Oconee Federal Financial Corp.
Form 10-Q
May 15, 2014
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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 March 31, 2014

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 (State of Other Jurisdiction of Incorporation)	**32-0330122** (I.R.S Employer Identification Number)
201 East North Second Street, Seneca, South Carolina (Address of Principal Executive Officers)	**29678** (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 5,835,895 shares of Common Stock, par value $.01 per share, outstanding as of May 8, 2014.

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OCONEE FEDERAL FINANCIAL CORP.

Form 10-Q Quarterly Report

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OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED BALANCE SHEETS

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

(Unaudited)

PART I

ITEM 1. FINANCIAL STATEMENTS

	March 31, 2014 (Unaudited)	June 30, 2013 (*)
ASSETS		
Cash and due from banks	$ 1,907	$ 1,362
Interest-bearing deposits	16,617	36,580
Total cash and cash equivalents	18,524	37,942
Securities held-to-maturity (fair value: at March 31, 2014 $0 and June 30, 2013 - $8,223)		8,039
Securities available-for-sale	100,713	87,985
Loans, net of allowance for loan losses of $829 and $751	225,481	221,163
Premises and equipment, net	3,032	3,047
Real estate owned, net	822	1,047
Accrued interest receivable		
Loans	822	863
Investments	339	269
Restricted equity securities	320	449
Bank owned life insurance	8,687	8,450
Other assets	815	841
Total assets	$ 359,555	$ 370,095
LIABILITIES		
Deposits		
Non-interest bearing	$ 5,229	$ 4,861
Interest bearing	277,167	287,561
Total deposits	282,396	292,422
Accrued interest payable and other liabilities	1,024	1,511
Total liabilities	283,420	293,933
SHAREHOLDERS EQUITY		
Common stock, $0.01 par value, 100,000,000 shares authorized; 5,835,895 and 5,923,295 shares outstanding at March 31, 2014 and June 30, 2013	64	64
Treasury stock, at par 599,199 and 511,799 shares at March 31, 2014 and June 30, 2013	(6)	(5)
Additional paid in capital	12,119	13,413
Retained earnings	66,436	65,315
Accumulated other comprehensive loss	(610)	(559)
Unearned ESOP shares	(1,868)	(2,066)

Total shareholders equity		76,135		76,162
Total liabilities and shareholders equity	$	359,555	$	370,095

* Derived from audited consolidated financial statements

See accompanying notes to the consolidated financial statements

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OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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

(Unaudited)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Nine Months Ended March 31, 2014	Nine Months Ended March 31, 2013
Interest and dividend income:				
Loans, including fees	$ 2,820	$ 3,136	$ 8,542	$ 9,740
Securities, taxable	388	296	1,139	836
Securities, tax-exempt	2		2	
Federal funds sold and other	11	19	40	57
Total interest income	3,221	3,451	9,723	10,633
Interest expense:				
Deposits	345	513	1,156	1,706
Total interest expense	345	513	1,156	1,706
Net interest income	2,876	2,938	8,567	8,927
Provision for loan losses	41	180	82	257
Net interest income after provision for loan losses	2,835	2,758	8,485	8,670
Noninterest income:				
Service charges on deposit accounts	19	21	56	63
Gain on sales of securities	70		215	14
Gain (loss) on sales of real estate owned	3		(11)	65
Other	87	67	238	80
Total noninterest income	179	88	498	222
Noninterest expense:				
Salaries and employee benefits	876	859	2,730	2,473
Occupancy and equipment	176	158	496	489
Data processing	71	65	200	193
Professional and supervisory fees	230	131	485	306
Office expense	80	71	109	117
Advertising	19	19	57	54
FDIC deposit insurance	40	40	118	107
Charitable contributions		1		2
Provision for real estate owned and related expenses	113	11	166	65
Other	68	82	270	228
Total noninterest expense	1,673	1,437	4,631	4,034
Income before income taxes	1,341	1,409	4,352	4,858
Income tax expense	486	559	1,567	1,885
Net income	$ 855	$ 850	$ 2,785	$ 2,973
Other comprehensive income (loss)				
Unrealized (loss) gain on securities available-for-sale	$ 854	$ (40)	$ 87	$ 301
Tax effect	(325)	15	(33)	(114)
Reclassification adjustment for gains realized in net income	(70)		(215)	(14)

Tax effect		27				82		5
Total other comprehensive income (loss)		486		(25)		(79)		178
Comprehensive income	$	1,341	$	825	$	2,706	$	3,151
Basic net income per share: (Note 2)	$	0.15	$	0.14	$	0.49	$	0.49
Diluted net income per share: (Note 2)	$	0.15	$	0.14	$	0.49	$	0.48
Dividends declared per share:	$	0.10	$	0.10	$	0.30	$	0.30

See accompanying notes to the consolidated financial statements

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OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

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

	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				2,973			2,973
Other comprehensive income					178		178
Purchase of 352,550 shares of treasury stock		(4)	(5,475)				(5,479)
Stock-based compensation expense			171				171
Dividends				(1,818)			(1,818)
ESOP shares earned			57			141	198
Balance at March 31, 2013	$ 64	$ (4)	$ 15,633	$ 64,848	$ 777	$ (2,111)	$ 79,207
Balance at July 1, 2013	$ 64	$ (5)	$ 13,413	$ 65,315	$ (559)	$ (2,066)	$ 76,162
Net income				2,785			2,785
Other comprehensive loss					(79)		(79)
Transfers of securities from classifed as held-to-maturity to available-for-sale, net of tax of $17					28		28
Purchase of 97,570 shares of treasury stock (1)		(1)	(1,599)				(1,600)
Issuance of 12,600 shares of restricted stock (2)							
Stock-based compensation expense			184				184
Dividends (3) (4)				(1,650)			(1,650)
ESOP shares earned (4)			121	(14)		198	305
Balance at March 31, 2014	$ 64	$ (6)	$ 12,119	$ 66,436	$ (610)	$ (1,868)	$ 76,135

(1) The weighted average cost of treasury shares purchased during the nine months ended was $16.02 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. Cash dividends declared on January 30, 2014 were paid on February 27, 2014.

(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 nine months ended March 31, 2014.

See accompanying notes to the consolidated financial statements

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OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

	Nine Months Ended March 31, 2014	March 31, 2013
Cash Flows From Operating Activities		
Net income	$ 2,785	$ 2,973
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	82	257
Provision for real estate owned	87	3
Depreciation and amortization, net	681	858
Deferred loan fees, net	16	(262)
(Gain) loss on sales of real estate owned	11	(65)
Gain on sales of securities	(215)	(14)
Increase in cash surrender value of bank owned life insurance	(237)	(15)
ESOP compensation expense	305	198
Stock based compensation expense	184	171
Net change in operating assets and liabilities:		
Accrued interest receivable	(29)	(54)
Accrued interest payable	(2)	(16)
Other	(428)	394
Net cash provided by operating activities	3,240	4,428
Cash Flows From Investing Activities		
Purchases of premises and equipment	(134)	(69)
Purchases of securities held-to-maturity	(3,486)	(1,743)
Purchases of securities available-for-sale	(28,553)	(31,309)
Proceeds from maturities, paydowns and calls of securities available-for-sale	10,402	9,399
Proceeds from maturities, paydowns and calls of securities held-to-maturity		2,292
Proceeds from sales of securities available-for-sale	14,278	1,243
Proceeds from sales of securities held-to-maturity	2,270	
Purchases of restricted equity securities	129	
(Purchases) redemptions of restricted equity securities		115
Proceeds from sale of real estate owned	197	1,128
Loan originations and repayments, net	(4,485)	21,445
Net cash provided by (used in) investing activities	(9,382)	2,501
Cash Flows from Financing Activities		
Net change in deposits	(10,026)	416
Dividends paid	(1,650)	(1,818)
Purchase of treasury stock	(1,600)	(5,479)
Net cash used in financing activities	(13,276)	(6,881)
Change in cash and cash equivalents	(19,418)	48
Cash and cash equivalents, beginning of year	37,942	47,612

