Oconee Federal Financial Corp.
Form 10-Q
February 14, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended December 31, 2013

Or

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

For transition period from to

Commission File Number 001-35033

Oconee Federal Financial Corp.

(Exact Name of Registrant as Specified in Charter)

Federal	**32-0330122**
(State of Other Jurisdiction of Incorporation)	(I.R.S Employer Identification Number)
201 East North Second Street, Seneca, South Carolina	**29678**
(Address of Principal Executive Officers)	(Zip Code)

(864) 882-2765

Registrant s telephone number, including area code

Not Applicable

(Former name or former address, if changed since last report)

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 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the Issuer s classes of common stock as of the latest practicable date.

There were 5,845,945 shares of Common Stock, par value $.01 per share, outstanding as of February 1, 2014.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

Form 10-Q Quarterly Report

Table of Contents

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share data)

PART I

ITEM 1. FINANCIAL STATEMENTS

	December 31, 2013 (Unaudited)	June 30, 2013 (*)
ASSETS		
Cash and due from banks	$ 1,910	$ 1,362
Interest-bearing deposits	22,280	36,580
Total cash and cash equivalents	24,190	37,942
Securities held-to-maturity (fair value: December 31, 2013 $0 and June 30, 2013 - $8,223)		8,039
Securities available-for-sale	97,113	87,985
Loans, net of allowance for loan losses of $788 and $751	224,287	221,163
Premises and equipment, net	2,980	3,047
Real estate owned, net	857	1,047
Accrued interest receivable		
Loans	800	863
Investments	238	269
Restricted equity securities	449	449
Bank owned life insurance	8,601	8,450
Other assets	1,087	841
Total assets	$ 360,602	$ 370,095
LIABILITIES		
Deposits		
Non-interest bearing	$ 4,928	$ 4,861
Interest bearing	279,266	287,561
Total deposits	284,194	292,422
Accrued interest payable and other liabilities	995	1,511
Total liabilities	285,189	293,933
SHAREHOLDERS EQUITY		
Common stock, $0.01 par value, 100,000,000 shares authorized; 5,845,995 and 5,923,295 shares outstanding at December 31, 2013 and June 30, 2013	64	64
Treasury stock, at par 589,099 and 511,799 shares at December 31, 2013 and June 30, 2013	(6)	(5)
Additional paid in capital	12,201	13,413
Retained earnings	66,165	65,315
Accumulated other comprehensive loss	(1,096)	(559)
Unearned ESOP shares	(1,915)	(2,066)
Total shareholders equity	75,413	76,162
Total liabilities and shareholders equity	$ 360,602	$ 370,095

* Derived from audited consolidated financial statements

See accompanying notes to the consolidated financial statements

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Amounts in thousands, except share and per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Interest and dividend income:				
Loans, including fees	$ 2,870	$ 3,234	$ 5,722	$ 6,604
Securities, taxable	381	273	751	540
Federal funds sold and other	15	20	29	38
Total interest income	3,266	3,527	6,502	7,182
Interest expense:				
Deposits	383	568	811	1,193
Total interest expense	383	568	811	1,193
Net interest income	2,883	2,959	5,691	5,989
Provision for loan losses	(40)	(64)	41	76
Net interest income after provision for loan losses	2,923	3,023	5,650	5,913
Noninterest income:				
Service charges on deposit accounts	19	22	37	42
Gain on sales of securities	145	14	145	14
Gain (loss) on sales of real estate owned		9	(14)	66
Other	76	7	152	14
Total noninterest income	240	52	320	136
Noninterest expense:				
Salaries and employee benefits	995	824	1,855	1,614
Occupancy and equipment	165	154	320	330
Data processing	66	69	129	128
Professional and supervisory fees	144	97	255	176
Office expense	27	24	51	47
Advertising	17	16	38	36
FDIC deposit insurance	39	40	79	67
Charitable contributions		1		1
Provision for real estate owned and related expenses	20	16	53	54
Other	108	71	177	148
Total noninterest expense	1,581	1,312	2,957	2,601
Income before income taxes	1,582	1,763	3,013	3,448
Income tax expense	568	656	1,081	1,326
Net income	$ 1,014	$ 1,107	$ 1,932	$ 2,122

