CHEVIOT FINANCIAL CORP
Form 10-K
March 28, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Fiscal Year Ended December 31, 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. 000-33405

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, CHEVIOT, OHIO	45211
(Address of Principal Executive Offices)	Zip Code

(513) 661-0457
(Registrant's telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

NONE

Securities Registered Pursuant to Section 12(g) of the Act:

COMMON STOCK, PAR VALUE $.01 PER SHARE
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES _____ NO __X__

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES _____ NO __X__

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the

Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. YES __X__ NO _____.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X].

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 [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 June 30, 2005, there were issued and outstanding 9,918,751 shares of the Registrant's Common Stock.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on June 30, 2005, as reported by the Nasdaq National Market, was approximately $43.8 million.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Proxy Statement for the 2006 Annual Meeting of Stockholders of the Registrant (Part III).

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

FORWARD LOOKING STATEMENTS

This Annual Report contains certain "forward-looking statements" which may be identified by the use of words such as "believe," "expect," "anticipate," "should," "planned," "estimated" and "potential." Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates and most other statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage, commercial and other loans, real estate values, competition, changes in accounting principles, policies, or guidelines, changes in legislation or regulation, and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing products and services.

GENERAL

CHEVIOT FINANCIAL CORP.

Following completion of our mutual holding company reorganization and stock offering on January 5, 2004, Cheviot Financial Corp. became the mid-tier stock holding company for Cheviot Savings Bank. The business of Cheviot Financial Corp. consists of holding all of the outstanding common stock of Cheviot Savings Bank. Cheviot Financial Corp. is chartered under Federal law. As part of our reorganization, we issued a total of 9,918,751 shares of common stock. Our mutual holding company parent, Cheviot Mutual Holding Company, received 5,455,313 of our common shares, and we sold 4,388,438 shares to our depositors and a newly formed Employee Stock Ownership Plan. In addition, 75,000 shares were issued to a charitable foundation formed by Cheviot Savings Bank. Under federal regulations, so long as Cheviot Mutual Holding Company exists, it will own at least 50.1% of the voting stock of Cheviot Financial Corp. At December 31, 2005, Cheviot Financial Corp. had total consolidated assets of $291.8 million, total deposits of $181.2 million, and stockholders' equity of $74.8 million. Our executive offices are located at 3723 Glenmore Avenue, Cheviot, Ohio 45211, and our telephone number is (513) 661-0457.

In 2003, Cheviot Savings Bank's board of directors decided to change the Bank's fiscal year end from March 31 to December 31. In this regard, the Company's fiscal year ends on December 31.

CHEVIOT SAVINGS BANK

Cheviot Savings Bank was established in 1911 as an Ohio-chartered savings and loan association. Following our reorganization we became an Ohio-chartered stock savings and loan. Our primary business activity is the origination of one- to four-family real estate loans. To a lesser extent, we originate construction, multi-family, commercial real estate and consumer loans. We also invest in securities, primarily United States Government Agency securities and mortgage-backed securities.

MARKET AREA

We conduct our operations from our executive office in Cheviot, Ohio, three full-service branches, all of which are located in the western section of

Hamilton County, Ohio, and a lending center in Warren County, Ohio. Cheviot, Ohio is located in Hamilton County and is 10 miles west of downtown

Cincinnati. Hamilton County, Ohio represents our primary geographic market area for loans and deposits with our remaining business operations conducted in the larger Cincinnati metropolitan area which includes Warren, Butler and Clermont Counties. We also conduct a moderate level of business in the southeastern Indiana region, primarily in Dearborn, Ripley, Franklin and Union Counties. We will also originate loans secured by properties in Northern Kentucky. The local economy is diversified into most economic sectors, with services, trade and manufacturing employment remaining the most prominent employment sectors in Hamilton County. Hamilton County is a primarily developed and urban county. The employment base is well diversified and there is no dependence on one area of the economy for continued employment. Our future growth opportunities will be influenced by the growth and stability of the regional, state and national economies, other demographic trends and the competitive environment.

Hamilton County and Cincinnati have experienced a declining population since the 1990 census while the other counties in which we conduct business have experienced an increasing population. The population decline in both Hamilton County and the City of Cincinnati results from the other counties and Northern Kentucky being more successful in attracting new and existing businesses to locate within their areas through economic incentives, including less expensive real estate options for office facilities. Individuals are moving to these other areas to be closer to their place of employment, for newer, less expensive housing and more suburban neighborhoods. Median household and per capita income measures for Hamilton County are above comparable measures for both the United States and Ohio, which we believe indicates the relatively stable and diversified economy in the regional market served by Cheviot Savings Bank. Recent employment trends indicate lower levels of unemployment in Hamilton County compared to national and state-wide unemployment rates.

We believe that we have developed products and services that will meet the financial needs of our current and future customer base; however, we, plan and believe it is necessary, to expand the range of products and services that we offer to be more competitive in-our market area. Marketing strategies will focus on the strength of our knowledge of local consumer and small business markets, as well as expanding relationships with current customers and reaching out to develop new, profitable business relationships.

COMPETITION.

We face intense competition within our market both in making loans and attracting deposits. Hamilton County has a high concentration of financial institutions including large money center and regional banks, community banks and credit unions. Some of our competitors offer products and services that we currently do not offer, such as trust services and private banking. Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms, consumer finance companies and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies. Our primary focus is to build and develop profitable customer relationships across all lines of business while maintaining our position as a community bank.

LENDING ACTIVITIES.

GENERAL. Historically, our principal lending activity has been the origination, for retention in our portfolio, of fixed-rate and adjustable-rate mortgage loans collateralized by one- to four-family residential real estate located within our primary market area. During 2003, we began selling certain fixed-rate loans into the secondary market. We also originate commercial real estate loans, including multi-family residential real estate loans, construction loans and consumer loans.

LOAN PORTFOLIO COMPOSITION. Set forth below is selected information concerning the composition of our loan portfolio in dollar amounts and in percentages as of the dates indicated.

	AT DECEMBER 31,				
	2005		2004		
	AMOUNT	PERCENT	AMOUNT	PERCENT	A
	(DOLLARS IN THOUSANDS)				
Real estate loans:					
One-to four-family residential(1).........	$ 195,059	84.97%	$ 182,016	86.86%	$
Multi-family residential.................	11,144	4.86	9,944	4.75	
Construction............................	12,360	5.38	10,718	5.11	
Commercial(2)...........................	10,883	4.74	6,750	3.22	
Consumer(3)................................	110	0.05	133	0.06	
Total loans................................	229,556	100.00%	209,561	100.00%	
Less:					
Undisbursed portion of loans in process...	5,849		4,754		
Deferred loan origination fees...........	188		233		
Allowance for loan losses................	808		732		
Total loans, net..........................	$ 222,711		$ 203,842		$

	AT MARCH 31,			
	2003		2002	
	AMOUNT	PERCENT	AMOUNT	PERCENT
	(DOLLARS IN THOUSANDS)			
Real estate loans:				
One-to four-family residential(1).........	$ 163,232	85.91%	$ 146,747	85.51%
Multi-family residential.................	7,787	4.10	7,281	4.24
Construction............................	12,368	6.51	10,773	6.28
Commercial(2)...........................	6,305	3.32	6,569	3.83
Consumer(3)................................	303	0.16	240	0.14
Total loans................................	189,995	100.00%	171,610	100.00%

Less:		
Undisbursed portion of loans in process...	6,584	4,452
Deferred loan origination fees...........	232	125
Allowance for loan losses................	735	483
Total loans, net.........................	$ 182,444	$ 166,550

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(1) Includes home equity lines of credit, loans purchased and loans held for sale.
(2) Includes land loans.
(3) Loans secured by deposit accounts.

4

LOAN MATURITY SCHEDULE. The following table sets forth certain information as of December 31, 2005, regarding the amount of loans maturing in our portfolio. Demand loans and loans with no stated maturity, are reported as due within one year.

	AT DECEMBER 31, 2005				
	WITHIN ONE YEAR	ONE THROUGH THREE YEARS	THREE THROUGH FIVE YEARS	FIVE THROUGH TEN YEARS	TEN THROU TWENTY
				(IN THOUSANDS)	
Real estate loans:					
One-to four-family residential(1)............	$ 4,745	$ 10,346	$ 11,599	$ 35,522	$ 1
Multi-family residential....	306	680	782	2,516	
Construction................	275	608	697	2,219	
Commercial(2)...............	299	663	765	2,457	
Consumer(3)...................	110	--	--	--	
Total loans..................	$ 5,735	$ 12,297	$ 13,843	$ 42,714	$ 1

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(1) Includes home equity lines of credit, loans purchased, loans held for sale and construction loans.
(2) Includes land loans.
(3) Loans secured by deposit accounts.

FIXED AND ADJUSTABLE-RATE LOAN SCHEDULE. The following table sets forth at December 31, 2005, the dollar amount of all fixed-rate and adjustable-rate mortgage loans and home equity lines of credit due after December 31, 2006.

	DUE AFTER DECEMBER 31, 2006	
		FLOATING OR

	FIXED	ADJUSTABLE	TOTAL
		(IN THOUSANDS)	
Real estate loans:			
One-to four-family residential(1)..........	$ 151,679	$ 38,635	$ 190,314
Multi-family residential..	8,638	2,200	10,838
Construction	12,085	--	12,085
Commercial(2)............	8,435	2,149	10,584
Total loans................	$ 180,837	$ 42,984	$223,821

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(1) Includes home equity lines of credit, loans purchased, loans held for sale and construction loans.
(2) Includes land loans.