Cash and cash equivalents, end of period	$	18,524	$	47,660

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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 March 31, 2014 and June 30, 2013 and the results of operations and cash flows for the interim periods ended March 31, 2014 and 2013. 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 March 31, 2014	Three Months Ended March 31, 2013	Nine Months Ended March 31, 2014	Nine Months Ended March 31, 2013
Earnings per share				
Net income	$ 855	$ 850	$ 2,785	$ 2,973
Less: distributed earnings allocated to participating securities	(8)	(9)	(25)	(26)
Less: (undistributed income) dividends in excess of earnings allocated to participating securities	(4)	(3)	(17)	(16)
Net earnings available to common shareholders	$ 843	$ 838	$ 2,743	$ 2,931

Weighted average common shares outstanding including participating securities	5,844,087	6,202,843	5,844,865	6,339,926
Less: participating securities	(83,695)	(87,092)	(83,695)	(87,092)
Less: average unearned ESOP shares	(188,754)	(213,364)	(196,568)	(218,040)
Weighted average common shares outstanding	5,571,638	5,902,387	5,564,602	6,034,794
Basic earnings per share	$ 0.15	$ 0.14	$ 0.49	$ 0.49
Weighted average common shares outstanding	5,571,638	5,902,387	5,564,602	6,034,794
Add: dilutive effects of assumed exercises of stock options	55,607	28,208	51,379	30,200
Average shares and dilutive potential common shares	5,627,245	5,930,595	5,615,981	6,064,994
Diluted earnings per share	$ 0.15	$ 0.14	$ 0.49	$ 0.48

During the three and nine months ended March 31, 2014, 7,700 shares were considered anti-dilutive. During the three and nine months ended March 31, 2013, no shares were considered anti-dilutive.

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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. U.S. Government agency mortgage-backed securities consist of securities issued by U.S. Government agencies and U.S. Government sponsored enterprises. Investment securities at March 31, 2014 and June 30, 2013 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2014				
Available-for-sale:				
FHLMC common stock	$ 20	$ 294	$	$ 314
Preferred stock (1)	271	27		298
Certificates of deposit	6,723	18	(10)	6,731
Municipal securities	1,787		(31)	1,756
U.S. Government agency mortgage-backed securities	59,939	199	(1,056)	59,082
U.S. Government agency bonds	32,958	201	(627)	32,532
Total available-for-sale	$ 101,698	$ 739	$ (1,724)	$ 100,713
June 30, 2013				
Held-to-maturity:				
Certificates of deposit	$ 3,985	$ 18	$ (13)	$ 3,990
U.S. Government agency 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
U.S. Government agency mortgage-backed securities	50,209	184	(866)	49,527
U.S. Government agency bonds	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.

The following table shows securities with unrealized losses at March 31, 2014, 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
March 31, 2014						
Available for Sale:						
Certificates of deposit	$ 2,231	$ (10)	$	$	$ 2,231	$ (10)
Municipal securities	1,256	(31)			1,256	(31)
U.S. Government agency mortgage-backed securities	28,587	(727)	6,203	(329)	34,790	(1,056)
U.S. Government agency bonds	16,460	(500)	1,873	(127)	18,333	(627)
	$ 48,534	$ (1,268)	$ 8,076	$ (456)	$ 56,610	$ (1,724)

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OCONEE FEDERAL FINANCIAL CORP.

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(Unaudited)

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

At March 31, 2014, there were thirteen U.S. Government agency securities, twenty-nine U.S. Government agency mortgage-backed securities, three municipal securities, and nine certificates of deposits with unrealized losses. One U.S. Government agency security and six U.S. Government agency mortgage-backed securities had unrealized losses for more than twelve months. None of the unrealized losses for these securities have been recognized into net income for the nine months ended March 31, 2014 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 were recognized as having other-than-temporary impairments (OTTI) during the three and nine months ended March 31, 2014.

There were no securities at June 30, 2013 with unrealized losses that had been in an unrealized loss position for twelve 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.

The amortized cost and fair value of debt securities classified available-for-sale and held-to-maturity at March 31, 2014 by contractual maturity are summarized as follows:

	March 31, 2014		June 30, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	$ 5,015	$ 5,050	$ 996	$ 997
Due from one to five years	20,469	20,562	26,178	26,437
Due from five to ten years	11,253	10,910	11,198	10,800
Due after ten years	4,731	4,497	4,000	3,807
Mortgage backed securities	59,939	59,082	54,263	53,760
Total	$ 101,407	$ 100,101	$ 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 nine months ended March 31, 2014 and 2013:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	Three Months Ended				Nine Months Ended			
		March 31, 2014		March 31, 2013		March 31, 2014		March 31, 2013
Available for Sale:								
Proceeds	$	3,420	$		$	14,278	$	1,243
Gross gains		70				163		14
Gross losses						(30)		
Held-to-maturity:								
Proceeds	$		$		$	2,270	$	
Gross gains						82		
Gross losses								
Total:								
Proceeds	$	3,420	$		$	16,548	$	1,243
Gross gains	$	70	$		$	245	$	14
Gross losses	$		$		$	(30)	$	

During the nine months ended March 31, 2014, 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, with 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.

(4) LOANS

The components of loans at March 31, 2014 and June 30, 2013 were as follows:

		March 31, 2014		June 30, 2013
Real estate loans:				
One-to-four family	$	207,801	$	204,397
Multi-family		253		258
Home equity		239		292
Nonresidential		8,567		8,521
Construction and land		9,997		8,735
Total real estate loans		226,857		222,203

Consumer and other loans		683		925
Total loans		227,540		223,128
Net deferred loan fees		(1,230)		(1,214)
Allowance for loan losses		(829)		(751)
Loans, net	$	225,481	$	221,163

The following tables present the activity in the allowance for loan losses for the three and nine months ended March 31, 2014 and 2013 and the balances in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method at March 31, 2014 and 2013:

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OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Three Months Ended March 31, 2014

	One-to-four family	Multi-family	Real estate Home Equity	Nonresidential	Construction and land	Consumer	Total
Beginning balance	$ 701	$ 4	$ 1	$ 51	$ 30	$ 1	$ 788
Provision	39				1	1	41
Charge-offs							
Recoveries							
Ending balance	$ 740	$ 4	$ 1	$ 51	$ 31	$ 2	$ 829
Allowance for loan losses:							
Ending allowance attributed to loans:							
Individually evaluated for impairment	$ 81	$	$	$	$	$	$ 81
Collectively evaluated for impairment	659	4	1	51	31	2	748
Total ending allowance balance	$ 740	$ 4	$ 1	$ 51	$ 31	$ 2	$ 829
Loans:							
Loans individually evaluated for impairment	$ 2,470	$	$	$	$	$	$ 2,470
Loans collectively evaluated for impairment	205,331	253	239	8,567	9,997	683	225,070
Total ending loans balance	$ 207,801	$ 253	$ 239	$ 8,567	$ 9,997	$ 683	$ 227,540

Nine Months Ended March 31, 2014

	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	79			(1)	4		82
Charge-offs	(4)						(4)
Recoveries							
Ending balance	$ 740	$ 4	$ 1	$ 51	$ 31	$ 2	$ 829

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Three Months Ended March 31, 2013