Other comprehensive income (loss)								
Unrealized (loss) gain on securities available-for-sale	$	(840)	$	277	$	(849)	$	340
Tax effect		320		(105)		323		(129)
Reclassification adjustment for gains realized in net income		(63)		(14)		(63)		(14)
Tax effect		24		4		24		4
Total other comprehensive income (loss)		(559)		162		(565)		201
Comprehensive income	$	455	$	1,269	$	1,367	$	2,323
Basic net income per share: (Note 2)	$	0.18	$	0.18	$	0.34	$	0.34
Diluted net income per share: (Note 2)	$	0.18	$	0.18	$	0.34	$	0.34
Dividends declared per share:	$	0.10	$	0.10	$	0.20	$	0.20

See accompanying notes to the consolidated financial statements

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Amounts in thousands, except share and per share data)

(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned ESOP Shares	Total
Balance at July 1, 2012	$ 64	$	$ 20,880	$ 63,693	$ 599	$ (2,252)	$ 82,984
Net income				2,122			2,122
Other comprehensive income					201		201
Purchase of 163,200 shares of treasury stock		(2)	(2,534)				(2,536)
Stock-based compensation expense			115				115
Dividends				(1,191)			(1,191)
ESOP shares earned			39			96	135
Balance at December 31, 2012	$ 64	$ (2)	$ 18,500	$ 64,624	$ 800	$ (2,156)	$ 81,830
Balance at July 1, 2013	$ 64	$ (5)	$ 13,413	$ 65,315	$ (559)	$ (2,066)	$ 76,162
Net income				1,932			1,932
Other comprehensive loss					(565)		(537)
Transfers of securities from classified as held-to-maturity to available-for-sale					28		
Purchase of 89,900 shares of treasury stock (1)		(1)	(1,423)				(1,424)
Issuance of 12,600 shares of restricted stock (2)							
Stock-based compensation expense			119				119
Dividends (3) (4)				(1,068)			(1,068)
ESOP shares earned (4)			92	(14)		151	229
Balance at December 31, 2013	$ 64	$ (6)	$ 12,201	$ 66,165	$ (1,096)	$ (1,915)	$ 75,413

(1) The weighted average cost of treasury shares purchased during the three months ended was $15.85 per share. Treasury stock repurchases were accounted for using the par value method.

(2) On November 13, 2013, the Company granted 12,600 shares of restricted stock. The grant date fair value of these shares was $17.16.

(3) Cash dividends declared on July 25, 2013 were paid on August 29, 2013. Cash dividends declared on October 24, 2013 were paid on November 21, 2013.

(4) Approximately $99 of cash dividends paid on shares in the ESOP was used as additional principal reduction on the ESOP debt, resulting in the release of approximately 8,000 additional shares. The portion of the dividend paid on allocated shares of approximately $14 was treated as a dividend. The remaining portion of the dividend payment and resulting release of approximately 7,000 shares was accounted for as additional compensation expense of approximately $63 for the six months ended December 31, 2013.

See accompanying notes to the consolidated financial statements

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in thousands, except share and per share data)