RESIDENTIAL MORTGAGE LOANS. Cheviot Savings Bank originates mortgage loans secured by one-to four-family properties, most of which serve as the primary residence of the owner. As of December 31, 2005, one-to four-family residential mortgage loans totaled $195.1 million, or 85.0% of our total loan portfolio. At December 31, 2005, our one-to four-family residential loan portfolio consisted of 20.3% in adjustable-rate loans and 79.7% in fixed-rate loans. Most of our loan originations result from relationships with existing or past customers, members of our local community and referrals from realtors, attorneys and builders.

Our mortgage loans generally, have terms from 15 to 30 years and amortize on a monthly basis with principal and interest due each month. As of December 31, 2005, we offered the following residential mortgage loan products:

o Fixed-rate loans of various terms;

o Adjustable-rate loans;

o Home equity lines of credit;

o Loans tailored for first time home buyers; and

o Construction/permanent loans.

Residential real estate loans may remain outstanding for significantly shorter periods than their contractual terms as borrowers refinance or prepay loans at their option without penalty. Our residential mortgage loans customarily contain "due on sale" clauses which permit us to accelerate the indebtedness of the loan upon transfer of ownership in the mortgage property.

We currently sell a portion of our conforming fixed-rate loans in the secondary market and hold the remaining fixed-rate loans and adjustable-rate loans in our portfolio. We retain servicing on all loans sold. We lend up to a maximum loan-to-value ratio of 100% on mortgage loans secured by owner-occupied properties, with the condition that private mortgage insurance is required on loans with a loan-to-value ratio in excess of 85%. To a lesser extent, we originate non-conforming loans that are tailored to the needs of the local community.

Our adjustable-rate mortgage loans are originated with a maximum term of

30 years. Adjustable-rate loans include loans that provide for an interest rate based on the interest paid on U.S. Treasury Securities of corresponding terms, plus a margin. Our adjustable-rate mortgages include limits on the increase or decrease in the interest rate. The interest rate may increase or decrease by a maximum of 2.0% per adjustment with a ceiling rate over the life of the loan, which generally is 5.0%. We currently offer adjustable-rate loans with initial rates below those which would prevail under the foregoing computations based upon our determination of market factors and competitive rates for adjustable-rate loans in our market. For one year adjustable-rate loans, borrowers are qualified at the initial rate and at 2.0% over the initial rate. For all other adjustable-rate loans, borrowers are qualified at the initial rate.

The retention of adjustable-rate loans in our portfolio helps reduce exposure to changes in interest rates. However, there are credit risks resulting from potential increased costs to the borrower as a result of rising interest rates. During periods of rising interest rates, the risk of default on adjustable-rate mortgages may increase due to the upward adjustment of interest cost to the borrower.

During the year ended December 31, 2005, we originated $16.4 million in adjustable-rate mortgage loans and $41.9 million in fixed-rate mortgage loans.

Home equity lines of credit are generally made for owner-occupied homes and are secured by first or second mortgages on residential properties. We are attempting to increase our originations of home equity lines of credit. We generally offer home equity lines of credit with a maximum loan to appraised value ratio of 85% including senior liens on the subject property. We currently offer these loans for terms of up to 10 years, and with adjustable rates that are tied to the prime rate. At December 31, 2005, home equity lines of credit represented $9.5 million of our one-to four-family residential loans.

CONSTRUCTION LOANS. Cheviot Savings Bank originates construction loans for owner-occupied residential real estate, and, to a lesser extent, for commercial builders of residential real estate, improvement to existing structures, new construction for commercial purposes and residential land development.

At December 31, 2005, construction loans represented $12.4 million, or 5.4%, of Cheviot Savings Bank's total loans. At December 31, 2005, the unadvanced portion of these constructions loans totaled $5.8 million.

Cheviot Savings Bank's construction loans generally provide for the payment of interest only during the construction phase (12 months for single family residential and varying terms for commercial property and land development). At the end of the construction phase, the loan converts to a permanent mortgage loan. Before making a commitment to fund a construction loan, Cheviot Savings Bank requires detailed cost estimates to complete the project and an appraisal of the property by an independent licensed appraiser. Cheviot Savings Bank also reviews and inspects each property before disbursement of funds during the term of the construction loan. Loan proceeds are disbursed after inspection based on the percentage of completion method.

Construction lending generally involves a greater degree of risk than other one-to four-family mortgage lending. The repayment of the construction loan is, to a great degree, dependent upon the successful and timely completion of construction. Various potential factors including construction delays or the financial viability of the builder may further impair the borrower's ability to repay the loan.

MULTI-FAMILY LOANS. At December 31, 2005, $11.1 million, or 4.9%, of our total loan portfolio consisted of loans secured by multi-family real estate. We originate fixed-rate and adjustable rate multi-family real estate loans with amortization schedules of up to 25 years. We generally lend up to 80% of the property's appraised value. Appraised values are determined by an outside independent appraiser that we designate. In deciding to originate a multi-family loan, we review the creditworthiness of the borrower, the expected cash flows from the property securing the loan, the cash flow requirements of the borrower, the value of the property and the quality of the management involved with the property. We generally obtain the personal guarantee of the principals when originating multi-family real estate loans.

Multi-family real estate lending is generally considered to involve a higher degree of credit risk than one-to four-family residential lending. Such lending may involve large loan balances concentrated on a single borrower or group of related borrowers. In addition, the payment experience on loans secured by income producing properties typically depends on the successful operation of the related real estate project. Consequently, the repayment of the loan may be subject to adverse conditions in the real estate market or the economy generally.

COMMERCIAL REAL ESTATE LOANS. We originate commercial real estate loans to finance the purchase of real property, which generally consists of land and/or developed real estate. In underwriting commercial real estate loans, consideration is given to the property's historic and projected cash flow, current and projected occupancy, location, physical condition and credit worthiness of the borrower. At December 31, 2005, our commercial real estate portfolio totaled $10.9 million, or 4.7%, of total loans. A majority of our commercial real estate loans are secured by properties in Hamilton County. Our commercial real estate portfolio is diverse as to borrower and property type.

Commercial real estate lending involves additional risks compared to one- to four-family residential lending because payments on loans secured by commercial real estate properties are often dependent on the successful operation or management of the properties, and/or the collateral value of the commercial real estate securing the loan. Repayment of such loans may be subject, to a greater extent than residential loans, to adverse conditions in the real estate market or the economy. Also, commercial real estate loans typically involve large loan balances to single borrowers or groups of related borrowers. Our policies limit the amount of loans to a single borrower or group of related borrowers to reduce this risk.

Commercial real estate loans generally have a higher rate of interest and shorter term than residential mortgage loans because of increased risks associated with commercial real estate lending. Commercial real estate loans are generally offered at one year adjustable-rates and fixed-rates with a term generally not exceeding 25 years.

CONSUMER LOANS. On a limited basis, we make loans secured by deposit accounts up to 90% of the amount of the depositor's collected deposit account balance. At December 31, 2005, these loans totaled $110,000, or 0.05%, of total loans. Consumer loans are generally offered for terms of one to five years depending on the collateral and at fixed or variable rates of interest depending on the product.

LOAN ORIGINATIONS, PURCHASES, SALES AND SERVICING. While we originate both fixed-rate and adjustable-rate loans, our ability to generate each type of loan depends upon relative borrower demand and the pricing levels as set in the local marketplace by competing banks, thrifts, credit unions, and mortgage banking companies. Our volume of real estate loan originations is influenced significantly by market interest rates, and, accordingly, the volume of our real estate loan originations can vary from period to period. Our volume of commercial real estate lending has decreased in recent years due to our effort to improve asset quality and to emphasize relationship banking.

The following table sets forth the loan origination, sales and repayment activities of Cheviot Savings Bank for the periods indicated.

	FOR THE YEAR ENDED DECEMBER 31,	FOR THE YEAR ENDED DECEMBER 31,	FOR THE NINE MONTHS ENDED DECEMBER 31,	
	2005	2004	2003	
			(IN THOUSANDS)	
Balance outstanding at beginning or period....	$ 203,842	$ 186,853	$ 182,444	$
Originations, including purchased loans				
Real estate loans:				
One-to four-family residential(1).........	53,174	47,736	42,667	
Multi-family residential.................	2,974	2,406	998	
Construction.............................	7,023	8,886	9,023	
Commercial(2)............................	1,310	1,541	926	
Consumer(3)................................	111	39	30	
Total loan originations................	64,592	60,608	53,644	
Less:				
Principal repayments......................	43,884	40,605	46,669	
Transfers to real estate acquired through foreclosure............................	201	293	46	
Loans sold in the secondary market(4)......	1,596	2,793	2,598	
Other(5)..................................	42	(72)	(78)	
Total deductions.......................	45,723	43,619	49,235	
Balance outstanding at end of period.......	$ 222,711	$ 203,842	$ 186,853	$

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(1) Includes home equity lines of credit, loans purchased and loans held for sale.
(2) Includes land loans.
(3) Loans secured by deposit accounts.
(4) Loans sold to the Federal Home Loan Bank of Cincinnati.
(5) Other items consist of loans in process, deferred loan origination fees, unearned interest and the allowance for loan losses.

LOAN APPROVAL PROCEDURES AND AUTHORITY. The lending activities of Cheviot Savings Bank are subject to the written underwriting standards and loan origination procedures established by the board of directors and management. Loan originations are obtained through a variety of sources, primarily consisting of existing customers and referrals from real estate brokers. Written loan applications are taken by one of Cheviot Savings Bank's loan officers. The loan officer also supervises the procurement

of reports, appraisals and other documentation involved with a loan. Cheviot Savings Bank obtains property appraisals from independent appraisers on substantially all of its loans.