	One-to-four family	Multi-family	Real estate Home Equity	Nonresidential	Construction and land	Consumer	Total
Beginning balance	$ 778	$ 4	$ 1	$ 54	$ 26	$ 3	$ 866
Provision	183			(1)	(2)		180
Charge-offs	(299)						(299)
Recoveries							
Ending balance	$ 662	$ 4	$ 1	$ 53	$ 24	$ 3	$ 747
Allowance for loan losses:							
Ending allowance attributed to loans:							
Individually evaluated for impairment	$ 60	$	$	$	$	$	$ 60
Collectively evaluated for impairment	602	4	1	53	24	3	687
Total ending allowance balance	$ 662	$ 4	$ 1	$ 53	$ 24	$ 3	$ 747
Loans:							
Loans individually evaluated for impairment	$ 2,680	$	$	$	$	$	$ 2,680
Loans collectively evaluated for impairment	207,970	259	304	8,754	8,127	869	226,283
Total ending loans balance	$ 210,650	$ 259	$ 304	$ 8,754	$ 8,127	$ 869	$ 228,963

Nine Months Ended March 31, 2013

	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	256			(3)	3	1	257
Charge-offs	(367)						(367)
Recoveries							
Ending balance	$ 662	$ 4	$ 1	$ 53	$ 24	$ 3	$ 747

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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

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The following table presents loans individually evaluated for impairment by portfolio segment at March 31, 2014 and June 30, 2013, including the average recorded investment balance and interest earned for the nine months ended March 31, 2014 and year ended June 30, 2013:

	March 31, 2014					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	$ 830	$ 830	$	$ 1,282	$ 12	$ 1,734	$ 1,734	$	$ 1,202	$ 27
Multi-family										
Home equity										
Nonresidential										
Construction and land										
Total real estate loans	830	830		1,282	12	1,734	1,734		1,202	27
Consumer and other loans										
Total	$ 830	$ 830	$	$ 1,282	$ 12	$ 1,734	$ 1,734	$	$ 1,202	$ 27
With recorded allowance:										
Real estate loans:										
One-to-four family	$ 1,640	$ 1,640	$ 81	$ 946	$ 52	$ 252	$ 252	$ 27	$ 1,033	$ 6
Multi-family										
Home equity										
Nonresidential										
Construction and land										
Total real estate loans	1,640	1,640	81	946	52	252	252	27	1,033	6
Consumer and other loans										
Total	$ 1,640	$ 1,640	$ 81	$ 946	$ 52	$ 252	$ 252	$ 27	$ 1,033	$ 6
Totals:										
Real estate loans	$ 2,470	$ 2,470	$ 81	$ 2,228	$ 64	$ 1,986	$ 1,986	$ 27	$ 2,235	$ 33
Consumer and other loans										
Total	$ 2,470	$ 2,470	$ 81	$ 2,228	$ 64	$ 1,986	$ 1,986	$ 27	$ 2,235	$ 33

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The following table presents the aging of the recorded investment in past due loans at March 31, 2014 and June 30, 2013 by portfolio segment of loans:

March 31, 2014

	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	$ 5,625	$ 1,436	$ 1,690	$ 8,751	$ 199,050	$ 207,801	$
Multi-family					253	253	
Home equity					239	239	
Nonresidential	21			21	8,546	8,567	
Construction and land					9,997	9,997	
Total real estate loans	5,646	1,436	1,690	8,772	218,085	226,857	
Consumer and other loans					683	683	
Total	$ 5,646	$ 1,436	$ 1,690	$ 8,772	$ 218,768	$ 227,540	$

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 March 31, 2014, nonaccrual loans were $2,288, of which $1,690 are classified in the 90 Days or More category and $598 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 March 31, 2014 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:

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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 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

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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.

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At March 31, 2014 and June 30, 2013, and based on the most recent analyses performed, the loan grade for each loan by portfolio segment is as follows:

	Real estate							
	One-to-four family		Multi-family		Home Equity		Nonresidential	
	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013
Pass	$ 205,331	$ 202,411	$ 253	$ 258	$ 239	$ 292	$ 8,567	$ 8,521
Special mention	182							
Substandard	2,288	1,986						
Total	$ 207,801	$ 204,397	$ 253	$ 258	$ 239	$ 292	$ 8,567	$ 8,521

	Real estate Construction and Land		Consumer		Total	
	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013
Pass	$ 9,997	$ 8,735	$ 683	$ 925	$ 225,070	$ 221,142
Special mention					182	
Substandard					2,288	1,986
Total	$ 9,997	$ 8,735	$ 683	$ 925	$ 227,540	$ 223,128

Loans were evaluated for appropriate risk ratings as of March 31, 2014 on April 7, 2014.

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(5) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Investment Securities:

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). The Company s preferred stock investments are not actively traded; therefore, management estimates the fair value of its preferred stock using estimations provided by external dealer quotes.

Impaired Loans:

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Real estate owned:

Nonrecurring adjustments to certain commercial and residential real estate properties classified as real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

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Assets and liabilities measured at fair value on a recurring basis at March 31, 2014 and June 30, 2013 are summarized below:

	Fair Value Measurements (Level 2) March 31, 2014	(Level 2) June 30, 2013
Financial assets:		
Securities available-for-sale	$ 100,713	$ 87,985
Total financial assets	$ 100,713	$ 87,985

Presented in the table below are assets measured at fair value on a non-recurring basis using level 3 inputs at March 31, 2014 and June 30, 2013:

	Fair Value Measurements (Level 3) March 31, 2014	(Level 3) June 30, 2013
Financial assets:		
Impaired real estate loans, with specific allocations:		
One-to-four-family	$ 1,559	225
Non-financial assets:		
Real estate owned, net:		
One-to-four family	822	1,047
Total non-financial assets	822	1,047
Total assets measured at fair value on a non-recurring basis	$ 2,381	$ 1,272

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $1,559 and $225 at March 31, 2014 and June 30, 2013, respectively. The carrying values included a valuation allowance of $81 and $27, respectively, resulting in an increase in the provision for loan loss of $7 for the nine months ended March 31, 2014.

Real estate owned is carried at the lower of carrying value or fair value less costs to sell. The outstanding balances of real estate owned and their respective valuation allowances at March 31, 2014 and June 30, 2013 were $909 and $87 and $1,047 and $0, respectively. During the three and nine months ended March 31, 2014, write downs of $87 were recorded on real estate owned.

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The table below presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at March 31, 2014:

	Level 3 Quantitative Information at March 31, 2013			
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired real estate loans net, with specific allocations:				
One-to-four family	$ 1,559	Sales comparison approach	Adjustment for differences between the comparable sales	0% to 30% (15%)
Real estate owned:				
One-to-four family	$ 822	Sales comparison approach	Adjustment for differences between the comparable sales	0% to 20% (10%)

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Many of the Company s assets and liabilities are short-term financial instruments whose carrying amounts reported in the consolidated balance sheet approximate fair value. These items include cash and cash equivalents, accrued interest receivable and payable balances, variable rate loan and deposits that re-price frequently and fully. The estimated fair values of the Company s remaining on-balance sheet financial instruments at March 31, 2014 and June 30, 2013 are summarized below:

	March 31, 2014				
	Carrying Amount	Fair Value (Level 1)	(Level 2)	(Level 3)	Total
Financial assets					
Securities available-for-sale	$ 100,713	$	$ 100,713	$	$ 100,713
Loans, net	225,481			230,852	230,852
Restricted equity securities (1)	320	N/A	N/A	N/A	N/A
Financial liabilities					
Deposits	$ 282,396	$ 78,490	$ 204,552	$	$ 283,042

	June 30, 2013				
	Carrying Amount	Fair Value (Level 1)	(Level 2)	(Level 3)	Total
Financial assets					
Securities available-for-sale	$ 87,985	$	$ 87,985	$	$ 87,985
Securities held-to-maturity	8,039		8,223		8,223
Loans, net	221,163			229,745	229,745
Restricted equity securities (1)	449	N/A	N/A	N/A	N/A
Financial liabilities					
Deposits	$ 292,422	$ 74,471	$ 218,395	$	$ 292,866

(1) It was not practicable to determine fair value of restricted equity securities due to restrictions placed on transferability.

