )    | (806 )   |
| Stock option expense, net                                 | 35        | 4        |
| Common stock issued                                       | 45        | -        |
| Common stock repurchased                                  | -         | (428 )   |
| Dividends paid on common stock                            | (608 )    | (612 )   |
| Net cash flows provided by (used in) financing activities | 1,249     | (5,936 ) |
| Net increase in cash and cash equivalents                 | (9,886 )  | 17,704   |
| Cash and cash equivalents at beginning of period          | 42,439    | 22,112   |
| Cash and cash equivalents at end of period                | \$32,553  | \$39,816 |

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

For the three months ended March 31, 2015 and 2014  
(In thousands)

|   | 2015  | 2014  |
|---|-------|-------|
| Supplemental disclosure of cash flow information:               |       |       |
| Cash paid during the period for:                                |       |       |
| Federal income taxes  | \$-   | \$-   |
| Interest on deposits and borrowings                             | \$893 | \$923 |
| Supplemental disclosure of non-cash investing activities:       |       |       |
| Transfer from loans to real estate acquired through foreclosure | \$27  | \$280 |
| Recognition of mortgage servicing rights                        | \$69  | \$26  |
| Deferred gain on real estate acquired through foreclosure       | \$-   | \$4   |

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

### 1. Basis of Presentation

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

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

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Cheviot Financial included in the Annual Report on Form 10-K for the year ended December 31, 2014. However, in the opinion of management, all adjustments (consisting of only normal recurring accruals) which are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three month period ended March 31, 2015 are not necessarily indicative of the results which may be expected for the entire year.

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

### 2. Principles of Consolidation

The accompanying consolidated financial statements as of and for the three months ended March 31, 2015 and 2014 include the accounts of the Corporation and its wholly-owned subsidiary, the Savings Bank. All significant intercompany items have been eliminated.

### 3. Liquidity and Capital Resources

Liquidity 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 March 31, 2015 and

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December 31, 2014, we had \$13.9 million and \$14.9 million, respectively, in outstanding borrowings from the Federal Home Loan Bank of Cincinnati and had the capacity to increase such borrowings at those dates by approximately \$156.3 million and \$132.1 million, respectively.

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## Cheviot Financial Corp.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2015 and 2014

## 3. Liquidity and Capital Resources (continued)

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

Our primary investing activities are the origination of one- to four-family real estate loans, commercial real estate, construction and consumer loans, and the purchase of securities. For the three months ended March 31, 2015, loan originations totaled \$24.4 million, compared to \$15.2 million for the three months ended March 31, 2014.

Total deposits increased \$3.7 million during the three months ended March 31, 2015, total deposits decreased \$2.7 million during the three months ended March 31, 2014, 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 contracts as of March 31, 2015.

|  | Less<br>than<br>1 year<br>(In thousands) | Payments due by period<br>More than<br>1-3<br>years | More than<br>3-5<br>years | More<br>than<br>5 years | Total     |
|--|--|---|---------------------------|-------------------------|-----------|
| Contractual obligations:                                 |  |   |                           |                         |           |
| Advances from the Federal Home Loan Bank                 | \$384                                    | \$10,802  | \$2,671                   | \$-                     | \$13,857  |
| Certificates of deposit                                  | 108,277                                  | 65,114  | 33,519                    | -                       | 206,910   |
| Lease obligations  | 121                                      | 167   | 119                       | 129                     | 536       |
| Amount of loan commitments and expiration<br>per period: |  |   |                           |                         |           |
| Commitments to originate one- to four-family<br>loans    | 2,505                                    | -   | -                         | -                       | 2,505     |
| Home equity lines of credit                              | 26,390                                   | -   | -                         | -                       | 26,390    |
| Commercial lines of credit                               | 1,123                                    | -   | -                         | -                       | 1,123     |
| Undisbursed loans in process                             | 3,357                                    | -   | -                         | -                       | 3,357     |
| Total contractual obligations                            | \$142,157                                | \$76,083  | \$36,309                  | \$129                   | \$254,678 |

We are committed to maintaining a strong liquidity position and we monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Based on our

deposit retention experience and current pricing strategy, we anticipate that a significant portion of maturing time deposits will be retained.