	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
Cash Flows From Operating Activities		
Net income	$ 1,932	$ 2,122
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	41	76
Depreciation and amortization, net	479	569
Deferred loan fees, net	23	134
(Gain) loss on sale of real estate owned	14	(66)
Gain on sales of securities	(145)	(14)
Increase in cash surrender value of bank owned life insurance	(151)	
ESOP compensation expense	229	135
Stock based compensation expense	119	115
Net change in operating assets and liabilities:		
Accrued interest receivable	94	65
Accrued interest payable	(2)	(9)
Other	(430)	246
Net cash provided by operating activities	2,203	3,373
Cash Flows From Investing Activities		
Purchases of premises and equipment	(33)	(69)
Purchases of securities held-to-maturity	(3,486)	(1,245)
Purchases of securities available-for-sale	(18,300)	(19,673)
Proceeds from maturities, paydowns and calls of securities available-for-sale	6,538	6,037
Proceeds from maturities, paydowns and calls of securities held-to-maturity		1,602
Proceeds from sales of securities available-for-sale	10,788	1,243
Proceeds from sales of securities held-to-maturity	2,270	
Proceeds from sale of real estate owned	176	1,029
Loan originations and repayments, net	(3,188)	15,854
Net cash provided by (used in) investing activities	(5,235)	4,778
Cash Flows from Financing Activities		
Net change in deposits	(8,228)	(1,950)
Dividends paid	(1,068)	(1,191)
Purchase of treasury stock	(1,424)	(2,536)
Net cash used in financing activities	(10,720)	(5,677)
Change in cash and cash equivalents	(13,752)	2,474
Cash and cash equivalents, beginning of year	37,942	47,612
Cash and cash equivalents, end of period	$ 24,190	$ 50,086

See accompanying notes to the consolidated financial statements

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Oconee Federal Financial Corp., which include the accounts of its wholly owned subsidiary Oconee Federal Savings and Loan Association (the Association) (referred to herein as the Company, we, us, or our) have b prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Intercompany accounts and transactions are eliminated during consolidation. The Company is majority owned (70.60%) by Oconee Federal, MHC. These financial statements do not include the transactions and balances of Oconee Federal, MHC.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company s financial position as of December 31, 2013 and June 30, 2013 and the results of operations and cash flows for the interim periods ended December 31, 2013 and 2012. All interim amounts have not been audited, and the results of operations for the interim periods herein are not necessarily indicative of the results of operations to be expected for the year. These consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto included in the Form 10-K Annual Report of Oconee Federal Financial Corp. for the year ended June 30, 2013.

(2) EARNINGS PER SHARE (EPS)

Basic EPS is determined by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the period. ESOP shares are considered outstanding for this calculation unless unearned. The factors used in the earnings per common share computation follow:

	Three Months Ended		Six Months Ended	
	December 31, 2013	**December 31, 2012**	**December 31, 2013**	**December 31, 2012**
Earnings per share				
Net income	$ 1,014	$ 1,107	$ 1,932	$ 2,122
Less: distributed earnings allocated to participating securities	(8)	(6)	(16)	(14)
Less: (undistributed income) dividends in excess of earnings allocated to participating securities	(7)	(7)	(13)	(14)
Net earnings available to common shareholders	$ 999	$ 1,094	$ 1,903	$ 2,094

Weighted average common shares outstanding including participating securities	5,839,969	6,388,536	5,845,245	6,406,091
Less: participating securities	(83,695)	(87,092)	(83,695)	(87,092)
Less: average unearned ESOP shares	(196,488)	(218,237)	(198,754)	(220,306)
Weighted average common shares outstanding	5,559,786	6,083,207	5,562,796	6,098,693
Basic earnings per share	$ 0.18	$ 0.18	$ 0.34	$ 0.34
Weighted average common shares outstanding	5,559,786	6,083,207	5,562,796	6,098,693
Add: dilutive effects of assumed exercises of stock options	53,456	29,823	50,668	21,966
Average shares and dilutive potential common shares	5,613,242	6,113,030	5,613,464	6,120,659
Diluted earnings per share	$ 0.18	$ 0.18	$ 0.34	$ 0.34

During the three and six months ended December 31, 2013, 7,700 shares were considered anti-dilutive. During the three and six months ended December 31, 2012, no shares were considered anti-dilutive.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

