Oconee Federal Financial Corp.
Form 10-Q
February 14, 2012
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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 December 31, 2011

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 6,348,000 shares of Common Stock, par value $.01 per share, outstanding as of February 10, 2012.

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Explanatory Note

On January 13, 2011, Oconee Federal Financial Corp. (the Registrant), headquartered in Seneca, South Carolina, became the holding company for Oconee Federal Savings and Loan Association following the mutual-to-stock conversion of Oconee Federal Savings and Loan Association. The financial statements for the three and six months ended December 31, 2010 are for Oconee Federal Savings and Loan Association.

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OCONEE FEDERAL FINANCIAL CORP.

Form 10-Q Quarterly Report

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PART I

ITEM 1. FINANCIAL STATEMENTS

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

	December 31, 2011 (Unaudited)	June 30, 2011 (*)
ASSETS		
Cash due from banks	$ 20,592	$ 11,453
Federal funds sold and overnight interest bearing deposits	37,218	49,377
Total cash and cash equivalents	57,810	60,830
Securities held to maturity (estimated fair value: December 31, 2011 - $9,738 and June 30, 2011 - $9,473)	9,281	9,035
Securities available for sale	43,062	30,631
Loans, net of allowance for loan losses of $736 and $749	257,617	264,913
Premises and equipment, net	3,245	3,255
Real estate owned, net	1,340	2,254
Accrued interest receivable		
Loans	982	936
Investments	168	107
Restricted equity securities	557	557
Bank owned life insurance	375	369
Prepaid FDIC insurance premiums	417	488
Other assets	1,023	902
Total assets	$ 375,877	$ 374,277
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	$ 2,827	$ 2,014
Interest bearing	290,243	290,455
Total deposits	293,070	292,469
Accrued interest payable and other liabilities	1,180	1,597
Total liabilities	294,250	294,066
SHAREHOLDERS EQUITY		
Common stock, $0.01 par value, 100,000,000 shares authorized; 6,348,000 shares outstanding at December 31, 2011 and June 30, 2011	63	63
Additional paid in capital	20,952	20,935
Retained earnings	62,756	61,516

Accumulated other comprehensive income		191		136
Unearned ESOP shares		(2,335)		(2,439)
Total shareholders equity		81,627		80,211
Total liabilities and shareholders equity	$	375,877	$	374,277

(*) Derived from consolidated audited financial statements.

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OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands, except share data)

	Three Months Ended		Six Months Ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Interest and dividend income:				
Loans, including fees	$ 3,638	$ 3,672	$ 7,308	$ 7,350
Securities, taxable	196	118	368	247
Federal funds sold and other	33	24	62	44
Total interest income	3,867	3,814	7,738	7,641
Interest expense:				
Deposits	842	1,331	1,788	2,707
Total interest expense	842	1,331	1,788	2,707
Net interest income	3,025	2,483	5,950	4,934
Provision for loan losses	114	(16)	142	53
Net interest income after provision for loan losses	2,911	2,499	5,808	4,881
Noninterest income:				
Service charges on deposit accounts	21	22	39	45
Gains on sales of securities			67	
Other	35	(1)	41	(16)
Total noninterest income	56	21	147	29
Noninterest expense:				
Salaries and employee benefits	758	634	1,424	1,242
Occupancy and equipment	167	192	327	367
Data processing	101	71	176	130
Professional and supervisory fees	115	54	243	104
Office expense	50	19	77	36
Advertising	17	11	37	27
FDIC deposit insurance	40	68	81	132
Charitable contributions		2		5
Provison for real estate owned and related expenses	193	107	337	139
Other	70	98	190	160
Total noninterest expense	1,511	1,256	2,892	2,342
Income before income taxes	1,456	1,264	3,063	2,568
Income tax expense	557	476	1,187	969
Net income	$ 899	$ 788	$ 1,876	$ 1,599

Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on securities available for sale, net of taxes	$ (20)	$	$ 97	$
Reclassification adjustment for gains realized in income, net of taxes			(42)	
Other comprehensive income (loss)	(20)		55	
Comprehensive income	$ 879	$ 788	$ 1,931	$ 1,599
Net income per share	$ 0.15	N/A	$ 0.31	N/A
Dividends declared per share	$ 0.10	N/A	$ 0.10	N/A

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OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned ESOP Shares	Total
Balance July 1, 2010	$	$	$ 59,661	$	$	$ 59,661
Other comprehensive income						
Net income			1,599			1,599
Balance December 31, 2010	$	$	$ 61,260	$	$	$ 61,260
Balance July 1, 2011	$ 63	$ 20,935	$ 61,516	$ 136	$ (2,439)	$ 80,211
Net income			1,876			1,876
Other comprehensive income				55		55
Dividends			(636)			(636)
ESOP shares earned		17			104	121
Balance at December 31, 2011	$ 63	$ 20,952	$ 62,756	$ 191	$ (2,335)	$ 81,627