## Cheviot Financial Corp.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2015 and 2014

## 3. Liquidity and Capital Resources (continued)

The following sets forth our regulatory capital position, compared to requirements to be considered “well-capitalized” as of March 31, 2015 under new regulatory capital requirements, and prior requirements as of December 31, 2014.

|                              | As of March 31, 2015<br>(Dollars in Thousands) |   |                  |                 |   |
|------------------------------|--|---|------------------|-----------------|---|
|                              | Required<br>Ratio                              |   | Actual<br>Amount | Actual<br>Ratio |   |
| Tier 1 Leverage              | 5.00   | % | \$ 78,195        | 14.0            | % |
| Common Equity Tier 1 Capital | 6.50   | % | \$ 78,195        | 23.9            | % |
| Tier 1 Risk-Based Capital    | 8.00   | % | \$ 78,195        | 23.9            | % |
| Total Capital                | 10.00  | % | \$ 80,518        | 24.6            | % |

  

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

## 4. Earnings Per Share

Basic earnings per share is computed based upon the weighted-average common shares outstanding during the period, less shares in the ESOP that are unallocated and not committed to be released plus shares in the ESOP that have been allocated. Weighted-average common shares deemed outstanding gives effect to 158,950 and 168,300 unallocated shares held by the ESOP for the three months ended March 31, 2015 and 2014, respectively.

|  | For the three months<br>ended<br>March 31, |           |
|--|--|-----------|
|  | 2015                                       | 2014      |
| Weighted-average common shares outstanding (basic)   | 6,573,652                                  | 6,653,983 |
| Dilutive effect of assumed exercise of stock options | 90,132                                     | 4,508     |



|  |           |           |
|--|-----------|-----------|
| Weighted-average common shares outstanding (diluted) | 6,663,784 | 6,658,491 |
|--|-----------|-----------|

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2015 and 2014

5. Stock Option Plan

The Corporation established a Stock Incentive Plan that provides for grants of up to 891,517 stock options. During 2014, 400,000 stock options were granted in accordance with the 2013 Equity Incentive Plan subject to a five year vesting period in which the options granted will vest ratably annually beginning one year from the date of grant. The shares in the plan and shares granted prior to the second step conversion have been adjusted to reflect the exchange ratio of 0.857 for the second step conversion that occurred in 2012.

On April 23, 2013, shareholders of the Corporation approved the 2013 Equity Incentive Plan. The Plan provides for grants of up to 467,500 stock options. As of March 31, 2015, 400,000 option awards have been granted under the 2013 Equity Incentive Plan with 72,000 option awards forfeited.

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

The compensation cost recorded for unvested equity-based awards is based on their grant-date fair value. For the three months ended March 31, 2015, the Corporation recorded \$35,000 compensation cost for equity-based awards that vested during the three months ended March 31, 2015. The Corporation has \$435,000 unrecognized compensation cost related to non-vested equity-based awards granted under its stock incentive plan as of March 31, 2015, which is expected to be recognized over a weighted-average vesting period of approximately 3.4 years.

## Cheviot Financial Corp.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2015 and 2014

## 5. Stock Option Plan (continued)

A summary of the status of the Corporation's stock option plan as of March 31, 2015, and changes during the period then ended is presented below:

|  | Three months ended<br>March 31, 2015 |   | Year ended<br>December 31, 2014 |   |
|--|--------------------------------------|---|---------------------------------|---|
|  | Shares                               | Weighted-<br>average<br>exercise<br>price | Shares                          | Weighted-<br>average<br>exercise<br>price |
| Outstanding at beginning of period             | 758,947                              | \$12.67                                   | 369,939                         | \$12.80                                   |
| Granted  | -                                    | -   | 400,000                         | 12.48                                     |
| Exercised                                      | (261,728 )                           | 13.01                                     | (10,992 )                       | 9.94                                      |
| Forfeited                                      | (72,000 )                            | 12.48                                     | -                               | -   |
| Outstanding at end of period                   | 425,219                              | \$12.50                                   | 758,947                         | \$12.67                                   |
| Options exercisable at period-end              | 91,081                               | \$12.79                                   | 363,791                         | \$12.86                                   |
| Options expected to be exercisable at year-end |                                      |   |                                 |   |
| Fair value of options granted                  |                                      | NA  |                                 | <b>1.56</b>                               |

The following information applies to options outstanding at March 31, 2015:

|   |                  |
|---|------------------|
| Number outstanding                          | 425,219          |
| Exercise price                              | \$8.30 - \$15.90 |
| Weighted-average exercise price             | \$12.79          |
| Weighted-average remaining contractual life | 4.7 years        |

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

The fair value of each option granted is estimated on the date of grant using the modified Black-Scholes options-pricing model with the following weighted-average assumptions used for the 2014 grant, dividend yield of 2.88%; expected volatility of 14.25%; risk-free interest rates of 2.55%; and expected lives of 10 years. There were no

grants during the three months ended March 31, 2015.

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

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2015 and 2014

6. Investment and Mortgage-backed Securities

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

|                                   | Amortized<br>cost | March 31, 2015                                 |                               | Estimated<br>fair<br>value |
|-----------------------------------|-------------------|--|-------------------------------|----------------------------|
|                                   |                   | Gross<br>unrealized<br>gains<br>(In thousands) | Gross<br>unrealized<br>losses |                            |
| Available for Sale:               |                   |  |                               |                            |
| U.S. Government agency securities | \$137,614         | \$130  | \$787                         | \$136,957                  |
| Municipal obligations             | 1,691             |  |                               |                            |