Cheviot Savings Bank's loan approval process is intended to provide direction to management on all phases of real estate lending activity since such real estate mortgage lending is the single most important revenue producing investment of Cheviot Savings Bank. Therefore, Cheviot Savings Bank believes that the underwriting of mortgage loans should be consistent with safe and sound practices to ensure the financial viability of the Bank. The loan underwriting policy is also established to provide appropriate limits and standards for all extensions of credit in real estate or for the purpose of financing the construction of a building or other improvement. Cheviot Savings Bank's loan committee has the authority to approve or deny loan applications on one-to four-family owner occupied properties up to $500,000. This committee also has the authority for approving or denying loan applications on non-owner occupied properties up to $100,000. The loan committee reviews all loan applications submitted to Cheviot Savings Bank and lists such applications on a review sheet that is submitted to the board of directors. The board of directors ratifies all loans approved by the loan committee and approves all other loans other than those specifically set forth above.

LOANS TO ONE BORROWER. State savings and loan institutions are subject to the same loans to one borrower limits as those applicable to national banks, which under current regulations restrict loans to one borrower to an amount equal to 15% of unimpaired equity on an unsecured basis, and an additional amount equal to 10% of unimpaired equity if the loan is secured by readily marketable collateral (generally, financial instruments and bullion, but not real estate). Our loans to one borrower limit under this regulation is $8.9 million. Our policy provides that loans to one borrower (or related borrowers) should not exceed $4.0 million (excluding the borrower's principal residence). However, the board of directors may amend this limitation annually based on the asset growth and capital position of Cheviot Savings Bank.

At December 31, 2005, the largest aggregate credit exposure to one borrower consisted of five loans totaling $2.7 million. These loans were performing in accordance with their terms. There were ten additional credit relationships, including committed amounts, in excess of $1.0 million at December 31, 2005.

ASSET QUALITY.

GENERAL. One of our key operating objectives has been, and continues to be, to maintain a high asset quality. Our high proportion of one- to four-family mortgage loans, our maintenance of sound credit standards for new loan originations and our loan administration procedures have resulted in our impaired and non-performing loans totaling to $149,000, or 0.07% of net loans at December 31, 2005.

COLLECTION PROCEDURES. When a borrower fails to make required payments on a loan, we take a number of steps to induce the borrower to cure the delinquency and restore the loan to a current status. Cheviot Savings Bank has implemented certain loan tracking policies and collection procedures to ensure effective management of classified assets. Cheviot Savings Bank generally sends a written notice of non-payment to its borrower after a loan is first past due.

If payment has not been received within a reasonable time period, personal contact efforts are attempted by telephone or by letter. If no payment is received the following month, a letter stating that the borrower is two months behind is mailed indicating that the borrower needs to contact our collections department, and make payment arrangements. If the borrower has missed two consecutive payments, a demand letter will be sent by certified mail. On all accounts that are not current ten days after the completion of the last step set forth above our collection manager or staff member contacts the borrower by phone at their home and if necessary, at their place of employment in order to establish communications with the borrower concerning the delinquency and to try to establish a

meeting with the borrower to determine what steps are needed to bring the borrower to a current status. If contact with the borrower by telephone is unsuccessful and the loan becomes 60 days delinquent Cheviot Savings Bank sends a letter stating its intention to begin foreclosure procedures. If no satisfactory agreement has been reached with the borrower within 15 days after the foreclosure intention letter, the Board of Directors will consider the status of the delinquency and may authorize Cheviot Savings Bank's attorney to send a letter to the borrower advising the borrower that foreclosure proceedings will be initiated and setting forth the conditions which could forestall the foreclosure. In selected cases, Cheviot Savings Bank may make an economic decision to forego foreclosure and work with the borrower to-bring the loan current. Repayment schedules may be entered into with chronically delinquent borrowers if management determines this resolution is more advantageous to Cheviot Savings Bank.

In connection with home equity lines of credit, when payment is first past due the collection manager or staff member attempts to contact the borrower by phone at their home. If phone contact is unsuccessful, the collection manager or staff member will mail a late notice to the borrower at the beginning of the following month indicating the need to contact the collections personnel and bring the loan current. If the preceding steps are unsuccessful then the collection manager will implement the steps described above leading to foreclosure.

Cheviot Savings Bank has implemented several credit risk measures in the loan origination process that have served to reduce potential losses. Cheviot Savings Bank also seeks to limit loan portfolio credit risk by originating in the local market generally one- to four-family permanent mortgage loans with a loan-to-value of 85% or less, and one and two family owner-occupied residential mortgage loans with a loan-to-value of 85%, with private mortgage insurance, required on loans originated with a loan-to-value above 85%. Cheviot Savings Bank has implemented conservative loan underwriting guidelines and makes exceptions in originating such loans only if there are sound reasons for such exceptions.

Credit risk on commercial real estate loans is managed by generally limiting such lending to local markets and emphasizing sound underwriting and monitoring the financial status of the borrower. In originating such loans Cheviot Savings Bank seeks debt service coverage ratios in excess of 1.00x.

To limit the impact of loan losses in any given quarter, Cheviot Savings Bank seeks to maintain an adequate level of valuation allowances. Its management and board of directors review the level of general valuation allowances on a quarterly basis to ensure that adequate coverage against known and inherent losses is maintained, based on the level of non-performing and classified assets, our loss history and industry trends and economic trends.

Cheviot Savings Bank has established detailed asset review policies and procedures which are consistent with generally accepted accounting principles. Quarterly reviews of the valuation allowance are conducted by the board of directors. Pursuant to these procedures, when needed, additional valuation allowances are established to cover anticipated losses in the portfolio.

We hold foreclosed property as real estate acquired through foreclosure. We carry foreclosed real estate at lower of cost or fair value less estimated selling costs. If a foreclosure action is commenced and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, we either sell the real property securing the loan at the foreclosure sale or sell the property as soon thereafter as practical.

Marketing real estate owned generally involves listing the property for sale. Cheviot Savings Bank maintains the real estate acquired through foreclosure in good condition to enhance its marketability. As of December 31, 2005, we had one property classified as real estate owned. The carrying value of this property was $89,000 at December 31, 2005.

10

DELINQUENT LOANS AND NON-PERFORMING LOANS AND ASSETS. Our policies require that the collection manager monitor the status of the loan portfolios and report to the Board on a monthly basis. These reports include information on delinquent loans, criticized and classified assets, foreclosed real estate and our plans to cure the delinquent status of the loans.

It is Cheviot Savings Bank's policy to underwrite single-family residential loans on no more than an 85% loan-to-value ratio and all other loans (multi-family, construction, commercial and consumer) on no more than an 80% loan-to-value ratio. It has been the Bank's experience that interest on delinquent loans is generally recovered in ultimate settlement of the loan due to this conservative underwriting policy. We generally stop accruing interest on our one-to four-family residential, construction and commercial loans when interest or principal payments are 150 days in arrears. Consumer loans are comprised exclusively of loans secured by deposits with Cheviot Savings Bank. Such loans are placed on non-accrual status should they become 90 days delinquent. The Bank will stop accruing interest earlier when the timely collectibility of such interest or principal is doubtful.

We designate loans on which we stop accruing interest as non-accrual loans and we reverse outstanding interest that we previously credited. We may recognize income in the period that we collect it, when the ultimate collectibility of principal is no longer in doubt. We return a non-accrual loan to accrual status when factors indicating doubtful collection no longer exist and the loan has been brought current. In accordance with industry standards and regulatory requirements, it is Cheviot Savings Bank's policy to charge-off a loan when it becomes apparent that recovery of amounts due is not probable, either from expected payments from the borrower or from settlement of the collateral.

The following table sets forth certain information regarding delinquencies in our loan portfolio as of December 31, 2005.

	AT DECEMBER 31, 2005	
	30-59	60-89

	DAYS DELINQUENT		DAYS DELINQUENT	
	AMOUNT	PERCENT OF NET LOANS	AMOUNT	PERCENT OF NET LOANS
			(DOLLARS IN THOUSANDS)	
Real Estate Loans:				
One-to four-family residential(1)...	$ 367	0.16%	$ 299	0.13%
Multi-family residential...........	--	--	--	--
Construction.......................	--	--	--	--
Commercial(2)......................	--	--	--	--
Consumer(3)...........................	--	--	--	--
Total delinquent loans................	$ 367	0.16%	$ 299	0.13%

(Footnotes on next page).

11

The following table sets forth information regarding impaired and non-performing loans and assets.

	AT DECEMBER 31, 2005	2004	2003	AT MARC 2003
			(DOLLARS IN THOUSANDS)	
Non-accrual real estate loans:				
One-to four-family residential(1).........	$ --	$ 96	$ 4	$ 137
Multi-family residential.................	134	--	--	--
Construction.............................	--	--	--	--
Commercial(2)............................	--	94	226	--
Consumer(3)................................	--	--	--	--
Total non-accruing loans(4)................	134	190	230	137
Impaired loans.............................	15	33	38	40
Accruing loans delinquent 90 days or more...	--	28	194	58
Total non-performing loans.................	149	251	462	235
Real estate acquired through foreclosure....	89	90	46	141
Total non-performing assets................	$ 238	$ 341	$ 508	$ 376
Non-performing assets to total assets.......	0.08%	0.12%	0.16%	0.15%
Non-performing loans to net loans...........	0.07%	0.12%	0.25%	0.13%

(1) Includes home equity lines of credit, loans purchased and loans held for sale.
(2) Includes loans secured by land.
(3) Loans secured by deposit accounts.

(4) For the year ended December 31, 2005, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to $5,000.

Non-performing and impaired loans totaled $149,000 at December 31, 2005.