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OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Six Months Ended December 31, 2011	Six Months Ended December 31, 2010
Cash Flows From Operating Activities		
Net income	$ 1,876	$ 1,599
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	142	53
Provision for real estate owned	200	139
Depreciation and amortization, net	306	137
Deferred loan fees, net of accretion	(70)	(18)
Deferred income tax benefit	(67)	(4)
Gain on sale of real estate owned	(34)	(12)
Gains on sales of securities	(67)	
Loss from other-than-temporary impairment	7	9
ESOP compensation expense	121	
Net change in operating assets and liabilities:		
Accrued interest receivable	(185)	17
Accrued interest payable	(15)	(64)
Other	(347)	(598)
Net cash provided by operating activities	1,867	1,258
Cash Flows From Investing Activities		
Purchases of premises and equipment	(156)	(8)
Purchases of securities held-to-maturity	(1,245)	
Purchases of securities available-for-sale	(26,010)	
Proceeds from maturities, paydowns and calls of securities held-to-maturity	983	1,808
Proceeds from maturities, paydowns and calls of securities available for sale	3,422	
Proceeds from sales of available-for-sale securities	10,182	
Proceeds from sale of real estate owned	1,336	246
Loan originations and repayments, net	6,636	(2,047)
Net cash used in investing activities	(4,852)	(1)
Cash Flows from Financing Activities		
Net change in deposits	601	35,785
Dividends paid	(636)	
Net cash provided by (used in) financing activities	(35)	35,785
Change in cash and cash equivalents	(3,020)	37,042
Cash and cash equivalents, beginning of year	60,830	49,792
Cash and cash equivalents, end of period	$ 57,810	$ 86,834
Cash paid during the period for:		
Interest paid	$ 1,803	$ 2,771

Income taxes paid	$	1,295	$	1,000
Supplemental noncash disclosures:				
Transfers from loans to real estate owned	$	588	$	1,046

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OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Oconee Federal Financial Corp. (referred to herein as the Company, we, us, or our) include the accounts of its wholly owned subsidiary Oconee Federal Savings and Loan Association (the Association) and have been 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 (65.02%) by Oconee Federal, MHC. These financial statements do not include the transactions and balances of Oconee Federal, MHC.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company s financial position as of December 31, 2011 and June 30, 2011 and the results of operations and cash flows for the interim periods ended December 31, 2011 and 2010. 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, 2011.

(2) NEW ACCOUNTING STANDARDS

ASU 2011-02, Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring provides additional guidance to clarify when a loan modification or restructuring is considered a troubled debt restructuring (TDR) in order to address current diversity in practice and lead to more consistent application of U.S. GAAP for debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The amendments to Topic 310 clarify the guidance regarding the evaluation of both considerations above. Additionally, the amendments clarify that a creditor is precluded from using the effective interest rate test in the debtor s guidance on restructuring of payables (paragraph 470-60-55-10) when evaluating whether a restructuring constitutes a TDR. This amendment is effective for us July 1, 2011. Early adoption is permitted. Retrospective application to the beginning of the annual period of adoption for modifications occurring on or after the beginning of the annual adoption period is required. As a result of applying these amendments, we may identify receivables that are newly considered to be impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. Implementation of these updates did not have a significant impact to the consolidated financial statements.

In May 2011, the FASB has issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. The amendments to the FASB Accounting Standards Codification in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company is currently in the process of evaluating the impact that this ASU may have on the consolidated financial statements.

In June 2011, the FASB has issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU amends the FASB Accounting Standards Codification to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other

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OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

comprehensive income must be reclassified to net income. ASU 2011-05 should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The Company has already complied with this update and the changes are reflected in our financial statements.

(3) 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 December 31, 2011	Six Months Ended December 31, 2011
Net income	$ 899	$ 1,876
Weighted average common shares outstanding	6,348,000	6,348,000
Less: Average unearned ESOP shares	(237,439)	(238,700)
Average shares for basic EPS	6,110,561	6,109,300
Basic EPS	$ 0.15	$ 0.31

There were no potential dilutive common shares for the period presented; therefore, basic and diluted EPS are the same. There were no shares outstanding for the three and six months ended December 31, 2010.

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OCONEE FEDERAL FINANCIAL CORP.

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(Unaudited)

(Dollars in thousands)

(4) SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY

Debt, mortgage-backed and equity securities have been classified in the consolidated balance sheets according to management s intent. Investment securities at December 31, 2011 and June 30, 2011 are as follows:

		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
December 31, 2011								
Held to maturity:								
Certificates of deposit	$	1,245	$		$	(2)		1,243
FHLMC mortgage-backed securities		321		21				342
GNMA mortgage-backed securities		7,715		438				8,153
Total held-to-maturity	$	9,281	$	459	$	(2)	$	9,738
Available for sale:								
FHLMC common stock	$	17	$		$		$	17
FNMA mortgage backed securities		8,013		45		(19)		8,039
FHLMC mortgage backed securities		4,495		20		(19)		4,496
U.S. Government agencies		30,228		314		(32)		30,510
Total available for sale	$	42,753	$	379	$	(70)	$	43,062
June 30, 2011								
Held to maturity:								
FHLMC mortgage-backed securities	$	384	$	27	$		$	411
GNMA mortgage-backed securities		8,651		411				9,062
Total held-to-maturity	$	9,035	$	438	$		$	9,473
Available for sale:								
FHLMC common stock	$	24	$	4	$		$	28
U.S. Government agencies		30,387		216				30,603
Total available for sale	$	30,411	$	220	$		$	30,631

The following table shows securities with unrealized losses at December 31, 2011 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less than 12 months	12 Months or More	Total

	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2011						
Certificates of deposit	1,243	(2)			1,243	(2)
FNMA mortgage backed securities	3,088	(19)			3,088	(19)
FHLMC mortgage backed securities	2,062	(19)			2,062	(19)
U.S. Government agencies	8,077	(32)			8,077	(32)
Total temporarily impaired	$ 14,470	$ (72)	$	$	$ 14,470	$ (72)

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(Unaudited)

(Dollars in thousands)

There were five U.S. Government agency securities, five certificates of deposit, one FNMA and one FHLMC security with an unrealized loss at December 31, 2011. None of the unrealized losses for these securities have been recognized in net income for the three or six months ended December 31, 2011 because of the high credit quality of the securities, 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 is expected to recover as the bonds approach their maturity date or reset date. There were no securities with unrealized losses at June 30, 2011.