(6) EMPLOYEE STOCK OWNERSHIP PLAN

Employees participate in an Employee Stock Ownership Plan (ESOP). The ESOP borrowed from the Company to purchase 248,842 shares of the Company s common stock at $10 per share during 2011. The Company makes discretionary contributions to the ESOP, and pays dividends on unallocated shares to the ESOP, and the ESOP uses funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation and expense is recorded. Dividends on allocated shares increase participant accounts.

Participants receive the shares at the end of employment. During the nine months ended March 31, 2014, $75 of discretionary contributions were made to the ESOP for debt retirement, which resulted in an additional $91 of compensation expense. ESOP compensation expense recognized for the three and nine months ended March 31, 2014 was $76 and $305, respectively. The expense recognized for the three and nine months ended March 31, 2013 was $63 and $198, respectively.

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Shares held by the ESOP at March 31, 2014 and June 30, 2013 were as follows:

	March 31, 2014	June 30, 2013
Committed to be released to participants	4,372	9,064
Allocated to participants	57,902	33,211
Unearned	186,568	206,567
Total ESOP shares	248,842	248,842
Fair value of unearned shares	$ 3,236,955	$ 3,059,257

(7) STOCK BASED COMPENSATION

On April 5, 2012, the shareholders of Oconee Federal Financial Corp. approved the Oconee Federal Financial Corp. 2012 Equity Incentive Plan (the Plan) for employees and directors of the Company. The Plan authorizes the issuance of up to 435,472 shares of the Company s common stock, with no more than 124,420 of shares as restricted stock awards and 311,052 as stock options, either incentive stock options or non-qualified stock options. The exercise price of options granted under the Plan may not be less than the fair market value on the date the stock option is granted. The compensation committee of the board of directors has sole discretion to determine the amount and to whom equity incentive awards are granted.

On April 27, 2012, the compensation committee of the board of directors approved the issuance of 62,208 stock options to purchase Company stock and 24,884 shares of restricted stock to its directors. In addition, a total of 171,078 stock options and 62,210 shares of restricted stock were granted to officers. Stock options and restricted stock have vesting periods of 5 years or 7 years, a percentage of which vests annually on each anniversary date of grant. The weighted average vesting period of stock options and restricted stock granted was 5.7 years and 5.6 years, respectively. Stock options expire ten years after issuance. Apart from the vesting schedule for both stock options and restricted stock, there are no performance-based conditions or any other material conditions applicable to the awards issued.

On November 13, 2013, the compensation committee of the board of directors approved the issuance of 7,700 stock options to purchase Company stock and 12,600 shares of restricted stock to one of the Company s officers. Stock options and restricted stock have vesting periods of 7 years, a percentage of which and vests annually at each anniversary date of grant. Stock options expire ten years after issuance. Apart from the vesting schedule for both stock options and restricted stock, there are no performance-based conditions or any other material conditions applicable to the awards issued.

The following table summarizes stock option activity for the nine months ended March 31, 2014:

	Options		Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Life (in years)		Aggregate Intrinsic Value (1)
Outstanding - July 1, 2013	233,286	$	11.58			
Granted	7,700		17.16			
Exercised						
Forfeited						
Outstanding - March 31, 2014	240,986	$	11.76	8.13	$	1,347,523
Fully vested and exercisable at March 31, 2014	42,214	$	11.58	8.13	$	243,575
Expected to vest in future periods	198,772					
Fully vested and expected to vest - March 31, 2014	240,986	$	11.76	8.13	$	1,347,523

(1) Based on closing price of $17.35 per share on March 31, 2014.

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Intrinsic value for stock options is defined as the difference between the current market value and the exercise price.

The fair value for each option grant is estimated on the date of grant using the Black-Scholes-Merton option pricing model that uses the following assumptions. The Company uses the U.S. Treasury yield curve in effect at the time of the grant to determine the risk-free interest rate. The expected dividend yield is estimated using the projected annual dividend level and recent stock price of the Company s common stock at the date of grant. Expected stock volatility is based on historical volatilities of the SNL Financial Index of Thrifts. The expected life of the options is calculated based on the simplified method as provided for under Staff Accounting Bulletin No.110.

The fiscal weighted-average fair value of options granted and assumptions used in the Black-Scholes-Merton option pricing model in the fiscal years granted are listed below:

	2014	2012
Risk-free interest rate	2.32%	1.54%
Expected dividend yield	2.33%	3.45%
Expected stock volatility	15.5	15.3
Expected life (years)	8	8
Fair value	$ 2.46	$ 1.00

Stock options are assumed to be earned ratably over their respective vesting periods and charged to compensation expense based upon their grant date fair value and the number of options assumed to be earned. There were 32,105 and 31,689 options that were earned during the nine months ended March 31, 2014 and 2013, respectively. Stock-based compensation expense for stock options for the three and nine months ended March 31, 2014 and 2013 was $11 and $33 and $10 and $32, respectively. Total unrecognized compensation cost related to stock options was $167 at March 31, 2014 and is expected to be recognized over a weighted-average period of 3.8 years.

The following table summarizes non-vested restricted stock activity for the nine months ended March 31, 2014:

	March 31, 2014
Balance - beginning of year	71,095
Granted	12,600
Forfeited	
Vested	

Balance - end of period		83,695
Weighted average grant date fair value	$	12.29

The fair value of the restricted stock awards is amortized to compensation expense over their respective vesting periods and is based on the market price of the Company s common stock at the date of grant multiplied by the number of shares granted that are expected to vest. The weighted-average grant date fair value of restricted stock granted on April 27, 2012 was $11.58 per share or $1,009. The weighted-average grant date fair value of restricted stock granted on November 13, 2013 was $17.16 per share or $216. Stock-based compensation expense for restricted stock included in noninterest expense for the three and nine months ended March 31, 2014 and 2013 was $53 and $151 and $46 and $139, respectively. Unrecognized compensation expense for nonvested restricted stock awards was $842 at March 31, 2014 and is expected to be recognized over a weighted-average period of 4.0 years.

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(8) SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the nine months ended March 31, 2014 and 2013:

	March 31, 2014	March 31, 2013
Cash paid during the period for:		
Interest paid	$ 1,158	$ 1,722
Income taxes paid	$ 1,955	$ 1,647
Supplemental noncash disclosures:		
Transfers from loans to real estate owned	$ 69	$ 1,453
Unrealized gains (losses) on securities available-for-sale, net	$ (79)	$ 178
Transfer from securities held-to-maturity to available-for-sale	$ 7,805	$
Unrealized gains on securities held-to-maturity transferred to available-for-sale	$ 45	$

(9) SUBSEQUENT EVENTS

On April 24, 2014, the Board of Directors of Oconee Federal Financial Corp. (the Company) declared a quarterly cash dividend of $0.10 per share of the Company s common stock. The dividend will be payable to stockholders of record as of May 8, 2014, and will be paid on or about May 22, 2014.

(10) MERGER

On February 26, 2014, the Company and its wholly-owned subsidiary, Oconee Federal Savings and Loan Association (Oconee Federal), and Oconee Federal, MHC (Oconee MHC), the Company s parent and Stephens Federal Bank, a federally chartered mutual savings bank (Stephens Federal) entered into a definitive merger agreement (as amended, the Merger Agreement). On May 6, 2014, the Merger Agreement was amended to change the contemplated structure of the Merger Agreement. The Merger Agreement s terms stipulate that Stephens Federal will undergo a full Supervisory Conversion from a mutual savings bank to a federally chartered stock savings bank. Concurrent with the Supervisory Conversion, Stephens Federal will merge with and into Oconee Federal with Oconee Federal as the surviving institution, and the separate existence of Stephens Federal will cease. Additionally, at the time of the merger, the Company will issue to Oconee MHC a number of shares of OFED Common Stock equal to the quotient of (i) the Valuation of Stephens Federal as prepared by an independent third party, *divided by*

(ii) the average of the closing sales price of a share of OFED Common Stock, as reported on the Nasdaq stock market, for the twenty (20) consecutive trading days ending on the second trading day preceding the Effective Time of the Merger, and each share of the common stock of Stephens Federal issued pursuant to the Supervisory Conversion and outstanding immediately prior to the Effective Time shall cease to be outstanding and shall immediately be canceled and retired and cease to exist.