Our loan review procedures are performed quarterly. With respect to multi-family and commercial loans, we consider a loan impaired when, based on current information and events, it is probable, that we will be unable to collect all amounts due according to the loan's contractual terms.

We review all multi-family and commercial loans for impairment. These loans are individually assessed to determine whether the loan's carrying value is in excess of the fair value of the collateral or the present value of the loan's expected cash flows. Smaller balance homogenous loans that are collectively evaluated for impairment, such as residential mortgage loans and consumer loans, are specifically excluded from individual impairment review.

CLASSIFIED ASSETS. Federal regulations require that each insured savings institution classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, federal examiners have authority to identify problem assets and, if appropriate, classify them. There are three classifications for problem assets: "substandard," "doubtful" and "loss." Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a higher possibility of loss. An asset classified as a loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. Another category designated "special mention" also may be established and maintained for assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification as substandard, doubtful or loss. If a classified asset is deemed to be impaired with measurement of loss, Cheviot Savings Bank may establish a specific allowance pursuant to SFAS No. 114. Similarly, with respect to homogenous loan types with specific common risks, a specific loan loss allowance is established. The following table sets forth information regarding classified assets as of December 31, 2005 and 2004.

	AT DECEMBER 31,	
	2005	2004
	(IN THOUSANDS)	
Classification of Assets:		
Special Mention	$ --	$ --
Substandard	627	770
Doubtful	--	--
Loss	--	--
Total	$ 627	$ 770

General loss allowances established to cover losses related to assets classified substandard and doubtful may be included in determining an institution's regulatory capital, while specific valuation allowances for loan losses do not qualify as regulatory capital. Federal examiners may disagree with an insured institution's classifications and amounts reserved.

ALLOWANCE FOR LOAN LOSSES. We maintain the allowance through provisions for loan losses that we charge to income. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. Recoveries on loans charged-off are restored to the allowance for loan losses. The allowance for loan losses is maintained at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. The level of allowance for loan losses is based on management's periodic review of the collectibility of the loans principally in light of our historical experience, augmented by the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and current and anticipated economic conditions in the primary lending area.

In addition, the regulatory agencies, as an integral part of their examination and review process, periodically review our loan portfolios and the related allowance for loan losses. Regulatory agencies may require us to increase the allowance for loan losses based on their judgments of information available to them at the time of their examination, thereby adversely affecting our results of operations.

At December 31, 2005 and 2004, our allowance for loan losses was $808,000 and $732,000, respectively. Our ratio of the allowance for loan losses as a percentage of net loans receivable was 0.36% at both December 31, 2005 and 2004.

The following table sets forth the analysis of the activity in the allowance for loan losses for the periods indicated:

	AT OR FOR THE YEAR ENDED DECEMBER 31,	AT OR FOR THE YEAR ENDED DECEMBER 31,	AT OR FOR THE NINE MONTHS ENDED DECEMBER 31,	AT
	2005	2004	2003	
			(DOLLARS IN THOUSANDS)	
Balance at beginning of period..........	$ 732	$ 768	$ 735	$
Charge offs:				
One-to four-family residential(1)......	(21)	--	(12)	
Multi-family residential..............	--	(36)	--	
Construction..........................	--	--	--	
Commercial(2).........................	--	--	--	
Consumer(3)...........................	--	--	--	
Total charge-offs.....................	(21)	(36)	(12)	
Recoveries:				
One-to four-family residential(1)......	--	--	--	
Multi-family residential..............	--	--	--	
Construction..........................	--	--	--	

Commercial(2)	--	--	--	
Consumer(3)	--	--	--	
Total recoveries	--	--	--	
Net recoveries (charge offs)	(21)	(36)	(12)	
Provision for losses on loans	97	--	45	
Balance at end of period	$ 808	$ 732	$ 768	$
Total loans receivable, net	$ 222,771	$ 203,842	$ 186,853	$
Average loans receivable outstanding	$ 211,736	$ 197,000	$ 185,149	$
Allowance for loan losses as a percent of net loans receivable	0.36%	0.36%	0.41%	
Net loans charged off as a percent of average loans outstanding	0.01%	0.02%	0.01%	

(1) Includes home equity lines of credit, loans purchased and loans held for sale.
(2) Includes loans secured by land.
(3) Loans secured by deposit.

14

The following table sets forth the allocation of the allowance for loan losses by loan category for the years indicated. This allocation is based on management's assessment, as of a given point in time, of the risk characteristics of each of the component parts of the total loan portfolio and is subject to changes as and when the risk factors of each such component part change. The allocation is neither indicative of the specific amounts or the loan categories in which future charge-offs may be taken nor is it an indicator of future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category.

	AT DECEMBER 31,			
	2005			
	ALLOWANCE FOR LOAN LOSSES	LOAN BALANCES BY CATEGORY	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	ALLOWANCE FOR LOAN LOSSES
	(DOLLARS IN THOUSANDS)			
Loan Category Allocated:				

Real estate - mortgage				
One-to four-family residential(1).....	$ 200	$ 195,059	84.97%	$ 353
Multi-family residential.............	275	11,144	4.86	166
Construction.........................	5	12,360	5.38	22
Commercial(2)........................	328	10,883	4.74	191
Consumer(3)..........................	--	110	0.05	--
Total................................	$ 808	$ 229,556	100.00%	$ 732

	AT DECEMBER 31		
	2003		
	ALLOWANCE FOR LOAN LOSSES	LOAN BALANCES BY CATEGORY	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS
	(DOLLARS IN THOUSANDS)		
Loan Category Allocated:			
Real estate - mortgage			
One-to four-family residential(1).....	$ 308	$ 166,998	86.11%
Multi-family residential.............	213	7,714	3.98
Construction.........................	5	13,770	7.10
Commercial(2)........................	242	5,278	2.72
Consumer(3)..........................	--	169	0.09
Total................................	$ 768	$ 193,929	100.00%

	AT MARCH 31,			
	2003			2
	ALLOWANCE FOR LOAN LOSSES	LOAN BALANCES BY CATEGORY	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	ALLOWANCE FOR LOAN LOSSES
	(DOLLARS IN THOUSANDS)			
Loan Category Allocated:				
Real estate - mortgage				
One-to four-family residential(1)....	$ 249	$ 163,232	85.91%	$ 161
Multi-family residential.............	242	7,787	4.10	161
Construction.........................	4	12,368	6.51	11
Commercial(2)........................	240	6,305	3.32	150
Consumer(3)..........................	--	303	0.16	--
Total................................	$ 735	$ 189,995	100.00%	$ 483

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(1) Includes home equity lines of credit, loans purchased and loans held for sale.
(2) Includes loans secured by land.
(3) Loans secured by deposit accounts.

SECURITIES ACTIVITIES.

GENERAL. Our investment policy is established by the board of directors. This policy dictates that investment decisions will be made based on the safety of the investment, liquidity requirements, potential returns, cash flow targets, and consistency with our interest rate risk management. The board of directors, as a whole, acts in the capacity of an investment committee and is responsible for overseeing our investment program and evaluating on an ongoing basis our investment policy and objectives. Our president and chief financial officer have the authority to purchase securities within specific guidelines established by the investment policy. All transactions are reviewed by the board of directors at its regular meeting.

We account for investment and mortgage-backed securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115 "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that investments be categorized as held-to maturity, trading, or available for sale. Securities classified as held to maturity are carried at cost only if we have the positive intent and ability to hold these securities to maturity. Trading securities and securities available for sale are carried at fair value with resulting unrealized gains or losses recorded to operations or shareholders' equity, respectively. During 2004, we purchased one mortgage-backed security that was designated as available for sale. All other investment and mortgage-backed securities were designated as held-to-maturity. At December 31, 2003, we designated all investment and mortgage-backed securities as held-to-maturity. Realized gains or losses on sales of securities are recognized using the specific identification method.

Our current policies generally limit securities investments to U.S. Government, agency and sponsored entity securities and municipal bonds. The policy also permits investments in mortgage-backed securities guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. Our investment in municipal obligations mature in fiscal 2026. The majority of our investment in U.S. Government and agency obligations were scheduled to mature within one year, or step up in rate within one year at December 31, 2005.

Our current investment strategy uses a risk management approach of diversified investing in fixed-rate securities with short- to intermediate-term maturities, as well as adjustable-rate securities, which may have a longer term to maturity. The emphasis of this approach is to increase overall securities yields while managing interest rate risk. To accomplish these objectives, we focus on investments in mortgage-backed securities and short-term investments. As a result of the short duration of our investment portfolio, all unrealized losses on securities are viewed to be temporary, as the fair value will increase towards par as the securities approach maturity.

AMORTIZED COST AND ESTIMATED FAIR VALUE OF SECURITIES. The following tables sets forth certain information regarding the amortized cost and estimated fair values of our securities as of the dates indicated.

	AT DECEMBER 31,			
	2005		2004	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMA FAIR V
		(IN THOUSANDS)		
Investment securities held to maturity:				
U.S. Government and agency securities.........	$ 26,984	$ 26,405	$ 27,002	$ 2
Municipal obligations........................	100	104	100	
Total investment securities..................	27,084	26,509	27,102	2
Mortgage-backed securities held to maturity:				
Freddie Mac..................................	1,088	1,077	1,507	
Fannie Mae...................................	1,369	1,376	1,684	
Ginnie Mae...................................	17,828	17,740	26,013	2
Total mortgage-backed securities held to maturity....................................	20,285	20,193	29,204	2
Total investments and mortgage-backed securities held to maturity..................	47,369	46,702	56,306	5
Mortgage-backed securities available for sale:				
Ginnie Mae...................................	1,282	1,269	1,492	
	20,285	20,193	29,204	2
Total mortgage-backed securities...............	$ 48,651	$ 47,971	$ 57,798	$ 5

17

The following table sets forth certain information regarding the carrying value, weighted average yields and contractual maturities of our securities portfolio as of December 31, 2005. Adjustable-rate mortgage-backed securities are included in the period in which interest rates are next scheduled to adjust.