(3) SECURITIES AVAILABLE-FOR-SALE AND HELD-TO-MATURITY

Debt, mortgage-backed and equity securities have been classified in the consolidated balance sheets according to management s intent. Investment securities at December 31, 2013 and June 30, 2013 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013				
Available-for-sale:				
FHLMC common stock	$ 20	$ 216	$	$ 236
Preferred stock (1)	271	28		299
Certificates of deposit	6,723	15	(26)	6,712
FNMA CMO/REMIC	3,209		(166)	3,043
FHLMC CMO/REMIC	1,839		(84)	1,755
GNMA CMO/REMIC	6,347		(372)	5,975
FNMA mortgage-backed securities	20,979	49	(291)	20,737
FHLMC mortgage-backed securities	18,555	28	(421)	18,162
GNMA mortgage-backed securities	4,569	72	(133)	4,508
U.S. Government agencies	36,370	224	(908)	35,686
Total available-for-sale	$ 98,882	$ 632	$ (2,401)	$ 97,113
June 30, 2013				
Held-to-maturity:				
Certificates of deposit	$ 3,985	$ 18	$ (13)	$ 3,990
GNMA mortgage-backed securities	4,054	179		4,233
Total held-to-maturity	$ 8,039	$ 197	$ (13)	$ 8,223
Available-for-sale:				
FHLMC common stock	$ 20	$ 90	$	$ 110
Preferred stock (1)	271	26		297
FNMA CMO/REMIC	3,389		(108)	3,281
FHLMC CMO/REMIC	1,941		(74)	1,867
GNMA CMO/REMIC	6,879	5	(173)	6,711
FNMA mortgage-backed securities	17,562	112	(160)	17,514
FHLMC mortgage-backed securities	17,819	67	(246)	17,640
GNMA mortgage-backed securities	2,619		(105)	2,514
U.S. Government agencies	38,387	294	(630)	38,051
Total available-for-sale	$ 88,887	$ 594	$ (1,496)	$ 87,985

(1) Consists of 300 shares of Southern First Bancshares, Inc. cumulative perpetual preferred stock, series T.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

The following table shows securities with unrealized losses at December 31, 2013, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2013						
Available for Sale:						
Certificates of deposit	$ 6,712	$ (26)	$	$	$ 6,712	$ (26)
FNMA CMO/REMIC	3,043	(166)			3,043	(166)
FHLMC CMO/REMIC			1,755	(84)	1,755	(84)
GNMA CMO/REMIC	3,199	(152)	2,776	(220)	5,975	(372)
FNMA mortgage-backed securities	20,737	(291)			20,737	(291)
FHLMC mortgage-backed securities	18,162	(421)			18,162	(421)
GNMA mortgage-backed securities	4,508	(133)			4,508	(133)
U.S. Government agencies	33,862	(732)	1,824	(176)	35,686	(908)
	$ 90,224	$ (1,921)	$ 6,355	$ (480)	$ 96,579	$ (2,401)

At December 31, 2013, there were fourteen U.S. Government agency securities, five GNMA CMO/REMIC securities, two FNMA CMO/REMIC securities, two FHLMC CMO/REMIC securities, eleven FHLMC mortgage-backed securities, thirteen FNMA mortgage-backed securities, two GNMA mortgage-backed securities, and seventeen certificates of deposit securities with unrealized losses at December 31, 2013. None of the unrealized losses for these securities have been recognized into net income for the six months ended December 31, 2013 because the issuer s bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value of these securities is expected to recover as they approach their maturity date or reset date. None of the unrealized losses at June 30, 2013 was recognized as OTTI during the six months ended December 31, 2013.

There were no securities at June 30, 2013 with unrealized losses that had been in an unrealized loss position for 12 continuous months or more.