The Company evaluates securities for other-than-temporary impairment 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.

During the six months ended December 31, 2011 and 2010, management recorded an other-than-temporary impairment charge on the FHLMC common stock of $7 and $9, respectively based on management s evaluation of the length of time the FHLMC had been impaired and the prospects of recoverability.

The amortized cost and fair value of securities available for sale and held to maturity debt securities at December 31, 2011 by contractual maturity are summarized as follows:

	December 31, 2011	
	Amortized Cost	**Estimated Fair Value**
Due from one to five years	$ 25,568	$ 25,864
Due from five to ten years	5,905	5,889
Due after ten years		
Mortgage backed securities	20,544	21,030
Total	$ 52,017	$ 52,783

Gross proceeds from sales of securities and gross gains for the three and six months ended December 31, 2011 were $10,182 and $67, respectively. There were no losses on sales. Additionally, there were no sales of securities for the three and six months ended December 31, 2010.

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(Unaudited)

(Dollars in thousands)

(5) LOANS

The components of loans receivable at December 31, 2011 and June 30, 2011 were as follows:

	December 31, 2011	June 30, 2011
Real estate loans:		
One to four family	$ 239,435	$ 249,064
Multi-family	266	269
Home equity	458	466
Nonresidential	9,525	9,399
Construction and land	9,281	7,156
Total real estate loans	258,965	266,354
Consumer loans	995	985
Total loans	259,960	267,339
Net deferred loan fees	(1,607)	(1,677)
Allowance for loan losses	(736)	(749)
Loans, net	$ 257,617	$ 264,913

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OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

The following tables present the activity in the allowance for loan losses for the three and six months ended December 31, 2011 and the balances in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method at June 30, 2011:

Three Months Ended December 31, 2011	**One to four family**	**Multi-family**	**Real estate Home equity**	**Nonresidential**	**Construction and land**	**Consumer**	**Total**
Beginning balance	$ 637	$ 4	$ 1	$ 56	$ 23	$ 2	$ 723
Provision	110			1	3		114
Charge-offs	(101)						(101)
Recoveries							
Ending allowance attributed to loans:	$ 646	$ 4	$ 1	$ 57	$ 26	$ 2	$ 736
Allowance for loan losses:							
Ending allowance attributed to loans:							
Individually evaluated for impairment	$ 30	$	$	$	$	$	$ 30
Collectively evaluated for impairment	616	4	1	57	26	2	706
Total ending allowance balance:	$ 646	$ 4	$ 1	$ 57	$ 26	$ 2	$ 736
Loans:							
Loans individually evaluated for impairment	$ 1,578	$	$	$	$ 22	$	$ 1,600
Loans collectively evaluated for impairment	237,857	266	458	9,525	9,259	995	258,360
Total ending loans balance	$ 239,435	$ 266	$ 458	$ 9,525	$ 9,281	$ 995	$ 259,960

Six Months Ended December 31, 2011	**One to four family**	**Multi-family**	**Real estate Home equity**	**Nonresidential**	**Construction and land**	**Consumer**	**Total**
Beginning balance	$ 647	$ 4	$ 1	$ 56	$ 38	$ 3	$ 749
Provision	154			1	(12)	(1)	142
Charge-offs	(155)						(155)
Recoveries							
Ending allowance attributed to loans:	$ 646	$ 4	$ 1	$ 57	$ 26	$ 2	$ 736
Allowance for loan losses:							
Ending allowance attributed to loans:							
Individually evaluated for impairment	$ 30	$	$	$	$	$	$ 30
Collectively evaluated for impairment	616	4	1	57	26	2	706
Total ending allowance balance:	$ 646	$ 4	$ 1	$ 57	$ 26	$ 2	$ 736
Loans:							
	$ 1,578	$	$	$	$ 22	$	$ 1,600

Loans individually evaluated for impairment														
Loans collectively evaluated for impairment		237,857		266		458		9,525		9,259		995		258,360
Total ending loans balance	$	239,435	$	266	$	458	$	9,525	$	9,281	$	995	$	259,960

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OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

June 30, 2011	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	$ 22	$	$	$	$	$	$ 22
Collectively evaluated for impairment	625	4	1	56	38	3	727
Total ending allowance balance:	$ 647	$ 4	$ 1	$ 56	$ 38	$ 3	$ 749
Loans:							
Loans individually evaluated for impairment	$ 2,008	$	$	$	$	$	$ 2,008
Loans collectively evaluated for impairment	247,056	269	466	9,399	7,156	985	265,331
Total ending loans balance	$ 249,064	$ 269	$ 466	$ 9,399	$ 7,156	$ 985	$ 267,339

The following table presents the activity in the allowance for loan losses for the three and six months ended December 31, 2010 was as follows:

Beginning balance	$ 946	$ 888
Provision for loan losses	(16)	53
Loans charged off	(50)	(61)
Ending balance	$ 880	$ 880

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OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

The following table presents loans individually evaluated for impairment by portfolio segment at December 31, 2011 and June 30, 2011, including the average recorded investment balance and interest earned for the six months ended December 31, 2011 and year ended June 30, 2011:

	December 31, 2011					June 30, 2011				
	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	$ 631	$ 631	$	$ 1,116	$	$ 1,600	$ 1,600	$	$ 1,843	$
Multi-family										
Home equity										
Nonresidential										
Construction and land	22	22		22						
Total real estate loans	653	653		1,138		1,600	1,600		1,843	
Consumer loans										
Total	$ 653	$ 653	$	$ 1,138	$	$ 1,600	$ 1,600	$	$ 1,843	$
With recorded allowance:										
Real estate loans:										
One to four family	$ 947	$ 947	$ 30	$ 678	$	$ 408	$ 408	$ 22	$ 1,517	$
Multi-family										
Home equity										
Nonresidential										
Construction and land										
Total real estate loans	947	947	30	678		408	408	22	1,517	
Consumer loans										
Total	$ 947	$ 947	$ 30	$ 678	$	$ 408	$ 408	$ 22	$ 1,517	$
Total:										
Real estate	$ 1,600	$ 1,600	$ 30	$ 1,816	$	$ 2,008	$ 2,008	$ 22	$ 3,360	$
Consumer	$	$	$	$	$	$	$	$	$	$

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OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

The following table presents the aging of the recorded investment in past due loans at December 31, 2011 and June 30, 2011 by portfolio class of loans:

December 31, 2011	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	$ 6,381	$ 923	$ 1,372	$ 8,676	$ 230,759	$ 239,435	$ 352
Multi-family					266	266	
Home equity					458	458	
Nonresidential					9,525	9,525	
Construction and land	139			139	9,142	9,281	
Total real estate loans	6,520	923	1,372	8,815	250,150	258,965	352
Consumer					995	995	
Total	$ 6,520	$ 923	$ 1,372	$ 8,815	$ 251,145	$ 259,960	$ 352

June 30, 2011	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 or more
Real estate loans:							
One to four family	$ 3,741	$ 325	$ 1,567	$ 5,633	$ 243,431	$ 249,064	$
Multi-family					269	269	
Home equity					466	466	
Nonresidential					9,399	9,399	
Construction and land	54			54	7,102	7,156	
Total real estate loans	3,795	325	1,567	5,687	260,667	266,354	
Consumer					985	985	
Total	$ 3,795	$ 325	$ 1,567	$ 5,687	$ 261,652	$ 267,339	$

Nonaccrual loans at December 31, 2011 and June 30, 2011 were $1,372 and $1,567, respectively. These loans are disclosed by portfolio segment above in the 90 days or more past due column. Non-performing loans and loans past due 90 days and still accruing include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified as impaired loans.

There were no troubled debt restructures at December 31, 2011 or June 30, 2011.

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(Dollars in thousands)

The Company utilizes a grading system whereby all loans 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 Company uses the following definitions for loan grades:

- 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.

Loans not meeting the criteria above are graded Pass. These loans are included within groups of homogenous pools of loans based upon portfolio segment and class for estimation of the allowance for loan losses on a collective basis. Loans graded special mention, substandard or doubtful are individually evaluated for impairment, regardless of size.

At December 31, 2011 and June 30, 2011, and based on the most recent analyses performed, the loan grade for each loan by portfolio segment and class is as follows:

	One to four family		Multi-family		Real estate Home Equity		Nonresidential		Construction and Land	
	December 31, 2011	June 30, 2011	December 31, 2011	June 30, 2011	December 31, 2011	June 30, 2011	December 31, 2011	June 30, 2011	December 31, 2011	June 30, 2011
Pass	$ 237,857	$ 247,056	$ 266	$ 269	$ 458	$ 466	$ 9,525	$ 9,399	$ 9,259	$ 7,156
Special mention		12								
Substandard	1,578	1,996							22	
Doubtful										
Total	$ 239,435	$ 249,064	$ 266	$ 269	$ 458	$ 466	$ 9,525	$ 9,399	$ 9,281	$ 7,156

	Consumer		Total	
	December 31, 2011	June 30, 2011	December 31, 2011	June 30, 2011
Pass	$ 995	$ 985	$ 258,360	$ 265,331
Special mention				12
Substandard			1,600	1,996
Doubtful				
Total	$ 995	$ 985	$ 259,960	$ 267,339

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(6) 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.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities (Level 2 inputs).

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.

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.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy as of December 31, 2011 and June 30, 2011:

Fair Value Measurements

Using Significant Other Observable Inputs

(Level 2)

	December 31, 2011	June 30, 2011
Financial assets:		
FHLMC common stock	$ 17	$ 28
FNMA mortgage backed securities	8,039	
FHLMC mortgage backed securities	4,496	
U.S. Government agencies	30,510	30,603
Total securities available for sale	$ 43,062	$ 30,631

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(Dollars in thousands)

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2011 and June 30, 2011 are summarized below:

Fair Value Measurements

Using Significant Unobservable Inputs

(Level 3)

	December 31, 2011	**June 30, 2011**
Assets:		
Impaired loans, with specific allocations		
Real estate loans:		
One- to four-family	$ 917	$ 386
Multi-family		
Home equity		
Nonresidential		
Construction and land		
Total real estate loans	917	386
Consumer and other loans		
Total loans	$ 917	$ 386
Real estate owned:		
One to four family	$ 1,340	$ 2,254
Multi-family		
Home equity		
Nonresidential		
Construction and land		
Total real estate owned	$ 1,340	$ 2,254

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $917 and $386 at December 31, 2011 and June 30, 2011, respectively. The carrying values included a valuation allowance of $30 and $22, respectively, resulting in an increase in the provision for loan loss of $8 for the six months ended December 31, 2011 and an increase to the provision for loan losses of $166 for the year ended June 30, 2011.