The closing of the merger is subject to the approval of both the Office of the Comptroller of Currency and the Federal Reserve Board. The respective applications to both regulatory agencies have been filed as of May 8, 2014. The approval and closing of the merger is expected to occur in late July or August. Based on preliminary estimates, the merger is expected to increase total assets by approximately $150 million, although final amounts are subject to change. The merger will be accounted for as an acquisition of a business using acquisition accounting, which requires that all identifiable assets and liabilities to be recorded at fair value, including any intangible assets and liabilities.

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

This Quarterly Report contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include:

- statements of our goals, intentions and expectations;
- statements regarding our business plans and prospects and growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates or our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic, and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this Quarterly Report.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- our ability to manage our operations under the current adverse economic conditions (including real estate values, loan demand, inflation, commodity prices and employment levels) nationally and in our market areas;
- adverse changes in the financial industry, securities, credit and national and local real estate markets (including real estate values);
- significant increases in our delinquencies and loan losses, including as a result of our inability to resolve classified assets, changes in the underlying cash flows of our borrowers, and management s assumptions in determining the adequacy of the allowance for loan losses;

- credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and in our allowance and provision for loan losses;

- use of estimates for determining the fair value of certain of our assets, which may prove to be incorrect and result in significant declines in valuations;

- increased competition among depository and other financial institutions;

- our ability to attract and maintain deposits, including attracting and maintaining deposits and introducing new deposit products;

- changes in interest rates generally, including changes in the relative differences between short term and long term interest rates and in deposit interest rates, that may affect our net interest margin and funding sources;

- fluctuations in the demand for loans, which may be affected by the number of unsold homes, land and other properties in our market areas and by declines in the value of real estate in our market area;

- declines in the yield on our assets resulting from the current low interest rate environment;

- our ability to successfully implement our business strategies, including attracting and maintaining deposits and introducing new financial products;

- risks related to high concentration of loans secured by real estate located in our market areas;

- changes in the level of government support of housing finance;

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- the results of examinations by our regulators, including the possibility that our regulators may, among other things, require us to increase our reserve for loan losses, write down assets, change our regulatory capital position, limit our ability to borrow funds or maintain or increase deposits, or prohibit us from paying dividends, which could adversely affect our dividends and earnings;

- our ability to enter new markets successfully and capitalize on growth opportunities;

- our businesses may not be combined successfully, or such combination may take longer to accomplish than expected;

- the growth opportunities and cost savings from the acquisition of Stephens Federal may not be fully realized or may take longer to realize than expected;

- our ability to manage increased expenses following the acquisition of Stephens Federal, including salary and employee benefit expenses and occupation expenses;

- operating costs, customer losses and business disruption following the acquisition of Stephens Federal, including adverse effects of relationships with employees, may be greater than expected;

- our ability to attract and maintain deposits, including former depositors of Stephens Federal;

- changes in laws or government regulations or policies affecting financial institutions, including the Dodd-Frank Act and the JOBS Act, which could result in, among other things, increased deposit insurance premiums and assessments, capital requirements (particularly the new capital regulations), regulatory fees and compliance costs and the resources we have available to address such changes;

- our reliance on a small executive staff;

- changes in our compensation and benefit plans, and our ability to retain key members of our senior management team and to address staffing needs to implement our strategic plan;

- changes in consumer spending, borrowing and savings habits;

- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;

- our ability to control costs and expenses, particularly those related to operating as a publicly traded company;

- other changes in our financial condition or results of operations that reduce capital available to pay dividends;

- other changes in the financial condition or future prospects of issuers of securities that we own, including our stock in the FHLB of Atlanta; and

- other economic, competitive, governmental, regulatory and operational factors affecting our operations, pricing, products and services.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Critical Accounting Policies

There are no material changes to the critical accounting policies disclosed in the Annual Report on Form 10-K for Oconee Federal Financial Corp. for the year ended June 30, 2013, as filed with the Securities and Exchange Commission.

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Comparison of Financial Condition at March 31, 2014 and June 30, 2013

Our total assets decreased by $10.5 million, or 2.8%, to $360.0 million at March 31, 2014 from $370.1 million at June 30, 2013. A substantial portion of this decrease is reflected in the decrease in cash and cash equivalents of $19.4 million, or 51.2%, offset partially by an increase in investment securities of $4.7 million, or 4.9%, and an increase in net loans of $4.3 million, or 2.0%. The decrease in cash is primarily reflective of an increase in loan demand and a decline in loan pay-offs for the nine months ended March 31, 2014, an increase in purchases of investment securities, and a $10.4 million decrease in interest bearing deposits. Total equity decreased by $27 thousand to $76.1 million at March 31, 2014 compared with $76.2 million at June 30, 2013.

Total gross loans increased by $4.4 million, or 2.0%, to $227.5 million at March 31, 2014 from $223.1 million at June 30, 2013. Our one-to-four family real estate loans increased by $3.4 million, or 1.7%, to $207.8 million at March 31, 2014 from $204.4 million at June 30, 2013. Construction and land loans increased by $1.3 million, or 14.4%, to $10.0 million at March 31, 2014 from $8.7 million at June 30, 2013. These increases are a reflection of increasing demand in our market area. As mortgage rates have trended upward, our rates offered on one-to-four family mortgage loans have become more competitive in the market leading to an increase in demand and a reduction in loan pay-offs stemming from borrower refinances with other institutions. The increase in one-to-four family and construction and land loans was offset by declines in home equity and consumer loans.

Deposits decreased by $10.0 million, or 3.4%, to $282.4 million at March 31, 2014 from $292.4 million at June 30, 2013. The decrease was primarily attributed to a decrease in interest bearing deposit accounts of $10.4 million, or 3.6%, primarily within our certificates of deposit accounts. The decline in our certificates of deposits is reflective of depositors moving their deposits into higher yielding investments in the market. Oconee Federal MHC s cash is held on deposit with the Company. We generally do not accept brokered deposits and no brokered deposits were accepted during the nine months ended March 31, 2014.

We had no advances from the Federal Home Loan Bank of Atlanta as of March 31, 2014 or June 30, 2013. We have credit available under a loan agreement with the Federal Home Loan Bank of Atlanta in the amount of 11% of total assets (as of March 31, 2014), or approximately $39.6 million.

Total equity decreased by $27 thousand, or 0.04%, to $76.1 million at March 31, 2014 compared with $76.2 million at June 30, 2013. The decrease in total equity is the result of the repurchase of 97,570 shares of treasury stock for $1.6 million, the payment of dividends of $1.7 million, and the increase in accumulated other comprehensive loss of $51 thousand at March 31, 2014, mostly offset by net income of $2.8 million for the nine months ended March 31, 2014.

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Nonperforming Assets

The table below sets forth the amounts and categories of our nonperforming assets at the dates indicated.