The Company evaluates securities for OTTI at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company considers the length of time and the extent to which the fair value has been less than cost and the financial condition and near-term prospects of the issuer. Additionally, the Company considers its intent to sell or whether it will be more likely than not it will be required to sell the security prior to the security s anticipated recovery in fair value. In analyzing an issuer s financial condition, the Company may consider whether the securities are issued by the federal Government agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

The amortized cost and fair value of debt securities classified available-for-sale and held-to-maturity at December 31, 2013 by contractual maturity are summarized as follows:

	December 31, 2013		June 30, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	$ 3,757	$ 3,789	$ 996	$ 997
Due from one to five years	23,140	23,225	26,178	26,437
Due from five to ten years	12,195	11,685	11,198	10,800
Due after ten years	4,001	3,698	4,000	3,807
Mortgage backed securities	55,498	54,181	54,263	53,760
Total	$ 98,591	$ 96,578	$ 96,635	$ 95,801

The following table presents the gross proceeds from sales of securities available-for-sale and held-to-maturity and gains or losses recognized for the three and six months ended December 31, 2013 and 2012:

	Three Months Ended		Six Months Ended	
	December 31, 2013	December 31, 2012	December 31, 2012	December 31, 2013
Available for Sale:				
Proceeds	$ 10,788	$ 1,243	$ 10,788	$ 1,243
Gross gains	93	14	93	14
Gross losses	(30)		(30)	
Held-to-maturity:				
Proceeds	$ 2,270	$	$ 2,270	$
Gross gains	82		82	
Gross losses				
Total:				
Proceeds	$ 13,058	$ 1,243	$ 13,058	$ 1,243
Gross gains	$ 175	$ 14	$ 175	$ 14
Gross losses	$ (30)	$	$ (30)	$

During the three months ended, the Company sold two securities classified as held-to-maturity. One of those securities was a GNMA mortgage-backed security for which at least 85 percent of its original principal amount had been repaid. The second security was also a GNMA mortgage-backed security. Because the Company determined that it no longer had the positive intent to hold its investment in securities classified as held-to-maturity for an indefinite period of time because of the Company s desire to have more flexibility in managing the investment portfolio, all of the Company s securities classified as held-to-maturity were transferred to the available-for-sale category. The securities transferred had a total amortized cost of $7.8 million and unrealized gross gains of $56 and unrealized gross losses of $11 at the time of transfer. The net unrealized gain of $45 was added to other comprehensive income at the time of transfer.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

(4) LOANS

The components of loans at December 31, 2013 and June 30, 2013 were as follows:

	December 31, 2013	June 30, 2013
Real estate loans:		
One- to four-family	$ 206,860	$ 204,397
Multi-family	255	258
Home equity	251	292
Nonresidential	8,602	8,521
Construction and land	9,508	8,735
Total real estate loans	225,476	222,203
Consumer and other loans	836	925
Total loans	226,312	223,128
Net deferred loan fees	(1,237)	(1,214)
Allowance for loan losses	(788)	(751)
Loans, net	$ 224,287	$ 221,163

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

The following tables present the activity in the allowance for loan losses for the three and six months ended December 31, 2013 and 2012 and the balances in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method at December 31, 2013 and 2012:

Three Months Ended December 31, 2013

	One-to-four family	Multi-family	Real estate Home Equity	Nonresidential	Construction and land	Consumer	Total
Beginning balance	$ 747	$ 4	$ 1	$ 50	$ 28	$ 2	$ 832
Provision	(42)			1	2	(1)	(40)
Charge-offs	(4)						(4)
Recoveries							
Ending balance	$ 701	$ 4	$ 1	$ 51	$ 30	$ 1	$ 788
Allowance for loan losses:							
Ending allowance attributed to loans:							
Individually evaluated for impairment	$ 58	$	$	$	$	$	$ 58
Collectively evaluated for impairment	643	4	1	51	30	1	730
Total ending allowance balance	$ 701	$ 4	$ 1	$ 51	$ 30	$ 1	$ 788
Loans:							
Loans individually evaluated for impairment	$ 2,578	$	$	$ 21	$	$	$ 2,599
Loans collectively evaluated for impairment	204,282	255	251	8,581	9,508	836	223,713
Total ending loans balance	$ 206,860	$ 255	$ 251	$ 8,602	$ 9,508	$ 836	$ 226,312