	AT DECEMBER 31,			
	ONE YEAR OR LESS		MORE THAN ONE THROUGH FIVE Y	
	AMORTIZED COST	WEIGHTED AVERAGE YIELD	AMORTIZED COST	WEI AV Y
			(DOLLARS IN THOUS	
Investment securities held to maturity:				
U.S. Government and agency obligations............	$ 1,985	4.60%	$ 24,999	

Municipal obligations	--	--	--	
Total investment securities	1,985	4.60	24,999	
Mortgage-backed securities held to maturity:				
Freddie Mac	1,088	3.67	--	
Fannie Mae	1,369	4.05	--	
Ginnie Mae	17,828	3.98	--	
Total mortgage backed securities held to maturity	20,285	3.97	--	
Mortgage-backed securities available for sale:				
Ginnie Mae	1,282	4.06	--	
Total mortgage-backed securities	$ 23,552	4.03%	$ 24,999	

	AT DECEMBER 31, 2005			
	MORE THAN TEN YEARS		TOTAL S	
	AMORTIZED COST	WEIGHTED AVERAGE YIELD	AMORTIZED COST	EST FAI
	(DOLLARS IN THOUSANDS)			
Investment securities held to maturity:				
U.S. Government and agency obligations	$ --	--%	$ 26,984	$
Municipal obligations	100	5.13	100	
Total investment securities	100	5.13	27,084	
Mortgage-backed securities held to maturity:				
Freddie Mac	--	--	1,088	
Fannie Mae	--	--	1,369	
Ginnie Mae	--	--	17,828	
Total mortgage backed securities held to maturity	--	--	20,285	
Mortgage-backed securities available for sale:				
Ginnie Mae	--	--	1,282	
Total mortgage-backed securities	$ 100	5.13%	$ 48,651	$

SOURCES OF FUNDS.

GENERAL. Deposits, FHLB advances, scheduled amortization and prepayments of loan principal, maturities and calls of securities and funds provided by operations are our primary sources of funds for use in lending, investing and for other general purposes.

DEPOSITS. We offer deposit products having a range of interest rates and terms. We currently offer passbook and statement savings accounts, interest-bearing demand accounts, non-interest-bearing demand accounts, money market accounts and certificates of deposit.

Deposit flows are significantly influenced by general and local economic conditions, changes in prevailing interest rates, internal pricing decisions and competition. Our deposits are primarily obtained from areas surrounding our branch offices. In order to attract and retain deposits we rely on paying competitive interest rates and providing quality service.

Savings, NOW and money market rates are generally determined monthly by the board of directors. Certificates of deposit rates are generally determined weekly by the Savings Bank's President. When we determine our deposit rates, we consider liquidity needs, local competition, FHLB advance rates and rates charged on other sources of funds. Core deposits, defined as savings accounts, money market accounts and demand deposit accounts, represented 39.3% and 42.3% of total deposits at December 31, 2005 and 2004. At December 31, 2005 and 2004, certificates of deposit with remaining terms to maturity of less than one year amounted to $75.4 million and $83.1 million, respectively.

The following tables set forth the various types of deposit accounts offered by us at the dates indicated.

	AT DECEMBER 31,					
	2005			2004		
	AMOUNT	PERCENT	WEIGHTED AVERAGE RATE	AMOUNT	PERCENT	WEIGHTE AVERAG RATE
	(DOLLARS IN THOUSANDS)					
NOW accounts......................	$ 13,691	7.55%	0.37%	$ 12,534	6.96%	0.2
Passbook accounts.................	18,707	10.32	0.94	19,573	10.88	0.7
Money market demand deposits......	38,782	21.40	1.81	44,009	24.45	1.1
Total demand, transaction and Passbook deposits..............	71,180	39.27	1.30	76,116	42.29	0.8
Certificates of deposit						
Due within one year............	75,438	41.63	3.07	83,072	46.15	1.9
Over 1 year through 3 years.....	34,224	18.88	3.35	20,330	11.30	2.0
Over 3 years...................	396	0.22	4.10	471	0.26	4.6
Total certificates of deposit....................	110,058	60.73	3.43	103,873	57.71	2.0
Total...........................	$ 181,238	100.00%	2.59%	$ 179,989	100.00%	1.4

The following table presents our deposit activity for the years indicated.

	FOR THE YEAR ENDED DECEMBER 31, 2005	FOR THE YEAR ENDED DECEMBER 31, 2004	FOR THE NINE MONTHS ENDED DECEMBER 31, 2003
	(IN THOUSANDS)		
Net deposits (withdrawals)(1)...................	$ (2,780)	$ (91,223)	$ 69,680
Interest credited on deposit account............	4,029	3,285	2,935
Total increase (decrease) in deposit accounts....	$ 1,249	$ (87,938)	$ 72,615

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(1) A substantial amount of the increase depicted for the nine months ended December 31, 2003, was comprised of funds received for stock subscription orders. A substantial amount of the decrease depicted for the year ended December 31, 2004 was comprised of the return of funds for such orders and the reclassification of net offering proceeds to shareholders' equity.

MATURITIES OF CERTIFICATES OF DEPOSIT ACCOUNTS. The following table sets forth the amount and maturities of certificates of deposit accounts at the dates indicated.

	AT DECEMBER 31, 2005				
	LESS THAN SIX MONTHS	SIX MONTHS TO ONE YEAR	OVER ONE YEAR TO THREE YEARS	OVER THREE YEARS	
	(DOLLARS IN THOUSANDS)				
2.00% and below...............	$ 4,217	$ 162	$ --	$ --	$
2.01% to 3.00%...............	23,031	5,969	2,447	--	
3.01% to 4.00%................	13,042	25,203	20,121	130	
4.01% to 5.00%................	499	2,970	11,656	266	
5.01% to 6.00%................	143	--	--	--	
6.01% to 7.00%................	202	--	--	--	
Total.....................	$ 41,134	$ 34,304	$ 34,224	$ 396	$

As of December 31, 2005, the aggregate amount of outstanding certificates of deposit at Cheviot Savings Bank in amounts greater than or equal to $100,000, was approximately $15.7 million. The following table presents the maturity of these certificates of deposit at such date.

MATURITY PERIOD	AT DECEMBER 31, 2005 AMOUNT
	(IN THOUSANDS)
Less than three months.........	$ 2,485
Three to six months............	2,473
Six months to one year.........	5,031
Over one year to three years...	4,954
Over three years...............	718
Total.......................	$ 15,661

21

BORROWED FUNDS. As a member of the FHLB of Cincinnati, Cheviot Savings Bank is eligible to obtain advances upon the security of the FHLB common stock owned and certain residential mortgage loans, provided certain standards related to credit-worthiness have been met. FHLB advances are available pursuant to several credit programs, each of which has its own interest rate and range of maturities.

	FOR THE YEAR ENDED DECEMBER 31, 2005	FOR THE YEAR ENDED DECEMBER 31, 2004	FOR MON DEC
		(DOLLARS IN THOUS	
FHLB ADVANCES:			
Maximum month end-end balance...........................	$ 33,209	$ 17,090	$
Balance at the end of period............................	33,209	16,199	
Average balance...	24,375	13,417	
Weighted average interest rate at the end of period......	4.70%	4.49%	
Weighted average interest rate during period.............	4.51%	4.44%	

REGULATION

REGULATION

LOANS-TO-ONE-BORROWER. Federal savings banks generally may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus on an unsecured basis. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which is defined to include certain securities and bullion, but generally does not include real estate. As of December 31, 2005, we were in compliance with our loans-to-one-borrower limitations.

QUALIFIED THRIFT LENDER TEST. As a federal savings bank, we are required to satisfy a qualified thrift lender test whereby we must maintain at least 65% of our "portfolio assets" in "qualified thrift investments." These consist primarily of residential mortgages and related investments, including mortgage-backed and related securities. "Portfolio assets" generally means total assets less specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used to conduct business. A savings bank that fails the qualified thrift lender test must either convert to a bank charter or operate under specified restrictions. As of December 31, 2005, we maintained 92.1% of our portfolio assets in qualified thrift investments and, therefore, we met the qualified thrift lender test.

CAPITAL DISTRIBUTIONS. Office of Thrift Supervision regulations govern capital distributions by savings institutions, which include cash dividends, stock repurchases and other transactions charged to the capital account of a savings institution. A savings institution must file an application for Office of Thrift Supervision approval of the capital distribution if either (1) the total capital distributions for the applicable calendar year exceed the sum of the institution's net income for that year to date plus the institution's retained net income for the preceding two years, (2) the institution would not be at least adequately capitalized following the distribution, (3) the distribution would violate any applicable statute, regulation, agreement or Office of Thrift Supervision-imposed condition, or (4) the institution is not eligible for expedited review of its filings. If an application is not required to be filed, savings institutions which are a subsidiary of a holding company, as well as certain other institutions, must still file a notice with the Office of Thrift Supervision at least 30 days before the board of directors declares a dividend or approves a capital distribution.

Any additional capital distributions would require prior regulatory approval. In the event our capital falls below our fully phased-in requirement or the Office of Thrift Supervision notifies us that we are in need of more than normal supervision, our ability to make capital distributions could be restricted.

In addition, the Office of Thrift Supervision could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if it determines that the distribution would constitute an unsafe or unsound practice.