	March 31, 2014	June 30, 2013
	(Dollars in thousands)	
Nonaccrual loans:		
Real estate loans:		
One-to-four family	$ 2,288	$ 1,493
Multi-family		
Home equity		
Non-residential		
Construction and land		
Total real estate loans	2,288	1,493
Consumer and other loans		
Total nonaccrual loans	$ 2,288	$ 1,493
Accruing loans past due 90 days or more:		
Real estate loans:		
One-to-four family	$	$ 493
Multi-family		
Home equity		
Non-residential		
Construction and land		
Total real estate loans		493
Consumer and other loans		
Total accruing loans past due 90 days or more		493
Total of nonaccrual and 90 days or more past due loans	$ 2,288	$ 1,986
Real estate owned, net:		
One-to-four family	$ 822	$ 1,047
Multi-family		
Home equity		
Non-residential		
Other		
Other nonperforming assets		
Total nonperforming assets	$ 3,110	$ 3,033
Troubled debt restructurings		
Troubled debt restructurings and total nonperforming assets	$ 3,110	$ 3,033
Total nonperforming loans to total loans	1.01%	0.89%
Total nonperforming assets to total assets	0.87%	0.82%
Total nonperforming assets to loans and real estate owned	1.36%	1.35%

Interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $33 thousand and $11 thousand for the nine months ended March 31, 2014 and 2013, respectively. Interest of $64 thousand and $22 thousand was recognized on these loans and is included in net income for the nine months ended March 31, 2014 and 2013, respectively.

The increase in the ratio of nonperforming loans to total loans was primarily the result of the increase in nonperforming loans to $2.3 million at March 31, 2014 from $2.0 million at June 30, 2013. The increase in nonperforming loans was primarily related to three large balance loans, totaling approximately $1.5 million, that became past due 90 days during the nine

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months ended March 31, 2014. All nonperforming loans, regardless of size, are evaluated by management for impairment. In cases where there is more than one loan under the same relationship, all loans within that relationship are evaluated for impairment. Therefore, total impaired loans may exceed total nonperforming loans. Additionally, any loan or loan relationship exhibiting signs of potential impairment are evaluated for impairment, even if those loans are currently performing.

Analysis of Net Interest Margin

The following tables set forth average balance sheets, average yields and rates, and certain other information at and for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Nonaccrual loans were included in the computation of average balances, but have been reflected in the tables as loans carrying a zero yield. The yields set forth below include the effect of net deferred costs, discounts and premiums that are amortized or accreted to income.

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	For the Three Months Ended					
	March 31, 2014			March 31, 2013		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in Thousands)					
Assets:						
Interest-earning assets:						
Loans	$ 225,298	$ 2,820	5.01%	$ 230,629	$ 3,136	5.44%
Investment securities, taxable	99,628	388	1.56	86,589	296	1.37
Investment securities, tax-free	250	2	3.20			
Interest-bearing deposits	19,790	11	0.22	47,509	19	0.16
Total interest-earning assets	344,966	3,221	3.73	364,727	3,451	3.78
Noninterest-earning assets	14,457			12,273		
Total assets	$ 359,423			$ 377,000		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$ 19,033	$ 3	0.06%	$ 17,553	$ 3	0.07%
Money market deposits	13,562	7	0.20	11,675	6	0.20
Regular savings and other deposits	39,697	37	0.38	35,946	42	0.46
Certificates of deposit	205,880	298	0.59	222,381	462	0.82
Total interest-bearing deposits	278,172	345	0.50	287,555	513	0.71
Total interest-bearing liabilities	278,172			287,555		
Noninterest bearing deposits	4,692			5,846		
Other noninterest-bearing liabilities	1,113			1,971		
Total liabilities	283,977			295,372		
Equity	75,446			81,628		
Total liabilities and equity	$ 359,423			$ 377,000		
Net interest income		$ 2,876			$ 2,938	
Interest rate spread			3.23%			3.08%
Net interest margin			3.33%			3.22%
Average interest-earning assets to average interest-bearing liabilities	1.24X			1.27X		

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	For the Nine Months Ended					
	March 31, 2014			March 31, 2013		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in Thousands)					
Assets:						
Interest-earning assets:						
Loans	$ 223,333	$ 8,542	5.10%	$ 239,273	$ 9,740	5.43%
Investment securities	98,460	1,139	1.54	80,303	836	1.39
Investment securities, tax-free	83	2	3.20			
Interest-bearing deposits	26,224	40	0.20	47,513	57	0.16
Total interest-earning assets	348,100	9,723	3.72	367,089	10,633	3.86
Noninterest-earning assets	15,556			8,768		
Total assets	$ 363,656			$ 375,857		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$ 19,030	$ 9	0.06%	$ 17,063	$ 9	0.07%
Money market deposits	12,859	19	0.20	11,744	19	0.22
Regular savings and other deposits	39,565	113	0.38	34,974	153	0.58
Certificates of deposit	210,489	1,015	0.64	223,806	1,525	0.91
Total interest-bearing deposits	281,943	1,156	0.55	287,587	1,706	0.79
Total interest-bearing liabilities	281,943			287,587		
Noninterest bearing deposits	4,685			4,199		
Other noninterest-bearing liabilities	1,302			2,066		
Total liabilities	287,930			293,852		
Equity	75,726			82,005		
Total liabilities and equity	$ 363,656			$ 375,857		
Net interest income		$ 8,567			$ 8,927	
Interest rate spread			3.18%			3.07%
Net interest margin			3.28%			3.24%
Average interest-earning assets to average interest-bearing liabilities	1.23X			1.28X		

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Comparison of Operating Results for the Three Months Ended March 31, 2014 and March 31, 2013

General. We recognized net income of $855 thousand for the three months ended March 31, 2014 as compared to net income of $850 thousand for the three months ended March 31, 2013. The slight increase of $5 thousand was primarily attributable to an increase in net interest income after the provision for loan losses of $77 thousand and an increase in noninterest income of $91 thousand, offset partially by an increase in noninterest expense of $236 thousand. Additionally, there was a $73 thousand decrease in income tax expense stemming from the decrease in income before taxes of $68 thousand and lower effective income tax rate of 36.2% for the three months ended March 31, 2014 compared with 39.7% for the three months ended March 31, 2013.

Interest Income. Interest income decreased by $230 thousand, or 6.7%, to $3.2 million for the three months ended March 31, 2014 from $3.5 million for the three months ended March 31, 2013. The decrease reflected a decrease in the average yield on interest earning assets of 5 basis points to 3.73% for the three months ended March 31, 2014 from 3.78% for the three months ended March 31, 2013 and a decrease in the average balance of interest earning assets of $19.8 million, or 5.4%, to $345.0 million for the three months ended March 31, 2014 from $364.7 million for the three months ended March 31, 2013.

Interest income on loans decreased by $316 thousand, or 10.1%, to $2.8 million for the three months ended March 31, 2014 from $3.1 million for the three months ended March 31, 2013. The decrease resulted from a decrease in the average balances of loans of $5.3 million, or 2.3%, to $225.3 million for the three months ended March 31, 2014 from $230.6 million for the three months ended March 31, 2013 and a decrease in the yield on loans of 43 basis points to 5.01% for the three months ended March 31, 2014 from 5.44% for the three months ended March 31, 2013. Interest income on investment securities increased by $94 thousand, or 31.8%, to $390 thousand for the three months ended March 31, 2014 from $296 thousand for the three months ended March 31, 2013. The increase reflected an increase in the average balance of securities of $13.3 million, or 15.4%, to $99.9 million for the three months ended March 31, 2014 from $86.6 million for the three months ended March 31, 2013 and an increase of 19 basis points in the yield on securities to 1.56% from 1.37%. The increase in average balances of our investment securities is reflective of our efforts to continue to invest in high-quality investment securities during this period of low loan demand.

Interest Expense. Interest expense decreased $168 thousand, or 32.7%, to $345 thousand for the three months ended March 31, 2014 from $513 thousand for the three months ended March 31, 2013. The decrease reflected a decrease of 21 basis points in the average rate paid on deposits for the three months ended March 31, 2014 to 0.50% from 0.71% for the three months ended March 31, 2013 and a decrease in the average balances of interest-bearing deposits of $9.4 million, or 3.3%, to $278.2 million for the three months ended March 31, 2014 from $287.6 million for the three months ended March 31, 2013. The largest decrease in interest expense came from certificates of deposit, which decreased $164 thousand, or 35.5%, to $298 thousand for the three months ended March 31, 2014 from $462 thousand for the same period in 2013. The decrease is reflective of a decrease of $16.5 million, or 7.4%, in the average balance of certificates of deposit to $205.9 million for the three months ended March 31, 2014 from $222.4 million for the three months ended March 31, 2013 and a decrease of 23 basis points in the average rate paid on such deposits to 0.59% from 0.82% for the same periods ended.

Net Interest Income. Net interest income before the provision for loan losses decreased slightly by $62 thousand, or 2.1%, to $2.9 million for the three months ended March 31, 2014 and 2013. Although both our interest rate spread and net interest margin have increased over the same period in 2013, our ratio of average interest-earning assets to average interest-bearing liabilities has declined to 1.24X for the three months ended March 31, 2014 from 1.27X for the three months ended March 31, 2013. The decline in this ratio indicates that the decline in our average interest-earning assets exceeded that of our interest-bearing liabilities from the three months ended March 31, 2014 to the same period in 2013. This decline offset the positive increases in our interest rate spread and net interest margin. Our interest rate spread and net interest margin increased to 3.23% and 3.33%, respectively, for the three months ended March 31, 2014 from 3.08% and 3.22%, respectively, for the three months ended March 31, 2013.

Provision for Loan Losses. We recorded a provision for loan losses of $41 thousand for the three months ended March 31, 2014, compared with a provision of $180 thousand for the three months ended March 31, 2013. The provision for loan losses for the three months ended March 31, 2013 was elevated as the result of net charge-offs for the three months ended March 31, 2013 of $299 thousand, which resulted primarily from one large one-to-four family residential real estate loan charge off of $277 thousand. No charges offs were recorded for the three months ended March 31, 2014. Although our total nonperforming loans as a percentage of total loans have increased slightly to 1.01% at March 31, 2014 as compared with 0.89% at June 30, 2013, our overall credit quality remains strong as indicated by the decline in our net charge-offs for the three months ended March 31, 2014. Our allowance for loan losses was $829 thousand at March 31, 2014 and $751 thousand at June 30, 2013, 0.36% and 0.34% of gross loans, respectively.

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We used the same methodology in assessing the allowances for both periods. To the best of our knowledge, we have recorded all losses that are both probable and reasonably estimable for the three months ended March 31, 2014 and 2013.

Noninterest Income. Noninterest income for the three months ended March 31, 2014 was $179 thousand compared with $88 thousand for the same period in 2013. The increase reflected gain on sales of securities of $70 thousand for the three months ended March 31, 2014 as compared with $0 for the three months ended March 31, 2013 as we sold more investments during the three months ended March 31, 2014 than we did during the same period in 2013. Additionally, the increase reflected an increase of $76 thousand of income on bank owned life insurance, which is included in other noninterest income. In April 2013, the Company purchased an additional $8.0 million in bank owned life insurance.

Noninterest Expense. Noninterest expense for the three months ended March 31, 2014 increased by $236 thousand, or 16.4%, to $1.7 million from $1.4 million for the same period in 2013. The increase to the Company s noninterest expense primarily resulted from increases in professional and supervisory fees of $99 thousand, or 75.6%, and provision for real estate owned and related expenses of $102 thousand, or 927.3%. The increase in professional and supervisory fees reflects merger related costs incurred in certain due diligence performance and preparation of the regulatory applications. Total merger related expenses incurred for the three months ended March 31, 2014 was $133 thousand. The increase in the provision for real estate owned and related expenses was primarily related to a write down of $87 thousand for the three months ended March 31, 2014 of the carrying value or real estate owned to reflect declines in the market values of certain properties held in real estate owned.

Income Tax Expense. Income tax expense for the three months ended March 31, 2014 was $486 thousand compared with $559 thousand for the three months ended March 31, 2013. Our effective income tax rate decreased to 36.2% for the three months ended March 31, 2014 from 39.7% for the three months ended March 31, 2013. The decrease in effective tax rates is largely due to income on bank owned life insurance, which is non-taxable for income tax purposes and represents a permanent difference between book and taxable income.

Comparison of Operating Results for the Nine Months Ended March 31, 2014 and March 31, 2013

General. We recognized net income of $2.8 million for the nine months ended March 31, 2014 as compared to net income of $3.0 million for the nine months ended March 31, 2013. The decrease of $188 thousand, or 6.3%, was primarily attributable to a decrease in net interest income after provision for loan losses of $185 thousand, or 2.1%, and an increase in noninterest expense of $597 thousand, or 14.8%, partially offset by an increase in noninterest income of $276 thousand, or 124.3%, to $498 thousand from $22 thousand.

Interest Income. Interest income decreased by $910 thousand, or 8.6%, to $9.7 million for the nine months ended March 31, 2014 from $10.6 million for the nine months ended March 31, 2013. The decrease was primarily the result of a decrease in the average yield on interest earning assets of 14 basis points to 3.72% for the nine months ended March 31, 2014 from 3.86% for the nine months ended March 31, 2013 and a decrease in the average balance of interest earning assets of $19.0 million, or 5.2%, to $348.1 million for the nine months ended March 31, 2014 from $367.1 million for the nine months ended March 31, 2013.

Interest income on loans decreased by $1.2 million, or 12.3%, to $8.5 million for the nine months ended March 31, 2014 from $9.7 million for the nine months ended March 31, 2013. The decrease resulted from a decrease in the average balances of loans of $15.9 million, or 6.7%, to $223.3 million for the nine months ended March 31, 2014 from $239.3 million for the nine months ended March 31, 2013 and a decrease in the yield on loans of 33 basis points to 5.10% for the nine months ended March 31, 2014 from 5.43% for the nine months ended March 31, 2013. Interest income on investment securities increased by $305 thousand, or 36.5%, to $1.1 million for the nine months ended March 31, 2014 from $836 thousand for the nine months ended March 31, 2013. The increase reflected an increase in the average balance of securities of $18.3 million, or 22.8%, to $98.5 million for the nine months ended March 31, 2014 from $80.3 million for the nine months ended March 31, 2013 and an increase of 15 basis points in the yield on securities to 1.54% from 1.39%. The increase in average balances of our investment securities is reflective of our efforts to continue to invest in high-quality investment securities during this period of low loan demand.

Interest Expense. Interest expense decreased $550 thousand, or 32.2%, to $1.2 million for the nine months ended March 31, 2014 from $1.7 million for the nine months ended March 31, 2013. The decrease reflected a decrease of 24 basis points in the average rate paid on deposits for the nine months ended March 31, 2014 to 0.55% from 0.79% for the nine months ended March 31, 2013 and a decrease in the average balances of interest-bearing deposits of $5.6 million, or 2.0%, to $281.9 million for the nine months ended March 31, 2014 from $287.6 million for the nine months ended March 31, 2013. The largest decrease in interest expense came from certificates of deposit, which decreased $510 thousand, or 33.4%, to $1.0 million for the nine months ended March 31, 2014 from $1.5 million for the same period. The decrease is reflective of a decrease of $13.3 million, or 6.0%, in the average balance of certificates of deposit to $210.5 million for the nine months ended March 31, 2014

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from $223.8 million for the nine months ended March 31, 2013 and a decrease of 27 basis points in the average rate paid on such deposits to 0.64% from 0.91% for the same periods ended.

Net Interest Income. Net interest income before the provision for loan losses decreased by $360 thousand, or 4.0%, to $8.6 million for the nine months ended March 31, 2014 from $8.9 million for the nine months ended March 31, 2013. Although both our interest rate spread and net interest margin have increased over the prior year, our ratio of average interest-earning assets to average interest-bearing liabilities has declined to 1.23X for the nine months ended March 31, 2014 from 1.28X for the nine months ended March 31, 2013. The decline in this ratio indicates that the decline in our average interest-earning assets exceeded that of our interest-bearing liabilities from the nine months ended March 31, 2014 to the same period in 2013. This decline offset the positive increases in our interest rate spread and net interest margin. Our interest rate spread and net interest margin increased to 3.18% and 3.28%, respectively, for the nine months ended March 31, 2014 from 3.07% and 3.24%, respectively, for the nine months ended March 31, 2013.

Provision for Loan Losses. We recorded a provision for loan losses of $82 thousand for the nine months ended March 31, 2014, compared with a provision of $257 thousand for the nine months ended March 31, 2013. The provision for loan losses for the nine months ended March 31, 2013 was elevated as the result of net charge-offs for the nine months ended March 31, 2013 of $367 thousand, which resulted primarily from one large one-to four-family residential real estate loan charge off of $277 thousand during the three months ended March 31, 2013. Only $4 thousand of net charge-offs were recorded during the nine months ended March 31, 2014. Although our total nonperforming loans as a percentage of total loans have increased slightly to 1.01% at March 31, 2014 as compared with 0.89% at June 30, 2013, our overall credit quality remains strong as indicated by the decline in our net charge-offs for the nine months ended March 31, 2014. Our allowance for loan losses was $829 thousand at March 31, 2014 and $751 thousand at June 30, 2013, 0.36% and 0.34% of gross loans, respectively.

We used the same methodology in assessing the allowances for both periods. To the best of our knowledge, we have recorded all losses that are both probable and reasonably estimable for the nine months ended March 31, 2014 and 2013.

Noninterest Income. Noninterest income increased by $276 thousand, or 124.3%, for the nine months ended March 31, 2014 to $498 thousand as compared with $222 thousand for the nine months ended March 31, 2013. The increase is primarily attributed to the increase in the gain on sale of securities and other noninterest income of $158 thousand, or 197.5%. Gain on sales of securities was $215 thousand for the nine months ended March 31, 2014 as compared with $14 thousand for the nine months ended March 31, 2013. The increase in gain on sales of securities is a result of selling certain of our investment securities from our portfolio with longer maturities with unrealized gain positions. The increase in other noninterest income primarily relates to income from bank owned life insurance of $237 thousand for the nine months ended March 31, 2014 as compared with $17 thousand for the nine months ended March 31, 2013. In April 2013, the Company purchased an additional $8.0 million in bank owned life insurance.

Noninterest Expense. Noninterest expense for the nine months ended March 31, 2014 increased by $597 thousand, or 14.8%, to $4.6 million for the nine months ended March 31, 2014 compared with $4.0 million over the same period in 2013. The increase to the Company s noninterest expense primarily resulted from increases in salaries and employee benefits of $257 thousand, or 10.4%, professional and supervisory fees of $179 thousand, or 58.5%, and an increase in provision for real estate owned and related expenses of $101 thousand, or 155.4%. The increase in salaries and employee benefits reflects an increase in compensation expense associated with our ESOP. ESOP expense was $305 thousand for the nine months ended March 31, 2014 as compared with $198 thousand for the nine months ended March 31, 2013. This $107 thousand increase is primarily related to the additional discretionary contributions by the Association to the ESOP during the nine months ended December 31, 2013, resulting in approximately $91 thousand in additional expense related to the ESOP. The remaining increase in salaries and employee benefits of approximately $166 thousand relates to normal pay increases for employees and increases in compensation for certain officers of the Company. The increase in professional and supervisory fees reflects merger related costs incurred in certain due diligence performance and preparation of the regulatory applications. Total merger related expenses incurred for the nine months ended March 31, 2014 was $169 thousand. The increase in the provision for real estate owned and related expenses was primarily related to a write down of $87 thousand for the nine months ended March 31, 2014 of the carrying value or real estate owned to reflect declines in the market values of certain properties held in real estate owned.

Income Tax Expense. Income tax expense for the nine months ended March 31, 2014 was $1.6 million compared with $1.9 million for the nine months ended March 31, 2013. Our effective income tax rate decreased to 36.0% for the nine months ended March 31, 2014 from 38.8% for the nine months ended March 31, 2013. The decrease in effective tax rates is largely due to income on bank owned life insurance, which is non-taxable for income tax purposes and represents a permanent difference between book and taxable income.

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Liquidity and Capital Resources

Our primary sources of funds are deposits and the proceeds from principal and interest payments on loans and investment securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. We generally manage the pricing of our deposits to be competitive within our market and to increase core deposit relationships.

Liquidity management is both a daily and long-term responsibility of management. We adjust our investments in liquid assets based upon management s assessment of (i) expected loan demand, (ii) expected deposit flows, (iii) yields available on interest-earning deposits and investment securities, and (iv) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning overnight deposits, federal funds sold, and short and intermediate-term U.S. Government sponsored agencies and mortgage-backed securities of short duration. If we require funds beyond our ability to generate them internally, we have credit available under a loan agreement with the Federal Home Loan Bank of Atlanta in the amount of 11% assets (as of March 31, 2014), or approximately $39.6 million.

Common Stock Dividend Policy. The Company s Board of Directors declared $0.10 per share cash dividends on its common stock on July 25, 2013, October 24, 2013 and January 30, 2014. Dividends were paid to stockholders on August 29, 2013, November 21, 2013 and February 27, 2014. Total dividends paid for the nine months ended March 31, 2013 were $1.7 million.

Equity Compensation Plans. On November 13, 2013, the Company issued 12,600 shares of restricted stock and 7,700 stock options to the Company s Vice President and Controller, now Senior Vice President and Chief Financial Officer, under the existing Equity Incentive Plan. Shares of restricted stock were issued out of the Company s existing treasury shares.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Disclosures of quantitative and qualitative market risk are not required by smaller reporting companies, such as the Company.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company s management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2014. Based on that evaluation, the Company s management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company s disclosure controls and procedures were effective.

During the quarter ended March 31, 2014, there have been no changes in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934, amended) that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

There are various claims and lawsuits in which the Company is periodically involved incidental to the Company s business. In the opinion of management, no material loss is expected from any of such pending claims or lawsuits.

ITEM 1A. RISK FACTORS

Disclosures of risk factors are not required by smaller reporting companies, such as the Company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) None.

(b) Not applicable.

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(c) ***Issuer Repurchases.*** On June 19, 2013, the Board of Directors authorized the repurchase of up to 150,000 shares of the Company s common stock. The repurchase authorization has no expiration date. During the three months ended March 31, 2014, the Company repurchased the following shares:

	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Maximum Dollar Value or Number of Shares That May Yet be Purchased Under Publicly Announced Plan
January 1 - January 31, 2014		$			60,100(2)
Februrary 1 - February 28, 2014					60,100(2)
March 1 - March 31, 2014	10,100		17.35	10,100(1)	50,000(2)
Total	10,100	$	17.35	10,100	

(1) All shares were purchased pursuant to a publicly announced repurchase program that was approved by the Board of Directors on June 19, 2013.

(2) Represents the maximum number of shares avilable for repurchase under the June 19, 2013 plan at March 31, 2014.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits required by Item 601 of Regulation S-K are included with this Form 10-Q and are listed on the Index to Exhibits immediately following the Signatures.

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SIGNATURES

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

Oconee Federal Financial Corp.

Date: May 15, 2014

/s/ T. Rhett Evatt
T. Rhett Evatt
Chairman and Chief Executive Officer

/s/ H. Allen Salter
H. Allen Salter
Senior Vice President and Chief Financial Officer

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INDEX TO EXHIBITS

Exhibit number	Description
31.1	Certification of T. Rhett Evatt, Chairman and Chief Executive Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
31.2	Certification of H. Allen Salter, Senior Vice President and Chief Financial Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
32.1	Certification of T. Rhett Evatt, Chairman and Chief Executive Officer, and H. Allen Salter Senior Vice President and Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets (ii) Consolidated Statements of Income and Comprehensive Income (iii) Consolidated Statements of Changes In Shareholders Equity (iv) Consolidated Statements of Cash Flows, and (v) Notes to The Consolidated Financial Statements