Six Months Ended December 31, 2013

	One-to-four family	Multi-family	Real estate Home Equity	Nonresidential	Construction and land	Consumer	Total
Beginning balance	$ 665	$ 4	$ 1	$ 52	$ 27	$ 2	$ 751

Provision	40			(1)	3	(1)	41
Charge-offs	(4)						(4)
Recoveries							
Ending balance	$ 701	$ 4	$ 1	$ 51	$ 30	$ 1	$ 788

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

Three Months Ended December 31, 2012

	One-to-four family	Multi-family	Real estate Home Equity	Nonresidential	Construction and land	Consumer	Total
Beginning balance	$ 844	$ 4	$ 1	$ 56	$ 22	$ 3	$ 930
Provision	(66)			(2)	4		(64)
Charge-offs							
Recoveries							
Ending balance	$ 778	$ 4	$ 1	$ 54	$ 26	$ 3	$ 866
Allowance for loan losses:							
Ending allowance attributed to loans:							
Individually evaluated for impairment	$ 159	$	$	$	$	$	$ 159
Collectively evaluated for impairment	619	4	1	54	26	3	707
Total ending allowance balance	$ 778	$ 4	$ 1	$ 54	$ 26	$ 3	$ 866
Loans:							
Loans individually evaluated for impairment	$ 2,980	$	$	$	$	$	$ 2,980
Loans collectively evaluated for impairment	213,381	261	315	8,923	8,723	835	232,438
Total ending loans balance	$ 216,361	$ 261	$ 315	$ 8,923	$ 8,723	$ 835	$ 235,418

Six Months Ended December 31, 2012

	One-to-four family	Multi-family	Real estate Home Equity	Nonresidential	Construction and land	Consumer	Total
Beginning balance	$ 773	$ 4	$ 1	$ 56	$ 21	$ 2	$ 857
Provision	72			(2)	5	1	76
Charge-offs	(67)						(67)
Recoveries							
Ending balance	$ 778	$ 4	$ 1	$ 54	$ 26	$ 3	$ 866

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

The following table presents the balances in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method at June 30, 2013:

June 30, 2013

	One-to-four family	Multi-family	Real estate Home Equity	Nonresidential	Construction and land	Consumer	Total
Allowance for loan losses:							
Ending allowance attributed to loans:							
Individually evaluated for impairment	$ 27	$	$	$	$	$	$ 27
Collectively evaluated for impairment	638	4	1	52	27	2	724
Total ending allowance balance	$ 665	$ 4	$ 1	$ 52	$ 27	$ 2	$ 751
Loans:							
Loans individually evaluated for impairment	$ 1,986	$	$	$	$	$	$ 1,986
Loans collectively evaluated for impairment	202,411	258	292	8,521	8,735	925	221,142
Total ending loans balance	$ 204,397	$ 258	$ 292	$ 8,521	$ 8,735	$ 925	$ 223,128

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

The following table presents loans individually evaluated for impairment by portfolio segment at December 31, 2013 and June 30, 2013, including the average recorded investment balance and interest earned for the six months ended December 31, 2013 and year ended June 30, 2013:

	December 31, 2013					June 30, 2013				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no recorded allowance:										
Real estate loans:										
One- to four-family	$ 965	$ 965	$	$ 1,349	$ 13	$ 1,734	$ 1,734	$	$ 1,202	$ 27
Multi-family										
Home equity										
Nonresidential	21	21		11						
Construction and land										
Total real estate loans	986	986		1,360	13	1,734	1,734		1,202	27
Consumer and other loans										
Total	$ 986	$ 986	$	$ 1,360	$ 13	$ 1,734	$ 1,734	$	$ 1,202	$ 27
With recorded allowance:										
Real estate loans:										
One- to four-family	$ 1,613	$ 1,613	$ 58	$ 932	$ 12	$ 252	$ 252	$ 27	$ 1,033	$ 6
Multi-family										
Home equity										
Nonresidential										
Construction and land										
Total real estate loans	1,613	1,613	58	932	12	252	252	27	1,033	6
Consumer and other loans										
Total	$ 1,613	$ 1,613	$ 58	$ 932	$ 12	$ 252	$ 252	$ 27	$ 1,033	$ 6
Totals:										
Real estate loans	$ 2,599	$ 2,599	$ 58	$ 2,292	$ 25	$ 1,986	$ 1,986	$ 27	$ 2,235	$ 33
Consumer and other loans										
Total	$ 2,599	$ 2,599	$ 58	$ 2,292	$ 25	$ 1,986	$ 1,986	$ 27	$ 2,235	$ 33