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 December 31, 2011 and June 30, 2011 were $1,381 and $41 and $2,288 and $34, respectively. The resulting write-downs for measuring real estate owned at the lower of carrying or fair value less costs to sell were $200 and $139 for the six months ended December 31, 2011 and December 31, 2010 respectively.

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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 December 31, 2011 and June 30, 2011 are summarized below:

	December 31, 2011		June 30, 2011	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
Securities available for sale	$ 43,062	$ 43,062	$ 30,631	$ 30,631
Securities held to maturity	9,281	9,738	9,035	9,473
Loans, net	257,617	275,038	264,913	280,458
Restricted equity securities	557	N/A	557	N/A
Financial liabilities				
Deposits	293,070	301,394	292,469	302,053

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

(7) EMPLOYEE STOCK OWNERSHIP PLAN

Effective January 13, 2011, employees participate in an Employee Stock Ownership Plan (ESOP). The ESOP borrowed from the Company to purchase 248,842 shares of common stock at $10 per share during 2011. The Company makes discretionary contributions to the ESOP, as well as paying 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. No contributions to the ESOP were made during the six months ended December 31, 2011. The expense recognized for the three and six months ended December 31, 2011 was $91 and $121, respectively.

Shares held by the ESOP at December 31, 2011 were as follows:

Committed to be released to participants		
Allocated to participants		15,389
Unearned		233,453
Total ESOP shares		248,842
Fair value of unearned shares	$	2,801,436

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(Dollars in thousands)

(8) SUBSEQUENT EVENTS

On January 19, 2012, the Board of Directors of 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 February 2, 2012, and will be paid on February 16, 2012.

On January 19, 2012, the Board of Directors of the Company authorized a stock repurchase program pursuant to which the Company intends to purchase up to 125,000 of its issued and outstanding shares of common stock, which represents approximately 6.0% of the Company s issued and outstanding shares (excluding shares that Oconee Federal, MHC currently holds). The repurchase program will commence after the filing of this Form 10-Q. The timing of the purchases will depend on certain factors, including but not limited to, market conditions and prices, available funds and alternative uses of capital. The stock repurchase program may be carried out through open-market purchases, block trades, negotiated private transactions and pursuant to a trading plan that will be adopted in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934. Any repurchased shares will be held by the Company as treasury shares.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OCONEE FEDERAL FINANCIAL CORP.

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 of 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 the 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 nationally and in our market area;
- adverse changes in the financial industry, securities, credit and national and local real estate markets (including real estate values);
- changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments and inflation;

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

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

- significant increases in our loan losses;

- potential increases in deposit and premium assessments;

- our ability to pay dividends and Oconee Federal, MHC s ability to waive receipt of dividends;

- legislative or regulatory changes, including increased compliance costs resulting from the recently enacted financial reform legislation, that adversely affect our business and earnings;

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

- significantly increased competition with either depository and nondepository financial institutions;

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

- our reliance on a small effective staff;

- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies and the authoritative accounting and auditing bodies;

- risks and costs related to operating as a publicly traded company; and

- changes in our organization, compensation and benefit plans.

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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 Form 10-K Annual Report of Oconee Federal Financial Corp. as filed with the Securities and Exchange Commission.

Comparison of Financial Condition at December 31, 2011 and June 30, 2011

Our total assets increased $1.6 million, or 0.43%, to $375.9 million at December 31, 2011 from $374.3 million at June 30, 2011. The increase was primarily due to an increase in securities available for sale of $12.43 million, or 40.58%, to $43.1 million at December 31, 2011 from $30.6 million at June 30, 2011. The increase in securities available for sale was offset by a decrease in cash and cash equivalents of $3.0 million, or 4.9%, to $57.8 million at December 31, 2011from $60.8 million at June 30, 2011 and a decrease in net loans of $7.3 million, or 2.75%, to $257.6 million at December 31, 2011. The continued increase in securities was due to a decrease in the demand for loans in our market area, the investment of deposit funds and the proceeds of our stock offering in securities instead of loans, and our desire to obtain a higher yield than the current yield rate on federal funds.

Total gross loans decreased by $7.4 million to $260.0 million at December 31, 2011 from $267.3 million at June 30, 2011. Our one to four family real estate loans decreased by $9.6 million at December 31, 2011 to $239.4 million at December 31, 2011 from $249.1 million at June 30, 2011 resulting from decreased demand in our market area. The decrease in one to four family real estate loans was offset by an increase in construction and land loans to $9.3 million at December 31, 2011 from $7.2 million at June 30, 2011 resulting from increased demand for construction and land loans in our market area. All other loan categories increased slightly from June 30, 2011 to December 31, 2011 by $125 thousand.

Deposits increased $601 thousand, or 0.21%, to $293.1 million at December 31, 2011 from $292.5 million at June 30, 2011. The increase was primarily attributed to an increase money market and NOW and demand deposits of $1.4 million, or 4.8%, offset by decreases in certificates of deposits of $332 thousand and regular savings and other deposits of $288 thousand. We generally do not accept brokered deposits and no brokered deposits were accepted during the three months ended December 31, 2011.

We had no advances from the Federal Home Loan Bank of Atlanta as of December 31, 2011 or June 30, 2011. 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 December 31, 2011), or approximately $41.3 million.

Total equity equaled $81.6 million at December 31, 2011, compared to $80.2 million at June 30, 2011. The increase of $1.4 million was primarily related to net income for the six months ended December 31, 2011 of $1.9 million less $636 thousand in dividends for the same period.

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Non-Performing Assets

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

	December 31, 2011	June 30, 2011
	(Dollars in Thousands)	
Non-accrual loans:		
Real estate loans:		
One to four family	$ 998	$ 1,567
Multi-family		
Non-residential		
Construction and land	22	
Total real estate loans	1,020	1,567
Consumer and other loans		
Total nonaccrual loans	$ 1,020	$ 1,567
Accruing loans past due		
90 days or more:		
Real estate loans:		
One to four family	$ 352	$
Multi-family		
Non-residential		
Construction and land		
Total real estate loans	352	
Consumer and other loans		
Total accruing loans past due 90 days or more	352	
Total of nonaccrual and 90 days or more past due loans	$ 1,372	$ 1,567
Real estate owned		
One to four family	$ 1,340	$ 2,254
Multi-family		
Non-residential		
Construction and land		
Other		
Other nonperforming assets		
Total nonperforming assets	2,712	3,821
Troubled debt restructurings		
Troubled debt restructurings and total nonperforming assets	$ 2,712	$ 3,821
Total nonperforming loans to total loans	0.53%	0.59%
Total nonperforming assets to total assets	0.72%	1.02%
Total nonperforming assets and troubled debt restructurings to total assets	0.72%	1.02%

There were no other loans that are not disclosed above where there is information about possible credit problems of borrowers that caused us serious doubts about the ability of the borrowers to comply with present loan repayment terms and that may result in disclosure of such loans in the future.

Interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $33 thousand and $156 thousand for the six months ended December 31, 2011 and 2010, respectively. Interest of $11 thousand and $19 thousand was recognized on these loans and is included in net income for the six months ended December 31, 2011 and 2010, respectively.

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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. Non-accrual 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.

	For the Three Months Ended December 31,					
	2011			2010		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in Thousands)					
Assets:						
Interest-earning assets:						
Loans	$ 261,133	$ 3,638	5.53%	$ 266,189	$ 3,672	5.47%
Investment securities	49,361	196	1.58	10,695	118	4.38
Other interest-earning assets	36,222	33	0.36	70,702	24	0.13
Total interest-earning assets	346,716	3,867	4.42	347,586	3,814	4.35
Noninterest-earning assets	28,913			11,046		
Total assets	$ 375,629			$ 358,632		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$ 16,005	$ 3	0.07%	$ 14,004	$ 10	0.28%
Money market deposits	10,507	8	0.30	9,014	17	0.75
Regular savings and other deposits	34,251	86	1.00	37,919	53	0.55
Certificates of Deposit	228,695	745	1.29	232,591	1,251	2.31
Total interest-bearing deposits	289,458	842	1.15	293,528	1,331	1.80
Total interest-bearing liabilities	$ 289,458	842		$ 293,528	1,331	
Noninterest bearing deposits	2,761			2,163		
Other noninterest-bearing liabilities	1,933			1,924		
Total liabilities	294,152			297,615		
Equity						
Total equity	81,477			61,017		
Total liabilities and equity	$ 375,629			$ 358,632		
Net interest income		$ 3,025			$ 2,483	
Interest rate spread			3.27%			2.55%
Net interest margin			3.46%			2.83%
Average interest-earning assets to average interest-bearing liabilities	1.20X			1.18X		

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	For the Six Months Ended December 31,					
	2011			2010		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in Thousands)					
Assets:						
Interest-earning assets:						
Loans	$ 263,695	$ 7,308	5.50%	$ 265,931	$ 7,350	5.58%
Investment securities	47,247	368	1.55	11,129	247	4.40
Other interest-earning assets	56,124	62	0.22	62,052	44	0.14
Total interest-earning assets	367,066	7,738	4.18	339,112	7,641	4.47
Noninterest-earning assets	7,651			10,983		
Total assets	$ 374,717			$ 350,095		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$ 15,920	$ 9	0.11%	$ 13,927	$ 20	0.28%
Money market deposits	10,289	16	0.30	8,999	38	0.83
Regular savings and other deposits	34,088	195	1.14	34,968	109	0.06
Certificates of Deposit	228,451	1,568	1.36	227,576	2,540	2.21
Total interest-bearing deposits	288,748	1,788	1.23	285,470	2,707	1.88
Total interest-bearing liabilities	$ 288,748	1,788		$ 285,470	2,707	
Noninterest bearing deposits	2,455			2,108		
Other noninterest-bearing liabilities	2,776			1,893		
Total liabilities	293,979			289,471		
Equity						
Total equity	80,739			60,624		
Total liabilities and equity	$ 374,717			$ 350,095		
Net interest income		$ 5,950			$ 4,934	
Interest rate spread			2.95%			2.59%
Net interest margin			3.22%			2.89%
Average interest-earning assets to average interest-bearing liabilities	1.27X			1.19X		

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Comparison of Operating Results for the Three Months Ended December 31, 2011 and December 31, 2010

General. We recognized net income of $899 thousand for the three months ended December 31, 2011 as compared to net income of $788 thousand for the three months ended December 31, 2010. The increase of $111 thousand was attributable to an increase in net interest income, after the provision for loan losses, of $412 thousand, or 16.49%, for the three months ended December 31, 2011 and an increase in noninterest income of $35 thousand, offset partially by an increase in noninterest expense of $255 thousand, or 20.30%, and an increase in income tax expense of $81 thousand, or 17.02%.

Interest Income. Interest income increased $53 thousand, or 1.39%, to $3.9 million for the three months ended December 31, 2011. The increase was largely due to an increase in the yield on interest earning assets for the three months ended December 31, 2011 to 4.42% from 4.35% for the three months ended December 31, 2010, which was partially offset by a decrease in the average balances on interest-earning assets to $346.7 million for the three months ended December 31, 2011, from $347.6 million for the three months ended December 31, 2010 in the lower market interest rate environment.

Interest income on loans decreased by $34 thousand, or 0.93%, to $3.6 million for the three months ended December 31, 2011 from $3.7 million for the three months ended December 31, 2010. The decrease resulted from a decrease in the average balances of loans of $5.1 million for the three months ended December 31, 2011 to $261.1 million at December 31, 2011 from $266.2 million for the three months ended December 31, 2010. The decrease in average balances in loans was offset partially by an increase in the yields on loans to 5.53% for the three months ended December 31, 2011 from 5.47% for the three months ended December 31, 2011. Interest income on investment securities increased by $78 thousand to $196 thousand for the three months ended December 31, 2011 from $118 thousand for the three months ended December 31, 2010. The increase reflected an increase in the average balance of securities to $49.4 million for the three months ended December 31, 2011 from $10.7 million for the three months ended December 31, 2010. The increase in average balances offset the decrease in yields on such securities to 1.58% from 4.38% for the same periods.

Interest Expense. Interest expense decreased $489 thousand, or 36.74%, to $842 thousand for the three months ended December 31, 2011 from $1.3 million for the three months ended December 31, 2010. The decrease reflected a decrease in the average rate paid on deposits in the three months ended December 31, 2011 to 1.15% from 1.80% in the three months ended December 31, 2010 and a decrease in the average balance of deposits of $4.1 million to $289.4 million from $293.5 for the same periods. The largest decrease in interest expense came from certificates of deposit, which decreased $506 thousand, or 40.45%, which was partially offset by an increase in interest expense on regular savings and other deposits of $33 thousand in 2011.

Net Interest Income. Net interest income increased by $542 thousand, or 21.83%, to $3.0 million for the three months ended December 31, 2011 from $2.5 million for the three months ended December 31, 2010. The increase resulted from an increase in our interest rate spread to 3.27% from 2.55% and an increase in our net interest margin to 3.46% from 2.83% for the same periods. The increase in our interest rate spread was largely due to our declining cost of funds, which reflected the continuing decline across the U.S. Treasury yield curve, and a slight increase in our average interest-earning assets to average interest-bearing liabilities to 1.20X for the three months ended December 31, 2011.

Provision for Loan Losses. We recorded a provision for loan losses of $114 thousand for the three months ended December 31, 2011, compared to a credit in our provision of $16 thousand for the three months ended December 31, 2010. Net charge offs for the three months ended December 31, 2011 were $101 thousand compared with $50 thousand for the three months ended December 31, 2010. The increase in the provision for loan losses for the three months ended December 31, 2011 is reflective of the increase in net charge offs during the three months ended December 31, 2011 compared to the three months ended December 31, 2010.

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 December 31, 2011 and 2010.

Noninterest Income. Noninterest income increased by $35 thousand to $56 thousand for the three months ended December 31, 2011 from $21 thousand for the same period in 2010. The increase in noninterest income was primarily attributed to gains on sales of $34 thousand on real estate owned.

Noninterest Expense. Noninterest expense increased $255 thousand to $1.5 million for the three months ended December 31, 2011. The increase was primarily attributable to an increase in salaries and employee benefits of $124 thousand, an increase in professional and supervisory fees of $61 thousand, an increase in the provision for real estate owned and related expenses of $86 thousand, and an increase in data processing and office expenses of $61 thousand in 2011. These increases were offset partially by decreases in occupancy and equipment expense of $25 thousand and FDIC deposit insurance

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premiums of $28 thousand. The increase in salaries and employee benefits reflects increases in raises and bonuses and stock based compensation expense associated with our ESOP for the three months ended December 31, 2011 as compared with the three months ended December 31, 2010.

Income Tax Expense. Income tax expense for the three months ended December 31, 2011 was $557 thousand compared with $476 thousand for the three months ended December 31, 2010. Our effective income tax rate was 38.26% for the three months ended December 31, 2011 as compared with 37.66% for the same period ended 2010.

Comparison of Operating Results for the Six Months Ended December 31, 2011 and December 31, 2010

General. We recognized net income of $1.9 million for the six months ended December 31, 2011 as compared to net income of $1.6 million for the six months ended December 31, 2010. The increase of $277 thousand was attributable to an increase in net interest income, after the provision for loan losses, of $927 thousand, or 18.99%, for the six months ended December 31, 2011 and an increase in noninterest income of $118 thousand, offset partially by an increase in noninterest expense of $550 thousand, or 23.48%, and an increase in income tax expense of $218 thousand, or 22.50%.

Interest Income. Interest income increased $97 thousand, or 1.27%, to $7.7 million for the six months ended December 31, 2011. The increase was largely due to an increase in the average balance of interest earning assets for the six months ended December 31, 2011 to $367.1 million from $339.1 million for the six months ended December 31, 2010, which was partially offset by a decrease in the yield on interest-earning assets to 4.18% for the six months ended December 31, 2011, compared to 4.47% for the six months ended December 31, 2010 in the lower market interest rate environment.

Interest income on loans decreased by $42 thousand, or 0.57%, to $7.3 million for the six months ended December 31, 2011, which reflected both a decrease in the yield on loans to 5.50% for the six months ended December 31, 2011from 5.58% for the six months ended December 31, 2010 and a decrease in the average balance of loans to $263.7 million from $265.9 million for the same periods. The lower yields reflected a declining market interest rate environment during 2011 from 2010 and its impact on our portfolio, which was primarily comprised of one to four family residential mortgage loans and a declining demand for those loans. Interest income on investment securities increased by $121 thousand, or 48.99%, to $368 thousand for the six months ended December 31, 2011 from $247 thousand for the six months ended December 31, 2010, reflecting an increase in the average balance of such securities to $47.2 million from $11.1 million in 2010, which more than offset the decrease in the average yield on such securities to 1.55% from 4.40%.

Interest Expense. Interest expense decreased $919 thousand, or 33.95%, to $1.8 million for the six months ended December 31, 2011 from $2.7 million for the six months ended December 31, 2010. The decrease reflected a decrease in the average rate paid on deposits in the six months ended December 31, 2011 to 1.23% from 1.88% in the six months ended December 31, 2010, which more than offset an increase in the average balance of deposits of $3.3 million. Interest expense on certificates of deposit decreased $972 thousand, or 38.27%, to $1.6 million for the six months ended December 31, 2011 from $2.5 million for the six months ended December 31, 2010. An increase in the average balance of such certificates to $228.5 million from $227.6 million was more than offset by a decrease in the average cost of such certificates to 1.36% from 2.21%. The increase in average balance of our certificates of deposit resulted primarily from our customers seeking lower-risk investments in lieu of higher volatility equity investments during the six months ended December 31, 2011.

Interest expense on money market deposits, savings, NOW and demand deposits increased $53 thousand, or 31.74%, to $220 thousand for the six months ended December 31, 2011 from $167 thousand for the six months ended December 31, 2010. The increase reflected the increase in the average balances of such deposits to $60.3 million for the six months ended December 31, 2011 from $57.9 million for the six months ended December 31, 2010.

Net Interest Income. Net interest income increased by $1.1 million, or 20.59%, to $6.0 million for the six months ended December 31, 2011 from $4.9 million for the six months ended December 31, 2010. The increase resulted from an increase in our average interest-earning assets to average interest-bearing liabilities to 1.27X for the six months ended December 31, 2011 from 1.19X for the six months ended December 31, 2010. The increase in the average interest-earning assets to average interest-bearing liabilities more than offset the declines in our interest spread and margin to 2.95% and 3.22%, respectively, for the six months ended December 31, 2011 from 2.59% and 2.89%, respectively, for the six months ended December 31, 2010.

Provision for Loan Losses. We recorded a provision for loan losses of $142 thousand for the six months ended December 31, 2011, compared to a provision of $53 thousand for the six months ended December 31, 2010. Net charge offs for the six months ended December 31, 2011 were $154 thousand compared with $61 thousand for the six months ended December 31, 2010. The increase in the provision for loan losses for the six months ended December 31, 2011 is reflective of

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the increase in net charge offs during the six months ended December 31, 2011 compared to the six months ended December 31, 2010.

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 six months ended December 31, 2011 and 2010.

Noninterest Income. Noninterest income increased by $118 thousand to $147 thousand for the six months ended December 31, 2011 from $29 thousand for the same period in 2010. The increase in noninterest income was primarily attributed to gains on sales of available for sale securities of $67 thousand and gains on sale of real estate owned of $46 thousand for the six months ended December 31, 2011.

Noninterest Expense. Noninterest expense increased $550 thousand to $2.9 million for the six months ended December 31, 2011. The increase was primarily attributable to an increase in salaries and employee benefits of $182 thousand, an increase in professional and supervisory fees of $139 thousand, and an increase in the provision for real estate owned and related expenses of $198 thousand. These increases were offset partially by decreases in occupancy and equipment expense of $40 thousand and FDIC deposit insurance premiums of $51 thousand. The increase in salaries and employee benefits reflects increases raises and bonuses and stock based compensation expense associated with our ESOP expense for the six months ended December 31, 2011 as compared with the six months ended December 31, 2010.

Income Tax Expense. Income tax expense for the six months ended December 31, 2011 was $1.2 million compared with $969 thousand for the six months ended December 31, 2010. Our effective income tax rate was 38.75% for the six months ended December 31, 2011 as compared with 37.73% for the same period ended 2010.

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% of total assets, or approximately $41.3 million at December 31, 2011.

Common Stock Dividend Policy. The Company declared a dividend of $0.10 per share on October 20, 2011, payable to stockholders of record as of November 3, 2011. The dividend was paid on November 17, 2011. In addition, on January 19, 2012, the Board of Directors of 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 February 2, 2012, and will be paid on February 16, 2012.

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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 December 31, 2011. 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 December 31, 2011, 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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

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: February 14, 2012

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

/s/ Curtis. T. Evatt
Curtis T. Evatt
Executive Vice President and Chief Financial Officer

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INDEX TO EXHIBITS

Exhibit number	**Description**
31.1	Certification of T. Rhett Evatt, President and Chief Executive Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
31.2	Certification of Curtis T. Evatt, Executive Vice President and Chief Financial Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
32.1	Certification of T. Rhett Evatt, President and Chief Executive Officer, and Curtis T. Evatt, Executive 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 10Q for the quarter ended December 31, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets (ii) Consolidated Statements of Income and Other Comprehensive Income (iii) Consolidated Statements of Shareholders Equity (iv) Consolidated Statements of Cash Flows, and (v) Notes to The Consolidated Financial Statements (*)

(*) Furnished, not filed