COMMUNITY REINVESTMENT ACT AND FAIR LENDING LAWS. Savings banks have a responsibility under the Community Reinvestment Act and related regulations of the Office of Thrift Supervision to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An institution's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities, and failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Office of Thrift Supervision, as well as other federal regulatory agencies and the Department of Justice. We received a Satisfactory Community Reinvestment Act rating in our most recent examination by the Office of Thrift Supervision.

TRANSACTIONS WITH RELATED PARTIES. Our authority to engage in transactions with related parties or "affiliates" or to make loans to specified insiders, is limited by Sections 23A and 23B of the Federal Reserve Act. The term "affiliate" for these purposes generally means any company that controls or is under common control with an institution, including Cheviot Financial Corp. and its non-savings institution subsidiaries. Section 23A limits the aggregate amount of certain "covered" transactions with any individual affiliate to 10% of the capital and surplus of the savings institution and also limits the aggregate amount of covered transactions with all affiliates to 20% of the savings institution's capital and surplus. Covered transactions with affiliates are required to be secured by collateral in an amount and of a type described in Section 23A, and purchasing low quality assets from affiliates is generally prohibited. Section 23B provides that covered transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

Our authority to extend credit to executive officers, directors and 10% stockholders, as well as entities controlled by these persons, is currently governed by Sections 22(g) and 22(h) of the Federal Reserve Act, and also by Regulation O. Among other things, these regulations generally require these loans to be made on terms substantially the same as those offered to unaffiliated individuals and do not involve more than the normal risk of repayment. However, recent regulations now permit executive officers and directors to receive the same terms through benefit or compensation treatment compared to other participating employees. Regulation O also places individual and aggregate limits on the amount of loans we may make to these persons based, in part, on our capital position, and requires approval procedures to be followed. At December 31, 2005, we were in compliance with these regulations.

ENFORCEMENT. The Office of Thrift Supervision has primary enforcement responsibility over savings institutions and has the authority to bring enforcement action against all "institution-related parties," including stockholders, and attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institution, receivership, conservatorship or the termination of deposit insurance. Civil penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1.0 million per day. The Federal Deposit Insurance Corporation also has the authority to recommend to the Director of the Office of Thrift Supervision that enforcement action be taken with respect to a particular savings

institution. If action is not taken by the Director, the Federal Deposit Insurance Corporation has authority to take action under specified circumstances.

STANDARDS FOR SAFETY AND SOUNDNESS. Federal law requires each federal banking agency to prescribe for all insured depository institutions standards relating to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under the Federal law. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems; internal audit systems; credit underwriting; loan documentation; interest rate risk exposure; asset growth; and compensation, fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan.

CAPITAL REQUIREMENTS

Office of Thrift Supervision capital regulations require savings institutions to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS financial institution rating system), and, together with the risk-based capital standard itself, a 4% Tier 1 risk-based capital standard. Office of Thrift Supervision regulations also require that in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard for savings institutions requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the Office of Thrift Supervision capital regulation based on the risks believed inherent in the type of asset. Core capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets, and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The capital regulations also incorporate an interest rate risk component. Savings institutions with "above normal" interest rate risk exposure are subject to a deduction from total capital for purposes of calculating their risk-based capital requirements. For the present time, the Office of Thrift Supervision has deferred implementation of the interest rate risk capital charge. At December 31, 2005, Cheviot Savings Bank met each of its capital requirements.

24

PROMPT CORRECTIVE REGULATORY ACTION

Under the Office of Thrift Supervision Prompt Corrective Action regulations, the Office of Thrift Supervision is required to take supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's level of capital. Generally, a savings institution that has total risk-based capital of less than 8.0%, or a leverage ratio or a Tier 1 core capital ratio that is less than 4.0%, is considered to be undercapitalized. A savings institution that has total risk-based capital less than 6.0%, a Tier 1 core risk-based capital ratio of less than 3.0% or a leverage ratio that is less than 3.0% is considered to be "significantly undercapitalized." A savings institution that has a tangible capital to assets ratio equal to or less than 2.0% is deemed to be "critically undercapitalized." Generally, the banking regulator is required to appoint a receiver or conservator for an institution that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the Office of Thrift Supervision within 45 days of the date an institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to the institution, including, but not limited to, restrictions on growth, investment activities, capital distributions, and affiliate transactions. The Office of Thrift Supervision may also take any one of a number of discretionary supervisory actions against undercapitalized institutions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

INSURANCE OF DEPOSIT ACCOUNTS

The Federal Deposit Insurance Corporation has adopted a risk-based deposit insurance assessment system. The Federal Deposit Insurance Corporation assigns an institution to one of three capital categories based on the institution's financial information, as of the reporting period ending seven months before the assessment period, and one of three supervisory subcategories within each capital group. The three capital categories are well capitalized, adequately capitalized and undercapitalized. The supervisory subgroup to which an institution is assigned is based on a supervisory evaluation provided to the Federal Deposit Insurance Corporation by the institution's primary federal regulator and information which the Federal Deposit Insurance Corporation determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds. An institution's assessment rate depends on the capital category and supervisory category to which it is assigned. The Federal Deposit Insurance Corporation is authorized to raise the assessment rates. The Federal Deposit Insurance Corporation has exercised this authority several times in the past and may raise insurance premiums in the future. If this type of action is taken by the Federal Deposit Insurance Corporation, it could have an adverse effect on our earnings.

On February 15, 2006, federal legislation to reform federal deposit insurance was signed into law. This law requires, among other things, the merger of the Savings Association Insurance Fund and the Bank Insurance Fund into a unified insurance deposit fund, an increase in the amount of federal deposit insurance coverage from $100,000 to $130,000 (with a cost of living adjustment to become effective in five years), and the reserve ratio to be modified to provide for a range between 1.15% and 1.50% of estimated insured deposits. The law requires the FDIC to issue implementing regulations and the changes required by the law will not become effective until final regulations have been issued, which must be no later than 270 days from February 15, 2006.

FEDERAL HOME LOAN BANK SYSTEM

We are a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. As a member of the Federal Home Loan Bank of Cincinnati we are required to acquire and hold shares of capital stock in the Federal Home Loan Bank in an amount equal to at least 1%

of the aggregate principal amount of our unpaid residential mortgage loans and similar obligations at the beginning of each year, or 1/20 of our borrowings from the Federal Home Loan Bank, whichever is greater. As of December 31, 2005, we were in compliance with this requirement. The Federal Home Loan Banks are required to provide funds for the resolution of insolvent thrifts and to contribute funds for affordable housing programs. These requirements could reduce the amount of dividends that the Federal Home Loan Banks pay to their members and could also result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members.

OHIO SAVINGS AND LOAN LAW

The Ohio Division of Financial Institutions is responsible for the regulation and supervision of Ohio savings institutions in accordance with the laws of the State of Ohio. Ohio law prescribes the permissible investments and activities of Ohio savings and loan associations, including the types of lending that such associations may engage in and the investments in real estate, subsidiaries, and corporate or government securities that such associations may make. The ability of Ohio associations to engage in these state-authorized investments or activities are not permissible for a federally chartered savings and loan association.

The Ohio Division of Financial Institutions also has approval authority over the payment of dividends and any mergers involving or acquisitions of control of Ohio savings institutions. The Ohio Division of Financial Institutions may initiate certain supervisory measures or formal enforcement actions against Ohio associations. Ultimately, if the grounds provided by law exist, the Ohio Division of Financial Institutions may place an Ohio association in conservatorship or receivership.

The Ohio Division of Financial Institutions conducts regular examinations of Cheviot Savings Bank approximately once every twelve months. Such examinations are usually conducted jointly with one or both federal regulators. The Ohio Division of Financial Institutions imposes assessments on Ohio associations based on their asset size to cover the cost of supervision and examination.

HOLDING COMPANY REGULATION

GENERAL. Cheviot Mutual Holding Company and Cheviot Financial Corp. are nondiversified mutual savings and loan holding companies within the meaning of the Home Owners' Loan Act. As such, Cheviot Mutual Holding Company and Cheviot Financial Corp. are registered with the Office of Thrift Supervision and are subject to Office of Thrift Supervision regulations, examinations, supervision and reporting requirements. In addition, the Office of Thrift Supervision has enforcement authority over Cheviot Financial Corp. and Cheviot Mutual Holding Company and their subsidiaries. Among other things, this authority permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution. As federal corporations, Cheviot Financial Corp. and Cheviot Mutual Holding Company are generally not subject to state business organization laws.

PERMITTED ACTIVITIES. Pursuant to Section 10(o) of the Home Owners' Loan Act and Office of Thrift Supervision regulations and policy, a mutual holding company, such as Cheviot Mutual Holding Company, and a federally chartered mid-tier holding company such as Cheviot Financial Corp. may engage in the following activities: (i) investing in the stock of a savings association; (ii) acquiring a mutual association through the merger of such association into a savings association subsidiary of such holding company or an interim savings association subsidiary of such holding company; (iii) merging with or acquiring another holding company, one of whose subsidiaries is a savings association;

(iv) investing in a corporation, the capital stock of which is available for purchase by a savings association under federal law or under the law of any state where the subsidiary savings association or

associations share their home offices; (v) furnishing or performing management services for a savings association subsidiary of such company; (vi) holding, managing or liquidating assets owned or acquired from a savings subsidiary of such company; (vii) holding or managing properties used or occupied by a savings association subsidiary of such company; (viii) acting as trustee under deeds of trust; (ix) any other activity (A) that the Federal Reserve Board, by regulation, has determined to be permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act of 1956, unless the Director, by regulation, prohibits or limits any such activity for savings and loan holding companies; or (B) in which multiple savings and loan holding companies were authorized (by regulation) to directly engage on March 5, 1987; (x) any activity permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act, including securities and insurance underwriting; and (xi) purchasing, holding, or disposing of stock acquired in connection with a qualified stock issuance if the purchase of such stock by such savings and loan holding company is approved by the Director. If a mutual holding company acquires or merges with another holding company, the holding company acquired or the holding company resulting from such merger or acquisition may only invest in assets and engage in activities listed in (i) through (xi) above, and has a period of two years to cease any nonconforming activities and divest of any nonconforming investments.

The Home Owners' Loan Act prohibits a savings and loan holding company, including Cheviot Financial Corp. and Cheviot Mutual Holding Company, directly or indirectly, or through one or more subsidiaries, from acquiring another savings institution or holding company thereof, without prior written approval of the Office of Thrift Supervision. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a nonsubsidiary savings institution, a nonsubsidiary holding company, or a nonsubsidiary company engaged in activities other than those permitted by the Home Owners' Loan Act; or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Office of Thrift Supervision must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

The Office of Thrift Supervision is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (i) the approval of interstate supervisory acquisitions by savings and loan holding companies, and (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

WAIVERS OF DIVIDENDS BY CHEVIOT MUTUAL HOLDING COMPANY. Office of Thrift Supervision regulations require Cheviot Mutual Holding Company to notify the Office of Thrift Supervision of any proposed waiver of its receipt of dividends from Cheviot Financial Corp. The Office of Thrift Supervision reviews dividend waiver notices on a case-by-case basis, and, in general, does not object to any such waiver if: (i) the mutual holding company's board of directors determines that such waiver is consistent with such directors' fiduciary duties to the mutual holding company's members; (ii) for as long as the savings association subsidiary is controlled by the mutual holding company, the dollar amount of dividends waived by the mutual holding company are considered as a restriction on the retained earnings of the savings association, which restriction, if material, is disclosed in the public financial statements of the savings association as a note to the financial statements; (iii) the amount of any dividend waived by the mutual holding company is available for declaration as a dividend solely to the mutual holding company, and, in accordance with SFAS 5, where the savings association determines that the payment of such dividend to the mutual holding company is probable, an appropriate dollar amount is recorded as a liability; and (iv) the amount of any waived dividend is considered as having been paid by the savings association in evaluating any proposed dividend under Office of Thrift Supervision capital distribution

regulations. Cheviot Mutual Holding Company may waive dividends paid by Cheviot Financial Corp. Under Office of Thrift Supervision regulations, our public stockholders would not be diluted because of any dividends waived by Cheviot Mutual Holding Company (and waived dividends would not be considered in determining an appropriate exchange ratio) in the event Cheviot Mutual Holding Company converts to stock form.

CONVERSION OF CHEVIOT MUTUAL HOLDING COMPANY TO STOCK FORM. Office of Thrift Supervision regulations permit Cheviot Mutual Holding Company to convert from the mutual form of organization to the capital stock form of organization (a "Conversion Transaction"). There can be no assurance when, if ever, a Conversion Transaction will occur, and the Board of Directors has no current intention or plan to undertake a Conversion Transaction. In a Conversion Transaction a new holding company would be formed as the successor to Cheviot Financial Corp. (the "New Holding Company"), Cheviot Mutual Holding Company's corporate existence would end, and certain depositors of Cheviot Savings Bank would receive the right to subscribe for additional shares of the New Holding Company. In a Conversion Transaction, each share of common stock held by stockholders other than Cheviot Mutual Holding Company ("Minority Stockholders") would be automatically converted into a number of shares of common stock of the New Holding Company determined pursuant an exchange ratio that ensures that Minority Stockholders own the same percentage of common stock in the New Holding Company as they owned in Cheviot Financial Corp. immediately prior to the Conversion Transaction. Under Office of Thrift Supervision regulations, Minority Stockholders would not be diluted because of any dividends waived by Cheviot Mutual Holding Company (and waived dividends would not be considered in determining an appropriate exchange ratio), in the event Cheviot Mutual Holding Company converts to stock form. The total number of shares held by Minority Stockholders after a Conversion Transaction also would be increased by any purchases by Minority Stockholders in the stock offering conducted as part of the Conversion Transaction.

THE USA PATRIOT ACT

In response to the events of September 11, 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act, was signed into law on October 26, 2001. The USA PATRIOT Act gives the Federal Government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements.

SARBANES-OXLEY ACT OF 2002

The Sarbanes-Oxley Act of 2002 was enacted in response to public concerns regarding corporate accountability in connection with recent accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the SEC, under the Securities Exchange Act of 1934.

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules requiring the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules, and mandates further studies of certain issues by the SEC. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law,

such as the relationship between a board of directors and management and between a board of directors and its committees.

Although we anticipate that we will incur additional expense in complying with the provisions of the Sarbanes-Oxley Act and the regulations that have been promulgated to implement the Sarbanes-Oxley Act, management does not expect that such compliance will have a material impact on our results of operations or financial condition. TAXATION

FEDERAL TAXATION

For federal income tax purposes, Cheviot Financial Corp. and Cheviot Savings Bank file separate federal income tax returns on a calendar year basis using the accrual method of accounting.

As a result of the enactment of the Small Business Job Protection Act of 1996, all savings banks and savings associations may convert to a commercial bank charter, diversify their lending, or merge into a commercial bank without having to recapture any of their pre-1988 tax bad debt reserve accumulations. However, transactions which would require recapture of the pre-1988 tax bad debt reserve include redemption of Cheviot Savings Bank's stock, payment of dividends or distributions in excess of earnings and profits, or failure by the institution to qualify as a bank for federal income tax purposes. At December 31, 2005, Cheviot Savings Bank had pre-1988 bad debt reserves totaling approximately $1.0 million. A deferred tax liability has not been provided on this amount as management does not intend to make distributions, redeem stock or fail certain bank tests that would result in recapture of the reserve.

Deferred income taxes arise from the recognition of items of income and expense for tax purposes in years different from those in which they are recognized in the consolidated financial statements. Cheviot Financial Corp. will account for deferred income taxes by the asset and liability method, applying the enacted statutory rates in effect at the balance sheet date to differences between the book basis and the tax basis of assets and liabilities. The resulting deferred tax liabilities and assets will be adjusted to reflect changes in the tax laws.

Cheviot Financial Corp. is subject to the corporate alternative minimum tax to the extent it exceeds Cheviot Financial Corp.'s regular income tax for the year. The alternative minimum tax will be imposed at the rate of 20% of a specially computed tax base. Included in this base are a number of preference items, including interest on certain tax-exempt bonds issued after August 7, 1986, and an "adjusted current earnings" computation which is similar to a tax earnings and profits computation. In addition, for purposes of the alternative minimum tax, the amount of alternative minimum taxable income that may be offset by net operating losses is limited to 90% of alternative minimum taxable income.

Cheviot Savings Bank's income tax returns have not been audited by the Internal Revenue Service within the past five years.

STATE TAXATION

Cheviot Financial Corp. and Cheviot Savings Bank are subject to Ohio taxation in the same general manner as other corporations. In particular, Cheviot Financial Corp. and Cheviot Savings Bank are subject to the Ohio corporation franchise tax, which is an excise tax imposed on corporations for the privilege of doing business in Ohio, owning capital or property in Ohio, holding a charter or certificate of compliance authorizing the corporation to do business in Ohio, or otherwise having nexus with Ohio during a calendar year. The franchise tax is imposed on the value of a corporation's issued and outstanding

shares of stock. Financial institutions determine the value of their issued and outstanding shares based upon the net worth of the shares. For Ohio franchise tax purposes, savings institutions are currently taxed at a rate equal to 1.3% of taxable net worth. Cheviot Savings Bank is not currently under audit with respect to its Ohio franchise tax returns.

ITEM 1A. RISK FACTORS

CHANGING INTEREST RATES MAY CAUSE NET EARNINGS TO DECLINE.

In the event that interest rates rise, our net interest margin and interest rate spread will be adversely affected by the high level of assets with fixed rates of interest which we retain in our portfolio. As market interest rates rise, we will have competitive pressures to increase the rates we pay on deposits, which will result in a decrease of our net interest income. Furthermore, the value of our loans will be less should we choose to sell such loans in the secondary market. Since as a general matter our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets, an increase in interest rates generally would result in a decrease in our average interest rate spread and net interest income.

IF OUR ALLOWANCE FOR LOAN LOSSES IS NOT SUFFICIENT TO COVER ACTUAL LOAN LOSSES, OUR EARNINGS COULD DECREASE.

Our loan customers may not repay their loans according to their terms, and the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectibility of our portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans.

In determining the amount of the allowance for loan losses, we review individual delinquent multi-family and commercial real estate loans for potential impairments in their carrying value. Additionally, we apply a factor to the loan portfolio principally based on historical loss experience as applied to the composition of the one- to-four family loan portfolio and integrated with our perception of risk in the economy related to past experience. Since we must use assumptions regarding individual loans and the economy, our current allowance for loan losses may not be sufficient to cover actual loan losses, and increases in the allowance may be necessary. Consequently, we may need to significantly increase our provision for losses on loans, particularly if one or more of our larger loans or credit relationships becomes delinquent of if we expand our non-residential, multi-family or commercial business lending. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize loan charge-offs.

IF ECONOMIC CONDITIONS DETERIORATE, OUR EARNINGS COULD BE ADVERSELY IMPACTED AS BORROWERS' ABILITY TO REPAY LOANS DECLINES AND THE VALUE OF THE COLLATERAL SECURING OUR LOANS DECREASES.

Our financial results may be adversely affected by changes in prevailing economic conditions, including decreases in real estate values, changes in interest rates which may cause a decrease in interest rate spreads, adverse employment conditions, the monetary and fiscal policies of the federal government and other significant external events. Since we have a significant amount of real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. Advance changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings.

In addition, substantially all of our loans are to individuals and businesses in Hamilton County, Ohio. Consequently, any decline in the economy of this market area could have an adverse impact on our earnings.

OUR PUBLIC SHAREHOLDERS DO NOT EXERCISE VOTING CONTROL OVER CHEVIOT FINANCIAL CORP.

A majority of the voting stock of Cheviot Financial Corp. will be owned by Cheviot Mutual Holding Company. Cheviot Mutual Holding Company will be controlled by its board of directors, who initially will consist of those persons who are members of the board of directors of Cheviot Financial Corp. and Cheviot Savings Bank. Cheviot Mutual Holding Company will elect all members of the board of directors of Cheviot Financial Corp., and, as a general matter, will control the outcome of all matters presented to the stockholders of Cheviot Financial Corp. for resolution by vote, except for matters that require a vote greater than a majority vote. Consequently, Cheviot Mutual Holding Company, acting through its board of directors, is able to control the business and operations of Cheviot Financial Corp. and may be able to prevent any challenge to the ownership or control of Cheviot Financial Corp. by stockholders other than Cheviot Mutual Holding Company. There is no assurance that Cheviot Mutual Holding Company will not take actions that the public stockholders believe are against their interests.

STRONG COMPETITION WITHIN OUR MARKET AREA MAY LIMIT OUR GROWTH AND PROFITABILITY.

Competition in the banking and financial services industry is intense. In our market area, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors have substantially greater resources and lending limits than we do and may offer certain services that we do not or cannot provide. Our profitability depends upon our continued ability to successfully compete in our market area.

WE OPERATE IN A HIGHLY REGULATED ENVIRONMENT AND MAY BE ADVERSELY AFFECTED BY CHANGES IN LAWS AND REGULATIONS.

We are subject to extensive regulation, supervision and examination by the Office of Thrift Supervision, our chartering authority, and by the Federal Deposit Insurance Corporation, as insurer of deposits. As federally chartered holding companies, Cheviot Financial Corp. and Cheviot Mutual Holding Company also will be subject to regulation and oversight by the Office of Thrift Supervision. Such regulation and supervision govern the activities in which an institution and its holding companies may engage and are intended primarily for the protection of the insurance fund and depositors. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, including changes in the regulations governing mutual holding companies, could have a material impact on Cheviot Savings Bank, Cheviot Financial Corp., and our operations.

ITEM 1.B UNRESOLVED STAFF COMMENTS

Not applicable.

MANAGEMENT

EXECUTIVE OFFICERS OF CHEVIOT FINANCIAL CORP.

The following individuals hold the following executive officer positions of Cheviot Financial Corp.

NAME	AGE	POSITION
Thomas J. Linneman	52	President and Chief Executive Officer
Scott T. Smith	36	Chief Financial Officer

AVAILABILITY OF ANNUAL REPORT ON FORM 10-K

Our Annual Report on Form 10-K may be accessed on our website at www.cheviotsavings.com.

ITEM 2. PROPERTIES

We conduct our business through our main banking office located in Cheviot, Ohio, and other full-service branch offices located in Hamilton County, Ohio. The aggregate net book value of our premises and equipment was $3.6 million at December 31, 2005. The following table sets forth certain information with respect to our offices at December 31, 2005.

LOCATION	LEASED OR OWNED	YEAR OPENED/ ACQUIRED	
MAIN OFFICE 3723 Glenmore Avenue Cheviot, Ohio 45211	Owned	1915	
BRANCHES 5550 Cheviot Road Cincinnati, Ohio 45247	Owned	1982	
6060 Bridgetown Road Cincinnati, Ohio 45248	Owned	1991	
1194 Stone Road Harrison, Ohio 45030	Owned	1997	
LENDING CENTER 8050 Beckett Center Drive, Suite 106 West Chester, Ohio 45069(1)	Leased	2004	
TOTAL NET BOOK VALUE			

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(1) New address effective February 1, 2006.

ITEM 3. LEGAL PROCEEDINGS

Cheviot Savings Bank is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business which, in the aggregate, involve amounts which are believed by management to be immaterial to its financial condition or results of operations.

32

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Common Stock is quoted on the Nasdaq SmallCap Market under the symbol "CHEV." The Common Stock began trading on January 5, 2004.

The following table sets forth the range of the high and low bid prices of the Company's Common Stock for the prior four calendar quarters and is based upon information provided by Nasdaq.

	PRICES OF COMMON STOCK HIGH	PRICES OF COMMON STOCK LOW	DIVIDEND PAID
CALENDAR QUARTER ENDED			
March 31, 2005.........................	$ 12.98	$ 11.09	$ 0.06
June 30, 2005..........................	11.74	11.01	0.06
September 30, 2005.....................	11.94	11.12	0.06
December 31, 2005......................	11.80	11.12	0.06

	PRICES OF COMMON STOCK HIGH	PRICES OF COMMON STOCK LOW	DIVIDEND PAID
CALENDAR QUARTER ENDED			
March 31, 2004.........................	$ 13.75	$ 13.00	$ 0.05
June 30, 2004..........................	13.49	10.17	0.05
September 30, 2004.....................	12.31	10.47	0.05
December 31, 2004......................	13.24	10.91	0.05

As of December 31, 2005, the Company had 924 stockholders of record.

Set forth below is information relating to the Company's common stock repurchase activity.

MONTH	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL SHARES PURCHASED AS PART OF A PUBLICLY ANNOUNCED PROGRAM OR PLAN
April	35,000	11.64	35,000
May	28,250	11.23	63,250
June	18,456	11.36	81,706
July	31,400	11.59	113,106
August	8,400	11.60	121,506
September	21,100	11.64	142,606
October	69,800	11.45	212,406
November	145,800	11.77	358,206
December	52,410	11.74	410,616

ITEM 6. SELECTED FINANCIAL DATA

The Selected Financial Data is incorporated by reference to the Annual Report to Shareholders included as Exhibit 13 to this Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Incorporated by reference to the Annual Report to Shareholders included as Exhibit 13 to the Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Incorporated by reference to the Annual Report to Shareholders included as Exhibit 13 to the Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements identified in Item 15(a)(1) hereof are incorporated by reference to the Annual Report to Shareholders included as Exhibit 13 to the Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer, President and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the fiscal year (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer, President and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to the material information relating to us (or our consolidated subsidiaries) required to be included in our periodic SEC filings.

(b) Changes in internal controls.

There were no significant changes made in our internal controls during the period covered by this report or, to our knowledge, in other factors that could significantly affect these controls subsequent to the date of their evaluation.

See the Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning Directors of the Company is incorporated herein by reference from the Company's definitive Proxy Statement (the "Proxy Statement"), specifically the section captioned "Proposal I--Election of Directors." In addition, see "Executive Officers of Cheviot Financial Corp." in Item 1 for information concerning the Company's executive officers.

The Board of Directors has adopted a Code of Ethics, applicable to the Chief Executive Officer, President and Chief Financial Officer. The Code of Ethics may be accessed through our website at WWW.CHEVIOTSAVINGS.COM and is filed as Exhibit 14 hereto.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is incorporated herein by reference from the Company's Proxy Statement, specifically the section captioned "Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning security ownership of certain owners and management is incorporated herein by reference from the Company's Proxy Statement, specifically the section captioned "Voting Securities and Principal Holder Thereof."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning relationships and transactions is incorporated herein by reference from the Company's Proxy Statement, specifically the section captioned "Transactions with Certain Related Persons."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accountant fees and services is incorporated herein by reference from the Company's Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The exhibits and financial statement schedules filed as a part of this Form 10-K are as follows:

(a)(1) FINANCIAL STATEMENTS

- o Report of Independent Registered Public Accounting Firm.
- o Consolidated Statements of Financial Condition at

December 31, 2005 and 2004.

- Consolidated Statements of Earnings for the Years Ended December 31, 2005 and 2004, the Nine Months Ended December 31, 2003 and the Year Ended March 31, 2003.
- Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2005 and 2004, the Nine Months Ended December 31, 2003 and the Year Ended March 31, 2003.
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2005 and 2004, the Nine Months Ended December 31, 2003 and the Year Ended March 31, 2003.
- Notes to Consolidated Financial Statements.

(a)(2) FINANCIAL STATEMENT SCHEDULES

No financial statement schedules are filed because the required information is not applicable or is included in the consolidated financial statements or related notes.

(a)(3) EXHIBITS

13	Annual Report to Shareholders
14	Code of Ethics*
21	Subsidiaries of the Registrant
23	Auditors Consent
31.1	Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) The exhibits listed under (a)(3) above are filed herewith.

(c) Not applicable.

36

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHEVIOT FINANCIAL CORP.

Date: March 14, 2006

By: /s/ Thomas J. Linneman

Thomas J. Linneman,
President and Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By:	/s/ Thomas J. Linneman Thomas J. Linneman, President and Chief Executive Officer	By:	/s/ Scott T. Smith Scott T. Smith, Chief Financial Officer (principal financial officer and principal accounting officer)
Date:	March 14, 2006	Date:	March 14, 2006
By:	/s/ Edward L. Kleemeier Edward L. Kleemeier, Director	By:	/s/ John T. Smith John T. Smith, Director
Date:	March 14, 2006	Date:	March 14, 2006
By:	/s/ Robert Thomas Robert Thomas, Director	By:	/s/ James E. Williamson James E. Williamson, Director
Date:	March 14, 2006	Date:	March 14, 2006
By:	/s/ Steven R. Hausfeld Steven R. Hausfeld, Director		
Date:	March 14, 2006		