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

The following table presents the aging of the recorded investment in past due loans at December 31, 2013 and June 30, 2013 by portfolio segment of loans:

December 31, 2013

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing Loans Past Due 90 Days or More
Real estate loans:							
One- to four-family	$ 4,432	$ 1,225	$ 2,346	$ 8,003	$ 198,857	$ 206,860	$
Multi-family					255	255	
Home equity		15		15	236	251	
Nonresidential	21			21	8,581	8,602	
Construction and land					9,508	9,508	
Total real estate loans	4,453	1,240	2,346	8,039	217,437	225,476	
Consumer and other loans					836	836	
Total	$ 4,453	$ 1,240	$ 2,346	$ 8,039	$ 218,273	$ 226,312	$

June 30, 2013

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing Loans Past Due 90 Days or More
Real estate loans:							
One- to four-family	$ 5,932	$ 2,397	$ 1,726	$ 10,055	$ 194,342	$ 204,397	$ 493
Multi-family					258	258	
Home equity	30			30	262	292	
Nonresidential					8,521	8,521	
Construction and land					8,735	8,735	
Total real estate loans	5,962	2,397	1,726	10,085	212,118	222,203	493
Consumer and other loans	1			1	924	925	
Total	$ 5,963	$ 2,397	$ 1,726	$ 10,086	$ 213,042	$ 223,128	$ 493

At December 31, 2013, nonaccrual loans were $2,394, of which $2,346 were past due 90 days or more and $48 of nonaccrual loans that were classified in the 60-89 days past due category. Nonaccrual loans at June 30, 2013 were $1,493. All of these loans were past due 90 days or more except one loan of $73 classified in the 30-59 days past due category and one loan in the 60-89 days past due category with a carrying amount of $187. There were no troubled debt restructures at December 31, 2013 or June 30, 2013.

All loans graded pass, special mention, substandard and doubtful not specifically evaluated for impairment are collectively evaluated for impairment by portfolio segment. To develop and document a systematic methodology for determining the portion of the allowance for loan losses for loans evaluated collectively, the Company has divided the loan portfolio into six portfolio segments, each with different risk characteristics and methodologies for assessing risk and utilizes a loan grading system whereby all loans within each portfolio segment are assigned a grade based on the risk profile of each loan. Loan grades are determined based on an evaluation of relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. All loans, regardless of size, are analyzed and assigned a grade based upon management s assessment of the ability of borrowers to service their debts. The following describes each of the Company s loan grades and general information as to the risk profile of each of the Company s loan portfolio segments:

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

Loan Grades:

Pass: Loans not meeting any of the criteria listed below for special mention, substandard, or doubtful are graded Pass.

Special Mention: Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects for the loan or of the institution s credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Portfolio Segments:

One-to-four family: One-to-four family residential loans consist primarily of loans secured by first or second deeds of trust on primary residences, and are originated as adjustable-rate or fixed-rate loans for the construction, purchase or refinancing of a one-to-four family residence. These loans are collateralized by owner-occupied properties located in the Company s market area. We currently originate residential mortgage loans for our portfolio with loan-to-value ratios of up to 80% for traditional owner-occupied homes.

Multi-family: Multi-family real estate loans generally have a maximum term of 5 years with a 30 year amortization period and a final balloon payment and are secured by properties containing five or more units in the Company s market area. These loans are generally made in amounts of up to 75% of the lesser of the appraised value or the purchase price of the property with an appropriate projected debt service coverage ratio. The Company s underwriting analysis includes considering the borrower s expertise and requires verification of the borrower s credit history, income and financial statements, banking relationships, independent appraisals, references and income projections for the property. The

Company generally obtains personal guarantees on these loans.

Multi-family real estate loans generally present a higher level of risk than loans secured by one-to-four family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income-producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family residential real estate is typically dependent upon the successful operation of the related real estate project.

Home Equity: We originate fixed-rate home equity loans secured by a lien on the borrower s primary residence but only where we hold the first mortgage on the property. Our home equity loans are limited to an 80% loan-to-value ratio (including all prior liens), and have terms of up to 10 years with 10-year amortization periods. We use the same underwriting standards for home equity loans as we use for one- to four-family residential mortgage loans.

Nonresidential Real Estate: Our non-residential real estate loans are secured primarily by churches and, to a much lesser extent, office buildings, and retail and mixed-use properties located in our primary market area. The non-residential real estate loans that we originate generally have maximum terms of 5 years with amortization periods of 30 years. For loans secured by church property, our loans generally have maximum terms of 20 years with amortization periods of up to 20 years. The maximum loan-to-value ratio of our non-residential real estate loans is generally 75%.

Loans secured by non-residential real estate generally are larger than one- to four-family residential loans and involve greater credit risk. Non-residential real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general, including the current adverse conditions. In addition, because a church s financial stability often depends on donations from congregation members, some of whom may not reside in our market area, rather than income from business operations, repayment may be affected by economic conditions that affect individuals located both in our market area and in other market areas with which we are not as familiar. In addition, due to the unique nature of church buildings and properties, the real estate securing church loans may be less marketable than other non-residential real estate.

Construction and Land: We make construction loans to individuals for the construction of their primary residences and interim construction loans for non-residential properties. These loans generally have maximum terms of eight months, and upon completion of construction convert to conventional amortizing mortgage loans. These construction loans have rates and terms comparable to one- to four-family residential mortgage loans that we originate. During the construction phase, the borrower generally pays interest only. The maximum loan-to-value ratio of our owner-occupied construction loans is 80%. Residential construction loans are generally underwritten pursuant to the same guidelines used for originating permanent residential mortgage loans. Finally, we make loans secured by land to complement our construction and non-residential lending activities. These loans have terms of up to 10 years, and maximum loan-to-value ratios of 75% for improved lots and 65% for unimproved land.

To the extent our construction loans are not made to owner-occupants of single-family homes, they are more vulnerable to changes in economic conditions and the concentration of credit with a limited number of borrowers. Further, the nature of these loans is such that they are more difficult to evaluate and monitor. Our risk of loss on a construction or land loan is dependent largely upon the accuracy of the initial estimate of the property s value upon completion of the project and the estimated cost (including interest) of the project. If the estimate of value proves to be inaccurate, we may be confronted, at or prior to the maturity of the loan, with a project with a value which is insufficient to assure full repayment and/or the possibility of having to make substantial investments to complete and sell the project. Because defaults in repayment may not occur during the construction period, it may be difficult to identify problem loans at an early stage.

Consumer and Other Loans: We offer installment loans for various consumer purposes, including the purchase of automobiles, boats, appliances and recreational vehicles, and for other legitimate personal purposes. The maximum terms of consumer loans is 18 months for unsecured loans, 12 months for loans secured by marketable securities and 18-60 months for loans secured by a vehicle, depending on the age of the vehicle. We generally only extend consumer loans to existing customers or their immediate family members, and these loans generally have relatively low limits.

Consumer loans may entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or are secured by rapidly depreciable assets, such as automobiles. In addition, consumer loan collections are dependent on the borrower s continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

At December 31, 2013 and June 30, 2013, and based on the most recent analyses performed, the loan grade for each loan by portfolio segment is as follows: