Oconee Federal Financial Corp.
Form 10-Q
February 13, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period ended December 31, 2018

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For transition period from to

Commission File Number 001-35033

Oconee Federal Financial Corp.

(Exact Name of Registrant as Specified in Charter)

Federal	**32-0330122**
(State of Other Jurisdiction	**(I.R.S Employer**
of Incorporation)	**Identification Number)**
201 East North Second Street, Seneca, South Carolina	**29678**
(Address of Principal Executive Officers)	**(Zip Code)**
(864) 882-2765	

Registrant's telephone number, including area code

Not Applicable

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

There were 5,760,435 shares of Common Stock, par value $0.01 per share, outstanding as of February 6, 2019.

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

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

	December 31, 2018 (unaudited)	June 30, 2018
ASSETS		
Cash and due from banks	$ 4,215	$ 3,681
Interest-earning deposits	6,837	6,193
Fed funds sold	132	36
Total cash and cash equivalents	11,184	9,910
Securities available-for-sale	109,500	115,146
Loans	356,844	327,758
Allowance for loan losses	(1,227)	(1,097)
Net loans	355,617	326,661
Loans held for sale, at fair value	154	—
Premises and equipment, net	7,657	6,817
Real estate owned, net	823	1,074
Accrued interest receivable		
Loans	1,064	961
Investments	586	615
Restricted equity securities, at cost	2,398	1,639
Bank owned life insurance	18,782	18,554
Goodwill	2,593	2,593
Core deposit intangible	358	417
Loan servicing rights	1,017	1,093
Deferred tax assets	1,882	1,982
Other assets	433	497
Total assets	$ 514,048	$ 487,959
LIABILITIES		
Deposits		
Noninterest - bearing	$ 30,138	$ 31,189
Interest - bearing	363,811	356,399
Total deposits	393,949	387,588
FHLB advances	32,500	14,500
Accrued interest payable and other liabilities	1,608	1,006
Total liabilities	428,057	403,094

SHAREHOLDERS' EQUITY		
Common stock, $0.01 par value, 100,000,000 shares authorized;		
6,495,066 and 6,488,975 shares outstanding, respectively	65	65
Treasury stock, at par, 733,825 and 714,386 shares, respectively	(7)	(7)
Additional paid-in capital	11,625	12,000
Retained earnings	76,862	76,136
Accumulated other comprehensive loss	(1,852)	(2,528)
Unearned ESOP shares	(702)	(801)
Total shareholders' equity	85,991	84,865
Total liabilities and shareholders' equity	$514,048	$487,959

See accompanying notes to the consolidated financial statements

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

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

	Three Months Ended		Six Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Interest and dividend income:				
Loans, including fees	$4,050	$ 3,621	$7,817	$ 7,176
Securities, taxable	401	398	816	768
Securities, tax-exempt	205	214	414	420
Other interest-earning assets	43	26	73	78
Total interest income	4,699	4,259	9,120	8,442
Interest expense:				
Deposits	656	363	1,221	725
Other borrowings	161	51	246	62
Total interest expense	817	414	1,467	787
Net interest income	3,882	3,845	7,653	7,655
Provision for loan losses	76	9	148	56
Net interest income after provision for loan losses	3,806	3,836	7,505	7,599
Noninterest income:				
Service charges on deposit accounts	113	112	213	220
Income on bank owned life insurance	115	120	229	239
Mortgage servicing income	55	53	109	121
Gain on sale of mortgage loans	20	14	49	14
ATM & debit card income	80	71	154	139
Gain on sale of securities, net	—	—	1	10
Gain on disposition of purchase credit impaired loans	22	—	22	—
Other	7	7	43	21
Total noninterest income	412	377	820	764
Noninterest expense:				
Salaries and employee benefits	1,727	1,653	3,413	3,209
Occupancy and equipment	462	443	877	840
Data processing	201	252	456	474
ATM & debit card expense	51	45	105	97
Professional and supervisory fees	204	251	400	457

Office expense	59	66	104	108
Advertising	60	83	109	128
FDIC deposit insurance	30	34	63	68
Foreclosed assets, net	12	(22)	24	28
Change in loan servicing asset	33	65	76	117
Other	212	217	420	428
Total noninterest expense	3,051	3,087	6,047	5,954
Income before income taxes	1,167	1,126	2,278	2,409
Income tax expense	220	1,185	447	1,611
Net income/(loss)	$947	$ (59)	$1,831	$ 798
Other comprehensive income/(loss)				
Unrealized gains/(losses) on securities available-for-sale	$1,522	$ (723)	$857	$ (587)
Tax effect	(321)	314	(180)	264
Reclassification adjustment for gains realized in net income	—	—	(1)	(10)
Tax effect	—	1	—	5
Total other comprehensive income/(loss)	1,201	(408)	676	(328)
Comprehensive income/(loss)	$2,148	$ (467)	$2,507	$ 470
Basic net income/(loss) per share: (Note 3)	$0.17	$ (0.01)	$0.32	$ 0.14
Diluted net income/(loss) per share: (Note 3)	$0.16	$ (0.01)	$0.31	$ 0.14
Dividends declared per share:	$0.10	$ 0.10	$0.20	$ 0.20

See accompanying notes to the consolidated financial statements

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' 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 June 30, 2017	$ 65	$ (7)	$ 11,940	$ 75,169	$ (202)	$ (1,004)	$ 85,961
Net income	—	—	—	798	—	—	798
Other comprehensive loss	—	—	—	—	(328)	—	(328)
Purchase of 13,241 shares of treasury stock [1]	—	—	(377)	—	—	—	(377)
Stock-based compensation expense	—	—	13	—	—	—	13
Dividends [2]	—	—	44	(1,107)	—	—	(1,063)
ESOP shares earned	—	—	199	—	—	104	303
Balance at December 31, 2017	$ 65	$ (7)	$ 11,819	$ 74,860	$ (530)	$ (900)	$ 85,307
Balance at June 30, 2018	$ 65	$ (7)	$ 12,000	$ 76,136	$ (2,528)	$ (801)	$ 84,865
Net income	—	—	—	1,831	—	—	1,831
Other comprehensive income	—	—	—	—	676	—	676
Purchase of 19,439 shares of treasury stock [3]	—	—	(615)	—	—	—	(615)
Stock-based compensation expense	—	—	72	—	—	—	72
Dividends [4]	—	—	42	(1,105)	—	—	(1,063)
ESOP shares earned	—	—	126	—	—	99	225
Balance at December 31, 2018	$ 65	$ (7)	$ 11,625	$ 76,862	$ (1,852)	$ (702)	$ 85,991

(1) The weighted average cost of treasury shares purchased during the six months ended was $28.52 per share. Treasury stock repurchases were accounted for using the par value method.

(2) Approximately $93 of cash dividends paid on shares in the ESOP was used as an additional principal reduction on the ESOP debt, resulting in the release of approximately 7,800 additional shares. The portion of the dividend paid on allocated shares of approximately $44 and resulting release of approximately 4,100 shares, and was treated as a dividend. The portion of the dividend paid on unallocated shares of approximately $49 and resulting release of approximately 3,700 shares, and was accounted for as additional compensation expense for the six months ended December 31, 2017.

(3) The weighted average cost of treasury shares purchased during the six months ended was $27.15 per share. Treasury stock repurchases were accounted for using the par value method.

(4) Approximately $85 of cash dividends paid on shares in the ESOP was used as an additional principal reduction on the ESOP debt, resulting in the release of approximately 7,700 additional shares. The portion of the dividend paid on allocated shares of approximately $49 and resulting release of approximately 4,200 shares, was treated as a

dividend. The portion of the dividend paid on unallocated shares of approximately $36 and resulting release of approximately 3,500 shares, and was accounted for as additional compensation expense for the six months ended December 31, 2018.

See accompanying notes to the consolidated financial statements

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

	Six Months Ended	
	December 31, 2018	December 31, 2017
Cash Flows From Operating Activities		
Net income	$1,831	$798
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	148	56
Provision for real estate owned	18	26
Depreciation and amortization, net	598	669
Net (accretion)/amortization of purchase accounting adjustments	(98)	102
Deferred income tax expense/(benefit)	(80)	961
Net gain on sale of real estate owned	(12)	(62)
Net gain on sale of fixed assets	(29)	—
Change in loan servicing asset	76	117
Net gain on sales of securities	(1)	(10)
Mortgage loans originated for sale	(2,823)	(1,831)
Mortgage loans sold	2,718	1,820
Gain on sales of mortgage loans	(49)	(14)
Increase in cash surrender value of bank owned life insurance	(228)	(239)
Gain on disposition of purchased credit impaired loans	(22)	—
ESOP compensation expense	225	303
Stock based compensation expense	72	13
Net change in operating assets and liabilities:		
Accrued interest receivable and other assets	(10)	197
Accrued interest payable and other liabilities	602	611
Net cash provided by operating activities	2,936	3,517
Cash Flows From Investing Activities		
Purchases of premises and equipment	(1,080)	(383)
Disposal of premises and equipment	29	—
Purchases of securities available-for-sale	(1,173)	(16,359)
Proceeds from maturities, paydowns and calls of securities available-for-sale	6,184	7,543
Proceeds from sales of securities available-for-sale	1,193	3,997
Purchases of restricted equity securities	(910)	(849)
Redemptions of restricted equity securities	151	—
Proceeds from sale of real estate owned	293	281

Loan originations and repayments, net	(29,032)	(9,877)
Net cash used in investing activities	(24,345)	(15,647)
Cash Flows from Financing Activities		
Net change in deposits	6,361	(23,207)
Net increase in short term borrowings	—	2,814
Proceeds from notes payable to FHLB	54,100	28,000
Repayment of notes payable to FHLB	(36,100)	(8,000)
Dividends paid	(1,063)	(1,063)
Purchase of treasury stock	(615)	(377)
Net cash (used in)/provided by financing activities	22,683	(1,833)
Change in cash and cash equivalents	1,274	(13,963)
Cash and cash equivalents, beginning of period	9,910	20,745
Cash and cash equivalents, end of period	$11,184	$6,782

See accompanying notes to the consolidated financial statements

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 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 (72.28%) 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, 2018 and June 30, 2018 and the results of operations and cash flows for the interim periods ended December 31, 2018 and 2017. 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 ending June 30, 2019 or any other period. These consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2018.

Certain amounts have been reclassified to conform to the current period presentation. The reclassifications had no effect on net income or shareholders' equity as previously reported.

Cash Flows: Cash and cash equivalents include cash on hand, federal funds sold, overnight interest-earning deposits and amounts due from other depository institutions.

Use of Estimates: To prepare financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and actual results could differ.

(2) NEW ACCOUNTING STANDARDS

Accounting Standards Update ("ASU") 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement". Issued in August 2018, ASU 2018-13 provides guidance about fair value measurement disclosures. The amendment requires numerous removals, modifications and additions of fair value disclosure information. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years; early adoption is permitted. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". Issued in February 2018, ASU 2018-02 provides guidance with regard to the reclassification from accumulated other comprehensive income ("AOCI") to retained earnings for certain stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years; early adoption is permitted. The Company adopted this standard effective March 31, 2018 and elected to reclassify the income tax effects of the Tax Cuts and Jobs Act from AOCI to retained earnings.

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

ASU 2017-09, “Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting”. Issued in May 2017, ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The amendments should be applied prospectively to an award modified on or after the adoption date. The Company has determined that this guidance does not have a material effect on its consolidated financial statements.

ASU 2017-08, “Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities”. Issued in March 2017, ASU 2017-08 amends the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments should be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is assessing the impact of ASU 2017-08 on its consolidated financial statements.

ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”. Issued in January 2017, ASU 2017-04 amendments eliminate Step 2 from the goodwill impairment test. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. ASU 2017-04 should be adopted on a prospective basis. The Company does not believe that this new guidance will have a material effect on its consolidated financial statements.

ASU 2016-15, “Statement of Cash Flows (Topic 230)”. Issued in August 2016, ASU 2016-15 provides guidance on the classification of certain cash receipts and cash payments for presentation in the statement of cash flows. The amendment is effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those years. The amendments will be applied using a retrospective transition method to each period presented unless impracticable. The Company has determined that this guidance does not have a material effect on its consolidated financial statements.

ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. Issued in June 2016, ASU 2016-13 provides financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in ASU 2016-13 eliminate the probable incurred loss recognition in current GAAP and reflect an entity’s current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets. For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination (“PCD assets”) that are measured at amortized cost, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Subsequent changes in the allowance for credit losses on PCD assets are recognized through the statement of income as a credit loss expense. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security. ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company has formed a management committee to address this issue, including consideration of third party vendor support. The Company is currently evaluating the impact of ASU 2016-13 on its consolidated financial statements.

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”. Issued in January 2016, ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU affects public and private companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities. This ASU is now effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company has determined that this guidance does not have a material effect on its consolidated financial statements. However, the Company measured the fair value of its loan portfolio as of December 31, 2018 using an exit price notion.

ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”. Issued in May 2014, ASU 2014-09 provides a framework for revenue recognition that replaces the existing industry and transaction specific requirements under the existing standards. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. On July 9, 2015, the Financial Accounting Standards Board (“FASB”) approved amendments deferring the effective date by one year. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. In March and April 2016, the FASB issued final amendments (ASU 2016-08 and ASU 2016-10) to clarify the implementation guidance for principal versus agent considerations, identifying performance obligations and the accounting for licenses of intellectual property. In May 2016, the FASB issued final amendments (ASU-11) to clarify guidance related to collectability, noncash considerations, presentation of sales tax, and transition. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this Update recognized at the date of initial application. The Company adopted the new guidance effective July 1, 2018 and intends to utilize the modified retrospective method. Under the modified retrospective method the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, the Company does not expect the new guidance to have a material impact on revenue most closely associated with financial instruments, including interest income and expense. The Company has completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU, including deposit related fees, interchange fees, and merchant income. Based on this assessment, the Company concluded that ASU 2014-09 does not materially change the method in which the Company currently recognizes revenue for these revenue streams. The Company also completed its evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross vs. net). Based on its evaluation, the Company determined that the classification of certain debit and credit card related revenues should change (i.e., revenue previously recorded as contra-expense will be recorded as revenue). These classification changes are expected to result in an immaterial net increase of both revenue and expense. This change is not expected to have a material effect to noninterest income or expense. The Company adopted ASU 2014-09 as of its required effective date of July 1, 2018 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new

guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. The Company did reclassify prior period amounts for the debit and credit card costs noted above.

There have been no accounting standards that have been issued or proposed by the FASB or other standards-setting bodies during this quarter that are expected to have a material impact on the Company's financial position, results of operations or cash flows. The Company continues to evaluate the impact of standards previously issued and not yet effective, and have no changes in our assessment to disclose since filing of the Form 10-K.

(3) EARNINGS PER SHARE ("EPS")

Basic EPS is based on the weighted average number of common shares outstanding and is adjusted for ESOP shares not yet committed to be released. Unvested restricted stock awards, which contain rights to non-forfeitable dividends, are considered participating securities and the two-class method of computing basic and diluted EPS is applied. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as outstanding stock options, were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted EPS is calculated by adjusting the weighted average number of shares of common stock outstanding to include the effect of contracts or securities exercisable (such as stock options) or which could be converted into common stock, if dilutive, using the treasury stock method. The factors used in the earnings per common share computation follow:

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	Three Months Ended		Six Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Earnings per share				
Net income/(loss)	$947	$(59)	$1,831	$798
Less: distributed earnings allocated to participating securities	(1)	(2)	(3)	(4)
Less: (undistributed income) dividends in excess of earnings allocated to participating securities	(2)	2	(2)	1
Net earnings/(loss) available to common shareholders	$944	$(59)	$1,826	$795
Weighted average common shares outstanding including participating securities	5,762,678	5,786,109	5,768,419	5,797,217
Less: participating securities	(15,355)	(21,910)	(15,355)	(21,910)
Less: average unearned ESOP shares	(61,926)	(70,950)	(55,760)	(77,480)
Weighted average common shares outstanding	5,685,397	5,693,249	5,697,304	5,697,827
Basic earnings/(loss) per share	$0.17	$(0.01)	$0.32	$0.14
Weighted average common shares outstanding	5,685,397	5,693,249	5,697,304	5,697,827
Add: dilutive effects of assumed exercises of stock options	119,788	130,658	123,711	127,844
Average shares and dilutive potential common shares	5,805,185	5,823,907	5,821,015	5,825,671
Diluted earnings/(loss) per share	$0.16	$(0.01)	$0.31	$0.14

During the three and six months ended December 31, 2018 and 2017, 22,400 shares were considered anti-dilutive as the exercise price was in excess of the average market price for the respective periods.

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(4) SECURITIES AVAILABLE-FOR-SALE

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 December 31, 2018 and June 30, 2018 are as follows:

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
FHLMC common stock	$20	$ 66	$ —	$86
Certificates of deposit	4,739	—	(90)	4,649
Municipal securities	42,020	25	(880)	41,165
SBA loan pools	47	1	—	48
CMOs	9,514	—	(276)	9,238
U.S. Government agency mortgage-backed securities	41,484	12	(844)	40,652
U.S. Government agency bonds	14,019	—	(357)	13,662
Total available-for-sale	$111,843	$ 104	$ (2,447)	$109,500

June 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
FHLMC common stock	$20	$109	$—	$129
Certificates of deposit	5,485	—	(94)	5,391
Municipal securities	43,393	14	(1,069)	42,338
SBA loan pools	401	2	—	403
CMOs	10,529	—	(445)	10,084
U.S. Government agency mortgage-backed securities	44,490	6	(1,206)	43,290
U.S. Government agency bonds	14,027	—	(516)	13,511
Total available-for-sale	$118,345	$131	$(3,330)	$115,146

Securities pledged at December 31, 2018 and June 30, 2018 had fair values of $69,117 and $42,098, respectively. These securities were pledged to secure public deposits and FHLB advances.

At December 31, 2018 and June 30, 2018, there were no holdings of securities of any one issuer, other than U.S. Government agencies and U.S. Government sponsored enterprises, in an amount greater than 10% of shareholders' equity.

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The following tables show the fair value and unrealized loss of securities that have been in unrealized loss positions for less than twelve months and for twelve months or more at December 31, 2018 and June 30, 2018. The tables also show the number of securities in an unrealized loss position for each category of investment security as of the respective dates.

	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Loss	Number in Unrealized Loss[1]	Fair Value	Unrealized Loss	Number in Unrealized Loss[1]	Fair Value	Unrealized Loss	Number in Unrealized Loss[1]
December 31, 2018									
Available-for-sale:									
Certificates of deposit	$1,965	$(31)	8	$2,684	$(59)	11	$4,649	$(90)	19
Municipal securities	10,926	(98)	32	26,348	(782)	63	37,274	(880)	95
CMOs	—	—	—	9,238	(276)	16	9,238	(276)	16
U.S. Government agency mortgage-backed securities	7,350	(44)	12	32,000	(800)	45	39,350	(844)	57
U.S. Government agency bonds	—	—	—	12,235	(357)	13	12,235	(357)	13
	$20,241	$(173)	52	$82,505	$(2,274)	148	$102,746	$(2,447)	200

	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Loss	Number in Unrealized Loss[1]	Fair Value	Unrealized Loss	Number in Unrealized Loss[1]	Fair Value	Unrealized Loss	Number in Unrealized Loss[1]
June 30, 2018									
Available-for-sale:									
Certificates of deposit	$5,391	$(94)	22	$—	$—	—	$5,391	$(94)	22
Municipal securities	28,305	(587)	75	10,789	(482)	25	39,094	(1,069)	100
CMOs	1,334	(38)	2	8,750	(407)	14	10,084	(445)	16
U.S. Government agency mortgage-backed securities	30,997	(773)	43	10,887	(433)	13	41,884	(1,206)	56
U.S. Government agency bonds	5,789	(177)	7	7,722	(339)	7	13,511	(516)	14
	$71,816	$(1,669)	149	$38,148	$(1,661)	59	$109,964	$(3,330)	208

(1) Actual amounts.

The Company evaluates securities for other-than-temporary impairments ("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 amortized 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 federal Government agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

None of the unrealized losses at December 31, 2018 were recognized into net income for the three or six months ended December 31, 2018 because the issuers' bonds are of high credit quality, management does not intend to sell and it is more likely than not 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, 2018 were recognized as having OTTI during the year ended June 30, 2018.

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The following table presents the amortized cost and fair value of debt securities classified as available-for-sale at December 31, 2018 and June 30, 2018 by contractual maturity.

	December 31, 2018		June 30, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	$3,245	$3,216	$1,004	$1,003
Due from one to five years	21,602	21,218	19,415	19,049
Due after five years to ten years	26,685	26,104	33,186	32,230
Due after ten years	9,293	8,986	9,701	9,361
Mortgage-backed securities, CMOs and FHLMC stock [(1)]	51,018	49,976	55,039	53,503
Total available for sale	$111,843	$109,500	$118,345	$115,146

(1) Actual cash flows may differ from contractual maturities as borrowers may prepay obligations without prepayment penalty. FHLMC common stock is not scheduled because it has no contractual maturity date.

The following table presents the gross proceeds from sales of securities available-for-sale and gains or losses recognized for the three and six months ended December 31, 2018 and 2017:

	Three Months Ended		Six Months Ended	
Available-for-sale:	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Proceeds	$—	$ —	$1,193	$ 3,997
Gross gains	—	—	3	11
Gross losses	—	—	(2)	(1)

The tax provision related to these net realized gains for the six months ended December 31, 2018 was less than $1, and for the six months ended December 31, 2017 was $2.

(5) LOANS

The components of loans at December 31, 2018 and June 30, 2018 were as follows:

	December 31, 2018	June 30, 2018
Real estate loans:		
One-to-four family	$284,569	$269,868
Multi-family	1,677	1,735
Home equity	4,304	3,914
Nonresidential	23,442	17,591
Agricultural	1,199	1,272
Construction and land	35,047	27,513
Total real estate loans	350,238	321,893
Commercial and industrial	1,296	326
Consumer and other loans	5,310	5,539
Total loans	$356,844	$327,758

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The following table presents the activity in the allowance for loan losses for the three and six months ended December 31, 2018 by portfolio segment:

Three Months Ended December 31, 2018	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$956	$29	$—	$—	$985
Multi-family	4	—	—	—	4
Home equity	13	2	—	—	15
Nonresidential	69	35	—	—	104
Agricultural	1	—	—	—	1
Construction and land	98	(1)	—	—	97
Total real estate loans	1,141	65	—	—	1,206
Commercial and industrial	3	15	—	—	18
Consumer and other loans	7	(4)	—	—	3
Total loans	$1,151	$76	$—	$—	$1,227

Six Months Ended December 31, 2018	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$939	$64	$(18)	$—	$985
Multi-family	4	—	—	—	4
Home equity	8	7	—	—	15
Nonresidential	66	38	—	—	104
Agricultural	1	—	—	—	1
Construction and land	74	23	—	—	97
Total real estate loans	1,092	132	(18)	—	1,206
Commercial and industrial	4	14	—	—	18
Consumer and other loans	1	2	—	—	3
Total loans	$1,097	$148	$(18)	$—	$1,227

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The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at December 31, 2018:

At December 31, 2018	Ending Allowance on Loans: Individually Evaluated for Impairment	Ending Allowance on Loans: Collectively Evaluated for Impairment	Loans: Individually Evaluated for Impairment	Loans: Collectively Evaluated for Impairment
Real estate loans:				
One-to-four family	$—	$ 985	$2,369	$ 282,200
Multi-family	—	4	—	1,677
Home equity	—	15	—	4,304
Nonresidential	—	104	642	22,800
Agricultural	—	1	413	786
Construction and land	—	97	—	35,047
Total real estate loans	—	1,206	3,424	346,814
Commercial and industrial	—	18	—	1,296
Consumer and other loans	—	3	—	5,310
Total loans	$—	$ 1,227	$3,424	$ 353,420

The following table presents the activity in the allowance for loan losses for the three and six months ended December 31, 2017 by portfolio segment:

Three Months ended December 31, 2017	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$889	$(1)	$—	$—	$888
Multi-family	4	—	—	—	4
Home equity	3	1	—	—	4
Nonresidential	60	(1)	—	—	59

Agricultural	1	(1)	—	—	—
Construction and land	55	19	(1)	—	73
Total real estate loans	1,012	17	(1)	—	1,028
Commercial and industrial	6	(2)	—	—	4
Consumer and other loans	6	(6)	—	—	—
Total loans	$1,024	$9	$(1)	$—	$1,032

Six Months ended December 31, 2017	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$900	$(12)	$—	$—	$888
Multi-family	4	—	—	—	4
Home equity	2	15	(13)	—	4
Nonresidential	63	(4)	—	—	59
Agricultural	1	(1)	—	—	—
Construction and land	35	64	(26)	—	73
Total real estate loans	1,005	62	(39)	—	1,028
Commercial and industrial	4	—	—	—	4
Consumer and other loans	7	(6)	(1)	—	—
Total loans	$1,016	$56	$(40)	$—	$1,032

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The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at June 30, 2018:

At June 30, 2018	Ending Allowance on Loans: Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Loans: Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate loans:				
One-to-four family	$—	$ 939	$2,434	$ 267,434
Multi-family	—	4	—	1,735
Home equity	—	8	—	3,914
Nonresidential	—	66	671	16,920
Agricultural	—	1	424	848
Construction and land	—	74	—	27,513
Total real estate loans	—	1,092	3,529	318,364
Commercial and industrial	—	4	—	326
Consumer and other loans	—	1	—	5,539
Total loans	$—	$ 1,097	$3,529	$ 324,229

The tables below present loans that were individually evaluated for impairment by portfolio segment at December 31, 2018 and June 30, 2018, including the average recorded investment balance and interest earned for the six months ended December 31, 2018 and the year ended June 30, 2018:

	December 31, 2018				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no recorded allowance:					

Real estate loans:					
One-to-four family	$2,443	$ 2,369	$ —	$ 2,402	$ —
Multi-family	—	—	—	—	—
Home equity	—	—	—	—	—
Nonresidential	677	642	—	657	—
Agricultural	962	413	—	419	—
Construction and land	—	—	—	—	—
Total real estate loans	4,082	3,424	—	3,478	—
Commercial and industrial	—	—	—	—	—
Consumer and other loans	—	—	—	—	—
Total	$4,082	$ 3,424	$ —	$ 3,478	$ —
With recorded allowance:					
Real estate loans:					
One-to-four family	$—	$ —	$ —	$ —	$ —
Multi-family	—	—	—	—	—
Home equity	—	—	—	—	—
Nonresidential	—	—	—	—	—
Agricultural	—	—	—	—	—
Construction and land	—	—	—	—	—
Total real estate loans	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Consumer and other loans	—	—	—	—	—
Total	$—	$ —	$ —	$ —	$ —
Totals:					
Real estate loans	$4,082	$ 3,424	$ —	$ 3,478	$ —
Consumer and other loans	—	—	—	—	—
Total	$4,082	$ 3,424	$ —	$ 3,478	$ —

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	June 30, 2018				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no recorded allowance:					
Real estate loans:					
One-to-four family	$2,516	$ 2,434	$ —	$ 2,251	$ 67
Multi-family	—	—	—	—	—
Home equity	—	—	—	—	—
Nonresidential	707	671	—	336	3
Agricultural	972	424	—	436	7
Construction and land	—	—	—	131	—
Total real estate loans	4,195	3,529	—	3,154	77
Commercial and industrial	—	—	—	—	—
Consumer and other loans	—	—	—	—	—
Total	$4,195	$ 3,529	$ —	$ 3,154	$ 77
With recorded allowance:					
Real estate loans:					
One-to-four family	$—	$ —	$ —	$ 484	$ —
Multi-family	—	—	—	—	—
Home equity	—	—	—	—	—
Nonresidential	—	—	—	—	—
Agricultural	—	—	—	—	—
Construction and land	—	—	—	—	—
Total real estate loans	—	—	—	484	—
Commercial and industrial	—	—	—	—	—
Consumer and other loans	—	—	—	—	—
Total	$—	$ —	$ —	$ 484	$ —
Totals:					
Real estate loans	$4,195	$ 3,529	$ —	$ 3,638	$ 77
Consumer and other loans	—	—	—	—	—
Total	$4,195	$ 3,529	$ —	$ 3,638	$ 77

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The following tables present the aging of past due loans as well as nonaccrual loans. Nonaccrual loans and accruing loans past due 90 days or more include both smaller balance homogenous loans and larger balance loans that are evaluated either collectively or individually for impairment.

Total past due loans and nonaccrual loans at December 31, 2018:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Nonaccrual Loans	Accruing Loans Past Due 90 Days or More
Real estate loans:								
One-to-four family	$6,268	$2,089	$591	$8,948	$275,621	$284,569	$ 3,005	$ —
Multi-family	—	—	—	—	1,677	1,677	—	—
Home equity	121	—	124	245	4,059	4,304	124	—
Nonresidential	329	185	158	672	22,770	23,442	1,022	—
Agricultural	—	—	413	413	786	1,199	413	—
Construction and land	27	33	15	75	34,972	35,047	40	—
Total real estate loans	6,745	2,307	1,301	10,353	339,885	350,238	4,604	—
Commercial and industrial	—	—	—	—	1,296	1,296	—	—
Consumer and other loans	1	—	—	1	5,309	5,310	—	—
Total	$6,746	$2,307	$1,301	$10,354	$346,490	$356,844	$ 4,604	$ —

Total past due and nonaccrual loans by portfolio segment at June 30, 2018:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Nonaccrual Loans	Accruing Loans Past Due 90 Days or More

Real estate loans:								
One-to-four family	$5,180	$1,787	$897	$7,864	$262,004	$269,868	$ 3,969	$ —
Multi-family	—	—	—	—	1,735	1,735	—	—
Home equity	106	84	40	230	3,684	3,914	40	—
Nonresidential	376	179	—	555	17,036	17,591	908	—
Agricultural	—	424	—	424	848	1,272	445	—
Construction and land	50	34	—	84	27,429	27,513	19	—
Total real estate loans	5,712	2,508	937	9,157	312,736	321,893	5,381	—
Commercial and industrial	—	—	—	—	326	326	—	—
Consumer and other loans	—	—	—	—	5,539	5,539	1	—
Total	$5,712	$2,508	$937	$9,157	$318,601	$327,758	$ 5,382	$ —

Troubled Debt Restructurings:

At December 31, 2018 and June 30, 2018, total loans that have been modified as troubled debt restructurings were $3,008 and $3,016, respectively, which consisted of one construction loan, one agricultural loan, two nonresidential real estate and five one-to-four family first lien loans at December 31, 2018 and one construction loan, two agricultural loans, two non-residential real estate loans and four one-to-four family first lien loans at June 30, 2018. There was no specific allowance for loss established for these loans at December 31, 2018 or June 30, 2018. Additionally, there were no commitments to lend any additional amounts on any loan after the modification. The one-to-four family first lien troubled debt restructured during the six months ended December 31, 2018 involved renewing an existing loan with a term concession. No loans modified as troubled debt restructurings during the twelve months ended December 31, 2018 have defaulted since restructuring. All of these loans are on non-accrual at December 31, 2018 and June 30, 2018. At December 31, 2018 and June 30, 2018, $2,423 and $2,521, respectively, were individually evaluated for impairment.

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Loan Grades:

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 are given a grade based upon the management's assessment of the ability of borrowers to service their debts.

Pass: Loan assets of this grade conform to a preponderance of our underwriting criteria and are acceptable as a credit risk, based upon the current net worth and paying capacity of the obligor. Loans in this category also include loans secured by liquid assets and secured loans to borrowers with unblemished credit histories.

Pass-Watch: Loan assets of this grade represent our minimum level of acceptable credit risk. This grade may also represent obligations previously rated "Pass", but with significantly deteriorating trends or previously rated.

Special Mention: Loan assets of this grade 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: Loan assets of this grade 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 mortgage. These loans are collateralized by owner-occupied properties located in the Company's market area. The Company currently originates residential mortgage loans for our portfolio with loan-to-value ratios of up to 80% for traditional owner-occupied homes.

For traditional homes, the Company may originate loans with loan-to-value ratios in excess of 80% if the borrower obtains mortgage insurance or provides readily marketable collateral. The Company may make exceptions for special loan programs that we offer. The Company also originates residential mortgage loans for non-owner-occupied homes with loan-to-value ratios of up to 80%.

The Company historically originated residential mortgage loans with loan-to-value ratios of up to 75% for manufactured or modular homes. The Company no longer offers residential mortgage loans for manufactured or modular homes as of December 1, 2014. However, renewals of existing performing credits that meet the Company’s underwriting requirements will be considered. The Company requires lower loan-to-value ratios for manufactured and modular homes because such homes tend to depreciate over time. Manufactured or modular homes must be permanently affixed to a lot to make them more difficult to move without the Company’s permission. Such homes must be "de-titled" by the State of South Carolina or Georgia so that they are taxed and must be transferred as residential homes rather than vehicles. The Company also obtains a mortgage on the real estate to which such homes are affixed.

Multi-family: Multi-family real estate loans generally have a maximum term of five 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.

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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: The Company offers home equity loans and lines of credit secured by first or second deeds of trust on primary residences in our market area. The Company’s home equity loans and lines of credit are limited to an 80% loan-to-value ratio (including all prior liens). Standard residential mortgage underwriting requirements are used to evaluate these loans. The Company offers adjustable-rate and fixed-rate options for these loans with a maximum term of 10 years. The repayment terms on lines of credit are interest only monthly with principle due at maturity. Home equity loans have a more traditional repayment structure with principal and interest due monthly. The maximum term on home equity loans is 10 years with an amortization schedule not exceed 20 years.

Nonresidential Real Estate: Nonresidential loans include those secured by real estate mortgages on churches, owner-occupied and non-owner-occupied commercial buildings of various types, retail and office buildings, hotels, and other business and industrial properties. The nonresidential real estate loans that the Company originates generally have terms of five to 20 years with amortization periods up to 20 years. The maximum loan-to-value ratio of our nonresidential real estate loans is generally 75%.

Loans secured by nonresidential real estate generally are larger than one-to-four family residential loans and involve greater credit risk. Nonresidential 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. Our nonresidential real estate lending includes a significant amount of loans to churches. Because a church's financial stability often depends on donations from congregation members 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 nonresidential real estate.

The Company considers a number of factors in originating nonresidential real estate loans. The Company evaluates the qualifications and financial condition of the borrower, including credit history, cash flows, the applicable business plan, the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with the Company and other financial institutions. In evaluating the property securing the loan, the factors the Company considers include the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt

service coverage ratio (the ratio of net operating income to debt service). For church loans, the Company also considers the length of time the church has been in existence, the size and financial strength of the denomination with which it is affiliated, attendance figures and growth projections and current operating budgets. The collateral underlying all nonresidential real estate loans is appraised by outside independent appraisers approved by our board of directors. Personal guarantees may be obtained from the principals of nonresidential real estate borrowers, and in the case of church loans, guarantees from the applicable denomination may be obtained.

Agricultural: These loans are secured by farmland and related improvements in the Company's market area. These loans generally have terms of five to 20 years with amortization periods up to 20 years. The maximum loan-to-value ratio of these loans is generally 75%. The Company is managing a small number of these loans in our portfolio. We continue to closely monitor our existing relationships.

Loans secured by agricultural real estate generally are larger than one-to-four family residential loans and involve greater credit risk. Agricultural 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.

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Construction and Land: The Company makes construction loans to individuals for the construction of their primary residences and to commercial businesses for their real estate needs. These loans generally have maximum terms of twelve months, and upon completion of construction convert to conventional amortizing mortgage loans. Residential construction loans have rates and terms comparable to one-to-four family residential mortgage loans that the Company originates. Commercial construction loans have rate and terms comparable to commercial loans that we originate. During the construction phase, the borrower generally pays interest only. Generally, 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. Commercial construction loans are generally underwritten pursuant to the same guidelines used for originating commercial loans.

The Company also makes interim construction loans for nonresidential properties. In addition, the Company occasionally makes loans for the construction of homes "on speculation," but the Company generally permits a borrower to have only two such loans at a time. These loans generally have a maximum term of eight months, and upon completion of construction convert to conventional amortizing nonresidential real estate loans. These construction loans have rates and terms comparable to permanent loans secured by property of the type being constructed that we originate. Generally, the maximum loan-to-value ratio of these construction loans is 85%.

Commercial and Industrial Loans: Commercial and industrial loans are offered to businesses and professionals in the Company’s market area. These loans generally have short and medium terms on both a collateralized and uncollateralized basis. The structure of these loans are largely determined by the loan purpose and collateral. Sources of collateral can include a lien on furniture, fixtures, equipment, inventory, receivables and other assets of the company. A UCC-1 is typically filed to perfect our lien on these assets.

Commercial and industrial loans and leases typically are underwritten on the basis of the borrower’s or lessee’s ability to make repayment from the cash flow of its business and generally are collateralized by business assets. As a result, such loans and leases involve additional complexities, variables and risks and require more thorough underwriting and servicing than other types of loans and leases.

Consumer and Other Loans: The Company offers installment loans for various consumer purposes, including the purchase of automobiles, boats, and for other legitimate personal purposes. The maximum terms of consumer loans is 18 months for unsecured loans and 18 to 60 months for loans secured by a vehicle, depending on the age of the vehicle. The Company generally only extends consumer loans to existing customers or their immediate family members, and these loans generally have relatively low balances.

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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Based on the most recent analysis performed, the risk grade of loans by portfolio segment are presented in the following tables.

Total loans by risk grade and portfolio segment at December 31, 2018:

	Pass	Pass-Watch	Special Mention	Substandard	Doubtful	Total
Real estate loans:						
One-to-four family	$269,686	$ 5,026	$3,260	$ 6,597	$ —	$284,569
Multi-family	1,677	—	—	—	—	1,677
Home equity	3,667	340	125	172	—	4,304
Nonresidential	19,449	1,747	1,117	1,129	—	23,442
Agricultural	194	337	255	413	—	1,199
Construction and land	34,104	750	111	82	—	35,047
Total real estate loans	328,777	8,200	4,868	8,393	—	350,238
Commercial and industrial	1,296	—	—	—	—	1,296
Consumer and other loans	5,310	—	—	—	—	5,310
Total	$335,383	$ 8,200	$4,868	$ 8,393	$ —	$356,844

Total loans by risk grade and portfolio segment at June 30, 2018:

	Pass	Pass-Watch	Special Mention	Substandard	Doubtful	Total
Real estate loans:						
One-to-four family	$254,721	$ 5,051	$3,350	$ 6,746	$ —	$269,868
Multi-family	1,735	—	—	—	—	1,735
Home equity	3,298	311	129	176	—	3,914
Nonresidential	13,462	1,802	1,143	1,184	—	17,591

Agricultural	217	349	261	445	—	1,272
Construction and land	26,551	771	115	76	—	27,513
Total real estate loans	299,984	8,284	4,998	8,627	—	321,893
Commercial and industrial	326	—	—	—	—	326
Consumer and other loans	5,539	—	—	—	—	5,539
Total	$305,849	$ 8,284	$4,998	$ 8,627	$ —	$327,758

At December 31, 2018, loans totaling $796 were in formal foreclosure proceedings and are included in one-to-four family, nonresidential and agricultural loan categories.

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(6) BORROWINGS

At December 31, 2018 and June 30, 2018, advances from the Federal Home Loan Bank were as follows:

	December 31, 2018	
	Balance	Stated Interest Rate
FHLB advances due January 2019 through December 2019	$32,500	2.47% - 2.78%
Total	$32,500	

	June 30, 2018	
	Balance	Stated Interest Rate
FHLB advances due September 2018 through November 2018	$14,500	2.09% - 2.23%
Total	$14,500	

The average interest rate of all outstanding FHLB advances was 2.64% and 2.14% on December 31, 2018 and June 30, 2018, respectively.

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $69,117 and $36,248 of investment securities at December 31, 2018 and June 30, 2018, respectively. The Association has also pledged as collateral FHLB stock and has entered into a blanket collateral agreement whereby qualifying mortgages, free of other encumbrances and at various discounted values as determined by the FHLB, will be maintained. Based on this collateral, the Association is eligible to borrow up to a total of $124,665 at December 31, 2018.

Payments over the next five years are as follows:

2019	$32,500

There were no overnight borrowings at December 31, 2018 or June 30, 2018.

(7) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability 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.

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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).

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. Non-real estate collateral may be valued using an appraisal, net book value per the borrower’s financial statements, or aging reports, adjusted or discounted based on management’s historical knowledge, changes in market conditions from the time of the valuation, and management’s expertise and knowledge of the client and client’s business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Real Estate Owned:

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals, which are updated no less frequently than annually. 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 independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted

accordingly.

Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, management reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Company compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value.

Loan Servicing Rights:

Fair value is determined based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data and results in a Level 3 classification.

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Assets and liabilities measured at fair value on a recurring basis at December 31, 2018 and June 30, 2018 are summarized below:

	Fair Value Measurements			
	December 31, 2018		June 30, 2018	
	(Level 2)	(Level 3)	(Level 2)	(Level 3)
Financial assets:				
Securities available-for-sale:				
FHLMC common stock	$86	$—	$129	$—
Certificates of deposit	4,649	—	5,391	—
Municipal securities	41,165	—	42,338	—
SBA loan pools	48	—	403	—
CMOs	9,238	—	10,084	—
U.S. Government agency mortgage-backed securities	40,652	—	43,290	—
U.S. Government agency bonds	13,662	—	13,511	—
Total securities available-for-sale	109,500	—	115,146	—
Loan servicing rights	—	1,017	—	1,093
Total financial assets	$109,500	$1,017	$115,146	$1,093

Presented in the table below are assets measured at fair value on a nonrecurring basis using level 3 inputs at December 31, 2018 and June 30, 2018:

	Fair Value Measurements	
	December 31, 2018 (Level 3)	June 30, 2018 (Level 3)
Financial assets:		
Impaired loans, with specific allocations:		

One-to-four family	$—	$—
Nonresidential	—	—
Construction and land	—	—
Total financial assets	—	—
Non-financial assets:		
Real estate owned, net:		
One-to-four family	89	91
Nonresidential	464	983
Construction and land	270	—
Total non-financial assets	823	1,074
Total assets measured at fair value on a non-recurring basis	$823	$1,074

The Company's impaired loans at December 31, 2018 and June 30, 2018 were measured at fair value based primarily upon the estimated value of real estate collateral less costs to sell. There were no such loans as of December 31, 2018 or June 30, 2018.

Real estate owned is carried at the lower of carrying value or fair value less costs to sell. The carrying value of real estate owned at December 31, 2018 and June 30, 2018 were $823 and $1,074, respectively. There was no valuation allowances associated with these properties at December 31, 2018 or June 30, 2018.

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The table below presents a reconciliation of all Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs for the three and six months ended December 31, 2018 and 2017:

	Fair Value Measurements (Level 3)			
	Three Months Ended		Six Months Ended	
	December 31, 2018	December 31, 2017	December 31 2018	December 31, 2017
	Loan Servicing Rights	Loan Servicing Rights	Loan Servicing Rights	Loan Servicing Rights
Balance at beginning of period:	$1,050	$1,089	$1,093	$1,141
Purchases	—	—	—	—
Unrealized net losses included in net income	(33)	(65)	(76)	(117)
Balance at end of period:	$1,017	$1,024	$1,017	$1,024

The table below presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at December 31, 2018 and June 30, 2018.

	Level 3 Quantitative Information				
	December 31, 2018 Fair Value	June 30, 2018 Fair Value	Valuation Technique	Unobservable Inputs	Range
Loan servicing rights	$1,017	$1,093	Discounted cash flows	Discount rate, estimated timing of cash flows	10.13% to 10.25%
Real estate owned net:			Sales comparison approach	Adjustment for differences between the comparable sales	
One-to-four family	$89	$91			0% to 20%
Nonresidential	$464	$983			0% to 20%

			Sales comparison approach	Adjustment for differences between the comparable sales	
Construction and land	$270	$—	Sales comparison approach	Adjustment for differences between the comparable sales	0% to 20%

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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 sheets approximate fair value. These items include cash and cash equivalents, bank owned life insurance, 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, 2018 and June 30, 2018 are summarized below:

	December 31, 2018				
	Carrying Amount	Fair Value (Level 1)	(Level 2)	(Level 3)	Total
Financial assets					
Securities available-for-sale	$109,500	$—	$109,500	$—	$109,500
Loans, net [1]	355,617	—	—	350,247	350,247
Loans held for sale[2]	154	—	—	154	154
Loan servicing rights	1,017	—	—	1,017	1,017
Restricted equity securities	2,398	N/A	N/A	N/A	N/A
Financial liabilities					
Deposits	$393,949	$171,602	$215,435	$—	$387,037
FHLB Advances	32,500	—	32,405	—	32,405

	June 30, 2018				
	Carrying Amount	Fair Value (Level 1)	(Level 2)	(Level 3)	Total
Financial assets					
Securities available-for-sale	$115,146	$—	$115,146	$—	$115,146
Loans, net [1]	326,661	—	—	319,958	319,958
Loans held for sale[2]	—	—	—	—	—
Loan servicing rights	1,093	—	—	1,093	1,093
Restricted equity securities	1,639	N/A	N/A	N/A	N/A
Financial liabilities					
Deposits	$387,588	$174,192	$208,967	$—	$383,159
FHLB Advances	14,500	—	14,494	—	14,494

(1) Loans held for sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors and result in a Level 3 classification.

(2) Carrying amount of loans is net of unearned income and the allowance. In accordance with the adoption of ASU No. 2016-01, the fair value of loans as of December 31, 2018 was measured using an exit price notion. The fair value of loans as of June 30, 2018 was measured using an entry price notion.

(8) 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 $10.00 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. The Company makes contributions to the ESOP each December. There were no discretionary contributions made to the ESOP for debt retirement in 2018 or 2017. Total ESOP compensation expense for the three and six months ended December 31, 2018 was $110 and $225, respectively, and for the three and six months ended December 31, 2017 was $155 and $303, respectively.

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Shares held by the ESOP at December 31, 2018 and June 30, 2018 were as follows:

	December 31, 2018	June 30, 2018
Committed to be released to participants	24,230	10,769
Allocated to participants	127,985	130,249
Unearned	46,180	77,672
Total ESOP shares	198,395	218,690
Fair value of unearned shares	$1,150	$2,333

(9) 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.

There have been no stock options or restricted stock issued in fiscal 2019. In fiscal 2018, on December 22, 2017, the compensation committee of the board of directors approved the issuance of 22,400 stock options to purchase Company stock to officers. Stock options and restricted stock have vesting periods of five years or seven years, a percentage of which vests annually on each anniversary of the grant date. The weighted average vesting period of stock options granted in fiscal 2018 was seven years. 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 six months ended December 31, 2018:

	Options	Weighted-Average Exercise Price/Share	Aggregate Intrinsic Value[(1)]
Outstanding - June 30, 2018	241,209	$ 14.18	—
Granted	—	—	—
Exercised	(15,552)	11.58	—
Forfeited	—	—	—
Outstanding - December 31, 2018	225,657	$ 14.36	$ 2,379
Fully vested and exercisable at December 31, 2018	177,548	$ 12.39	$ 2,221
Expected to vest in future periods	48,109		
Fully vested and expected to vest - December 31, 2018	225,657	$ 14.36	$ 2,379

(1)

The intrinsic value for stock options is defined as the difference between the current market value and the exercise price. The current market price was based on the closing price of common stock of $24.90 per share on December 31, 2018.

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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 Thrift MHCs. The expected life of the options is calculated based on the "simplified" method as provided for under generally accepted accounting principles.

The 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:

There have been no stock options granted in fiscal year 2019.

	Fiscal Years Granted 2018
Risk-free interest rate	2.43 %
Expected dividend yield	1.36 %
Expected stock volatility	15.03%
Expected life (years)	8
Fair value	$5.41

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 8,070 and 4,035 options that were earned during the six months ended December 31, 2018 and 2017, respectively. Stock-based compensation expense for stock options for the three and six months ended December 31, 2018 was $11 and $21, respectively, and for the three and six months ended December 31, 2017 was $7 and $13, respectively. Total unrecognized compensation cost related to stock options was $143 at December 31, 2018 and is expected to be recognized over a weighted-average period of 3.5 years.

The following table summarizes non-vested restricted stock activity for the six months ended December 31, 2018:

	December 31, 2018
Balance - beginning of year	15,355
Granted	—
Forfeited	—
Vested	—
Balance - end of period	15,355
Weighted average grant date fair value	$ 13.09

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. Stock-based compensation expense for restricted stock included in noninterest expense for the three and six months ended December 31, 2018 was $25 and $51, respectively, and for the three and six months ended December 31, 2017 was $25 and $51, respectively. Unrecognized compensation expense for non-vested restricted stock awards was $188 at December 31, 2018 and is expected to be recognized over a weighted-average period of 2.5 years.

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(10) LOAN SERVICING RIGHTS

Mortgage loans serviced for others are not reported as assets; however, the underlying mortgage servicing rights associated with servicing these mortgage loans serviced for others is recorded as an asset in the consolidated balance sheet.

The principal balances of those loans at December 31, 2018 and June 30, 2018 are as follows:

	December 31, 2018	June 30, 2018
Mortgage loan portfolio serviced for:		
FHLMC	$88,669	$94,779

Custodial escrow balances maintained in connection with serviced loans were $378 and $799 at December 31, 2018 and June 30, 2018.

Activity for loan servicing rights for the three and six months ended December 31, 2018 and 2017 is as follows:

	Three Months Ended		Six Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Loan servicing rights:				
Beginning of period:	$1,050	$ 1,089	$1,093	$ 1,141
Additions	—	—	—	—
Change in fair value	(33)	(65)	(76)	(117)
End of period:	$1,017	$ 1,024	$1,017	$ 1,024

Fair value at December 31, 2018 was determined using a discount rate of 10.25%, prepayment speed assumptions ranging from 4.7% to 13.7% Conditional Prepayment Rate ("CPR") depending on the loans' coupon, term and seasoning, and a weighted average default rate of 0.40%. Fair value at December 31, 2017 was determined using a discount rate of 9.63%, prepayment speed assumptions ranging from 5.2% to 19.3% CPR depending on the loans' coupon, term and seasoning, and a weighted average default rate of 0.61%.

(11) SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the six months ended December 31, 2018 and 2017 is as follows:

	December 31, 2018	December 31, 2017
Cash paid during the period for:		
Interest paid	$ 1,465	$ 785
Income taxes paid	$ 218	$ 328
Supplemental noncash disclosures:		
Transfers from loans to real estate owned	$ 48	$ 230

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(12) SUBSEQUENT EVENTS

On January 24, 2019, the Board of Directors of Oconee Federal Financial Corp. declared a quarterly cash dividend of $0.10 per share of Oconee Federal Financial Corp.’s common stock. The dividend is payable to stockholders of record as of February 7, 2019, and will be paid on or about February 21, 2019.

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 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 actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- our ability to manage our operations 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 introducing new deposit products;
- inflation and 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;

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;
changes in laws or government regulations or policies affecting financial institutions, 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;
changes in the ability of third-party providers to perform their obligations to us;
technological changes that may be more difficult or expensive than expected;
cyber attacks, computer viruses and other technological risks that may breach the security of our websites or other systems to obtain unauthorized access to confidential information, destroy data or disable our systems;
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;
the effects of actual government shutdowns;
the ability of the U.S. government to manage federal debt limits;
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, 2018, as filed with the Securities and Exchange Commission.

Comparison of Financial Condition at December 31, 2018 and June 30, 2018

Our total assets increased by $26.0 million, or 5.4%, to $514.0 million at December 31, 2018 from $488.0 million at June 30, 2018. Total cash and cash equivalents increased $1.3 million, or 12.9%, to $11.2 million at December 31, 2018 from $9.9 million at June 30, 2018. The increase in cash and cash equivalents was due to normal fluctuations in cash. Our available-for-sale securities portfolio decreased by $5.6 million from $115.1 million at June 30, 2018 to $109.5 million at December 31, 2018. The Association is not actively replenishing security repayments and maturities with purchases due to the funding needs of our loan portfolio. Gross loans increased $29.0 million, or 8.9%, to $356.8 million at December 31, 2018 from $327.8 million at June 30, 2018. This increase is a result of increased one-to-four family loan, nonresidential loan and construction and land loan demand experienced during the six months ended December 31, 2018. Proceeds from FHLB advances and investment repayments and maturities were used to help fund the loan growth.

Deposits increased $6.3 million, or 1.6%, to $393.9 million at December 31, 2018 from $387.6 million at June 30, 2018. The increase in our deposits reflected an increase of $8.9 million in certificates of deposit and $490 thousand in NOW accounts, offset by a decrease of $503 thousand in savings deposits, $1.5 million in money market deposits and

$1.1 million in non-interest bearing checking.

Oconee Federal, MHC's cash is held on deposit with the Association. We generally do not accept brokered deposits and no brokered deposits were accepted during the six months ended December 31, 2018.

Federal Home Loan Bank advances increased by $18.0 million, or 124.1%, to $32.5 million at December 31, 2018 from $14.5 million at June 30, 2018. We have credit available under a loan agreement with the Federal Home Loan Bank of Atlanta in the amount of 25% of our total assets as of December 31, 2018, or approximately $124.7 million. We had no federal funds purchased as of December 31, 2018 or as of June 30, 2018.

Total shareholders' equity increased $1.1 million, or 1.3%, to $86.0 million at December 31, 2018 compared to $84.9 million at June 30, 2018. This was primarily due to our net income during the period of $1.8 million and a decrease in after-tax unrealized losses in our investment portfolio of $676 thousand being offset by our payment of dividends of $1.1 million, and $615 thousand used for the repurchase of treasury stock. The Company and the Association exceeded all regulatory capital requirements at December 31, 2018 and June 30, 2018.

Nonperforming Assets

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

	December 31, 2018	June 30, 2018
	(Dollars in thousands)	
Nonaccrual loans:		
Real estate loans:		
One-to-four family	$3,005	$3,969
Multi-family	—	—
Home equity	124	40
Nonresidential	1,022	908
Agricultural	413	445
Construction and land	40	19
Total real estate loans	4,604	5,381
Commercial and industrial	—	—
Consumer and other loans	—	1
Total nonaccrual loans [1]	$4,604	$5,382
Accruing loans past due 90 days or more:		
Real estate loans:		
Total accruing loans past due 90 days or more	$—	$—
Total of nonaccrual and 90 days or more past due loans [2]	$4,604	$5,382
Real estate owned, net:		
One-to-four family	$89	$91
Nonresidential	464	983
Construction and land	270	—
Other nonperforming assets	—	—
Total nonperforming assets	$5,427	$6,456
Accruing troubled debt restructurings	$—	$—
Troubled debt restructurings and total nonperforming assets	$5,427	$6,456
Total nonperforming loans to total loans	1.29 %	1.64 %
Total nonperforming assets to total assets	1.06 %	1.32 %
Total nonperforming assets to loans and real estate owned	1.52 %	1.96 %

(1) Nonaccrual troubled debt restructurings included in the totals above were $3.0 million and $3.0 million, at December 31, 2018 and June 30, 2018, respectively.

(2) There were no loans past due 90 days or more and still accruing at December 31, 2018 and June 30, 2018.

Interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $150 thousand and $148 thousand for the six months ended December 31, 2018 and 2017, respectively. There was no interest recognized on these loans for the six months ended December 31, 2018. Interest of $33 thousand was recognized on these loans and is included in net income for the six months ended December 31, 2017.

Interest income that would have been recorded had our troubled debt restructured loans been current in accordance with their original terms was $78 thousand and $76 thousand for the six months ended December 31, 2018 and 2017, respectively. There was no interest recognized on troubled debt restructured loans for the six months ended December 31, 2018. Interest recognized on troubled debt restructured loans was $17 thousand for the six months ended December 31, 2017.

Nonperforming assets decreased $1.1 million from $6.5 million as of June 30, 2018 to $5.4 million as of December 31, 2018. Nonaccrual loans decreased $778 thousand to $4.6 million as of December 31, 2018 and real estate owned decreased $251 thousand to $823 thousand as of December 31, 2018. There were no accruing loans past due 90 days or more at either date. The decrease in nonaccrual loans primarily related to normal monthly fluctuations. Nonperforming assets to total assets and nonperforming assets to loans and real estate owned were 1.06% and 1.52%, respectively, at December 31, 2018 compared to 1.32% and 1.96%, respectively at June 30, 2018.

Analysis of Net Interest Margin

The following table sets forth average balance sheets, average annualized yields and rates, and certain other information 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.

	For the Three Months Ended December 31, 2018			December 31, 2017		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in Thousands)					
Assets:						
Interest-earning assets:						
Loans	$351,077	$ 4,050	4.61%	$315,408	$ 3,621	4.59%
Investment securities	76,821	401	2.09	83,181	398	1.91
Investment securities, tax-free	36,929	205	2.22	38,709	214	2.21
Other interest-earning assets	3,998	43	4.30	3,607	26	2.88
Total interest-earning assets	468,825	4,699	4.01	440,905	4,259	3.86
Noninterest-earning assets	34,393			36,447		
Total assets	$503,218			$477,352		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$50,569	$ 19	0.15%	$47,792	$ 12	0.10%
Money market deposits	64,085	78	0.48	68,932	56	0.32
Regular savings and other deposits	27,407	13	0.19	28,424	11	0.15
Certificates of deposit	217,892	546	0.99	201,491	284	0.56
Total interest-bearing deposits	359,953	656	0.72	346,639	363	0.42
Other Borrowings	24,790	161	2.58	15,462	51	1.31
Total interest-bearing liabilities	384,743	817	0.84	362,101	414	0.45
Noninterest bearing deposits	35,045			28,353		
Other noninterest-bearing liabilities	1,768			1,246		
Total liabilities	421,556			391,700		
Equity	81,662			85,652		
Total liabilities and equity	$503,218			$477,352		
Net interest income		$ 3,882			$ 3,845	
Interest rate spread			3.17%			3.41%
Net interest margin			3.32%			3.49%
Average interest-earning assets to average interest-bearing liabilities	1.22			1.27		

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	For the Six Months Ended December 31, 2018			December 31, 2017		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in Thousands)					
Assets:						
Interest-earning assets:						
Loans	$343,267	$ 7,817	4.55%	$312,622	$ 7,176	4.59%
Investment securities	78,091	816	2.09	82,698	768	1.86
Investment securities, tax-free	37,269	414	2.22	38,079	420	2.21
Other interest-earning assets	4,517	73	3.23	7,412	78	2.10
Total interest-earning assets	463,144	9,120	3.94	440,811	8,442	3.83
Noninterest-earning assets	34,208			36,299		
Total assets	$497,352			$477,110		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$50,766	$ 36	0.14%	$47,488	$ 23	0.10%
Money market deposits	64,213	141	0.44	74,537	132	0.35
Regular savings and other deposits	27,617	23	0.17	28,566	22	0.15
Certificates of deposit	216,711	1,021	0.93	202,342	548	0.54
Total interest-bearing deposits	359,307	1,221	0.67	352,933	725	0.41
Other Borrowings	19,975	246	2.44	9,646	62	1.28
Total interest-bearing liabilities	379,282	1,467	0.77	362,579	787	0.43
Noninterest bearing deposits	34,092			27,268		
Other noninterest-bearing liabilities	1,386			10,630		
Total liabilities	414,760			400,477		
Equity	82,592			76,633		
Total liabilities and equity	$497,352			$477,110		
Net interest income		$ 7,653			$ 7,655	
Interest rate spread			3.17%			3.40%
Net interest margin			3.31%			3.48%
Average interest-earning assets to average interest-bearing liabilities	1.22			1.25		

Comparison of Operating Results for the Three Months Ended December 31, 2018 and December 31, 2017

General. We reported net income of $947 thousand for the three months ended December 31, 2018 as compared to a net loss of $59 thousand for the three months ended December 31, 2017. Interest income increased $440 thousand for the three months ended December 31, 2018 and interest expense increased $403 thousand resulting in a net increase to

net interest income of $37 thousand. Noninterest income increased $35 thousand for the three months ended December 31, 2018 compared to December 31, 2017. Total noninterest expense decreased $36 thousand. Tax expense decreased $965 thousand, primarily due to a reduction in the federal corporate tax rate from 35% to 21% along with a $973 thousand adjustment to the Company's deferred tax asset in the prior year as a result of the *Tax Cuts and Jobs Act* that was enacted on December 22, 2017.

Interest Income. Interest income increased by $440 thousand to $4.7 million from $4.3 million for the three months ended December 31, 2018 and December 31, 2017, respectively. The yield on interest-earning assets increased fifteen basis points from 3.86% for the three months ended December 31, 2017 to 4.01% for the three months ended December 31, 2018. Total average interest-earning assets increased by $27.9 million to $468.8 million for the three months ended December 31, 2018 from $440.9 million for the three months ended December 31, 2017.

Interest income on loans increased by $429 thousand to $4.1 million from $3.6 million for the three months ended December 31, 2018 and December 31, 2017, respectively. The yield on loans increased two basis points from 4.59% for the three months ended December 31, 2017 to 4.61% for the three months ended December 31, 2018. The average balance of loans increased by $35.7 million, or 11.3%, to $351.1 million for the three months ended December 31, 2018 from $315.4 million for the three months ended December 31, 2017. The increase in the average balance of our loans is reflective of normal loan growth.

Interest income on investment securities decreased by $6 thousand, or 1.0%, to $606 thousand for the three months ended December 31, 2018 from $612 thousand for the three months ended December 31, 2017. The decrease reflected the combination of a decrease in the average balance of securities of $8.1 million, or 6.6%, to $113.8 million for the three months ended December 31, 2018 from $121.9 million for the three months ended December 31, 2017 and an increase in the yield on securities to 2.13% from 2.01% for the respective periods. The decrease in the average balances of our investment securities reflects our efforts during fiscal 2018 to reduce investment purchases, which allowed us to use those funds as well as investment repayments and maturities to fund loan growth.

The average balance of other interest-earning assets increased $391 thousand from the three months ended December 31, 2017 to the three months ended December 31, 2018 while the yield increased 142 basis points over the same period. The increase in yield was primarily a result of increased short-term rates on interest-earning assets due to market rate increases and more favorable dividend rates.

Interest Expense. Interest expense increased by $403 thousand, or 97.3%, to $817 thousand for the three months ended December 31, 2018 from $414 thousand for the three months ended December 31, 2017. The increase reflected an increase of 30 basis points in the average rate paid on deposits for the three months ended December 31, 2018 to 0.72% from 0.42% for the three months ended December 31, 2017. The increase in the average rate paid on deposits reflects our efforts to keep our cost of funds as low as possible but still maintain our competitiveness in our market area among other banking institutions. Average interest-bearing deposits were $360.0 million for the three months ended December 31, 2018 compared to $346.6 million for the three months ended December 31, 2017.

The largest increase in deposit interest expense was related to expense on certificates of deposit, which increased $262 thousand, or 92.3%, to $546 thousand for the three months ended December 31, 2018 from $284 thousand for the three months ended December 31, 2017. The average rate paid on certificates of deposit increased by forty-three basis points from 0.56% for the three months ended December 31, 2017 to 0.99% for the three months ended December 31, 2018 and the average balances increased by $16.4 million from $201.5 million for the three-month period ended December 31, 2017 to $217.9 million for the three-month period ended December 31, 2018.

Interest expense for other borrowings increased by $110 thousand. Other borrowings include both FHLB advances as well as overnight federal funds purchased. Average other borrowings were $24.8 million for the three months ended December 31, 2018 compared to $15.5 million for the three months ended December 31, 2017. The average rate was

2.58% and 1.31% for the three months ended December 31, 2018 and 2017, respectively, due to an increase in market interest rates.

Net Interest Income. Net interest income before the provision for loan losses increased by $37 thousand, or 1.0%, to $3.9 million for the three months ended December 31, 2018. Our interest rate spread and net interest margin decreased to 3.17% and 3.32%, respectively, from 3.41% and 3.49%, respectively, for the three months ended December 31, 2018 and December 31, 2017, respectively. The increasing yield on earning assets was offset by the higher cost of certificates of deposit and other borrowings which contributed to the decrease in net interest margin for the three months ended December 31, 2018.

Provision for Loan Losses. We recorded a provision for loan losses of $76 thousand for the three months ended December 31, 2018 compared with $9 thousand for the three months ended December 31, 2017. There were no charge-offs for the three months ended December 31, 2018 compared to $1 thousand for the three months ended December 31, 2017. The higher provision is primarily due to significant loan growth in during the three months ended December 31, 2018.

Our total allowance for loan losses was $1.2 million, or 0.34%, of total gross loans as of December 31, 2018. Our total allowance for loan losses was $1.1 million, or 0.33%, of total gross loans as of June 30, 2018. There were no specifically identified impaired loans at December 31, 2018 or June 30, 2018. The recorded investment in individually evaluated impaired loans was $3.4 million and $3.5 million at December 31, 2018 and at June 30, 2018, respectively. Total loans individually evaluated for impairment decreased $105 thousand, or 2.9%, to $3.42 million at December 31, 2018 compared to $3.53 million at June 30, 2018.

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, 2018 and 2017. There have been no changes to our allowance for loan loss methodology during the quarter.

Noninterest Income. Noninterest income increased $35 thousand, or 9.3%, to $412 thousand for the three months ended December 31, 2018 from $377 thousand for the three months ended December 31, 2017. Mortgage servicing income increased $2 thousand. Gain on sale of mortgage loans was $20 thousand and $14 thousand for the three months ended December 31, 2018 and 2017, respectively. We actively started selling mortgage loans in December 2017. Gain on disposition of purchase credit impaired loans was $22 thousand for the three months ended December 31, 2018 due to the liquidation of one loan. There were no liquidations for the three months ended December 31, 2017. Changes in all other noninterest income items were due to normal periodic fluctuations.

Noninterest Expense. Noninterest expense for the three months ended December 31, 2018 decreased by $36 thousand, or 1.2%, to $3.05 million from $3.09 million for the same period in 2017. Salaries and employee benefits increased $74 thousand due to routine increases. Occupancy and equipment increased $19 thousand due to routine upgrades and improvements. Data processing decreased $51 thousand due to fewer routine upgrades in the current period as well as more favorable third party service pricing. Professional and Supervisory fees decreased $47 thousand due to reduced audit and regulatory examination fees. Foreclosed asset expense increased $34 thousand due to reduced gains on the disposal of properties offset by reduced maintenance and repairs on foreclosed properties. The change in the value of the loan servicing portfolio decreased $32 thousand due to market conditions. Changes in all other noninterest expense items were due to normal periodic fluctuations.

Income Tax Expense. Tax expense decreased $965 thousand, or 81.4%, to $220 thousand for the three months ended December 31, 2018 from $1.2 million for the three months ended December 31, 2017. The decrease was primarily due to a reduction in the federal corporate tax rate from 35% to 21% along with a $973 thousand adjustment to the Company's deferred tax asset in the prior year as a result of the *Tax Cuts and Jobs Act* that was enacted on December 22, 2017. Our effective income tax rate was 18.9% and 105.2% for the three months ended December 31, 2018 and 2017, respectively.

Comparison of Operating Results for the Six Months Ended December 31, 2018 and December 31, 2017

General. We reported net income of $1.8 million for the six months ended December 31, 2018 as compared to net income of $798 thousand for the six months ended December 31, 2017. Interest income increased $678 thousand for the six months ended December 31, 2018 and interest expense increased $680 thousand resulting in a net decrease to net interest income of $2 thousand. Noninterest income increased $56 thousand for the six months ended December 31, 2018 compared to December 31, 2017. Total noninterest expense increased $93 thousand primarily due to increased cost in salaries and employee benefits. Tax expense decreased $1.2 million, primarily due to a reduction in the federal corporate tax rate from 35% to 21% along with a $973 thousand adjustment to the Company's deferred tax asset in the prior year as a result of the *Tax Cuts and Jobs Act* that was enacted on December 22, 2017.

Interest Income. Interest income increased to $9.1 million from $8.4 million for the six months ended December 31, 2018 and December 31, 2017, respectively. The yield on interest-earning assets increased eleven basis points from

3.83% for the six months ended December 31, 2017 to 3.94% for the six months ended December 31, 2018. Total average interest-earning assets increased by $22.3 million to $463.1 million for the six months ended December 31, 2018 from $440.8 million for the six months ended December 31, 2017.

Interest income on loans increased to $7.8 million from $7.2 million for the six months ended December 31, 2018 and December 31, 2017, respectively. The yield on loans decreased four basis points from 4.59% for the six months ended December 31, 2017 to 4.55% for the six months ended December 31, 2018, a result of the repayments of older, higher yielding loans being replaced by loans with lower yields. The average balance of loans increased by $30.7 million, or 9.8%, to $343.3 million for the six months ended December 31, 2018 from $312.6 million for the six months ended December 31, 2017. The increase in the average balance of our loans is reflective of normal loan growth.

Interest income on investment securities increased by $42 thousand, or 3.5%, to $1.23 million for the six months ended December 31, 2018 from $1.19 million for the six months ended December 31, 2017. The increase reflected the combination of a decrease in the average balance of securities of $5.4 million, or 4.5%, to $115.4 million for the six months ended December 31, 2018 from $120.8 million for the six months ended December 31, 2017 and an increase in the yield on securities to 2.13% from 1.97% for the respective periods. The decrease in the average balances of our investment securities reflects our efforts during fiscal 2018 to reduce investment purchases, which allowed us to use those funds as well as investment repayments and maturities to fund loan growth.

The average balance of other interest-earning assets decreased $2.9 million from the six months ended December 31, 2017 to the six months ended December 31, 2018 while the yield increased 113 basis points over the same period. The decrease in volume was due to liquidation of money market funds. The increase in yield was primarily a result of increased short-term rates on deposits due to market rate increases and more favorable dividend rates.

Interest Expense. Interest expense increased by $680 thousand, or 86.4%, to $1.5 million for the six months ended December 31, 2018 from $787 thousand for the six months ended December 31, 2017. The increase reflected an increase of 26 basis points in the average rate paid on deposits for the six months ended December 31, 2018 to 0.67% from 0.41% for the six months ended December 31, 2017. The increase in the average rate paid on deposits reflects our efforts to keep our cost of funds as low as possible but still maintain our competitiveness in our market area among other banking institutions. Average interest-bearing deposits were $359.3 million for the six months ended December 31, 2018 compared to $352.9 million for the six months ended December 31, 2017.

The largest increase in deposit interest expense was related to expense on certificates of deposit, which increased $473 thousand, or 86.3%, to $1.0 million for the six months ended December 31, 2018 from $548 thousand for the six months ended December 31, 2017. The average rate paid on certificates of deposit increased from 0.54% for the six months ended December 31, 2017 to 0.93% for the six months ended December 31, 2018 and the average balances increased from $202.3 million for the six-month period ended December 31, 2017 to $216.7 million for the six-month period ended December 31, 2018.

Interest expense for other borrowings increased by $184 thousand. Other borrowings include both FHLB advances as well as overnight federal funds purchased. Average other borrowings were $20.0 million for the six months ended December 31, 2018 compared to $9.6 million for the six months ended December 31, 2017. The average rate was 2.44% and 1.28% for the six months ended December 31, 2018 and 2017, respectively.

Net Interest Income. Net interest income before the provision for loan losses decreased by $2 thousand, or 0.03%, to $7.7 million for the six months ended December 31, 2018. Our interest rate spread and net interest margin decreased to 3.17% and 3.31%, respectively, from 3.40% and 3.48%, respectively, for the six months ended December 31, 2018 and December 31, 2017, respectively. The increasing yield on earning assets offset by the higher cost of certificates of deposit and other borrowings primarily contributed to the decrease in net interest margin for the six months ended December 31, 2018.

Provision for Loan Losses. We recorded a provision for loan losses of $148 thousand for the six months ended December 31, 2018 compared with $56 thousand for the six months ended December 31, 2017. There were $18 thousand in charge-offs for the six months ended December 31, 2018 compared to $40 thousand for the six months ended December 31, 2017. The higher provision is primarily due to significant loan growth in during the six months ended December 31, 2018.

Our total allowance for loan losses was $1.2 million, or 0.34%, of total gross loans as of December 31, 2018. Our total allowance for loan losses was $1.1 million, or 0.33%, of total gross loans as of June 30, 2018. There were no specifically identified impaired loans at December 31, 2018 or June 30, 2018. The recorded investment in individually evaluated impaired loans was $3.4 million and $3.5 million at December 31, 2018 and at June 30, 2018, respectively. Total loans individually evaluated for impairment decreased $105 thousand, or 2.9%, to $3.42 million at December 31, 2018 compared to $3.53 million at June 30, 2018.

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, 2018 and 2017. There have been no changes to our allowance for loan loss methodology during the six months.

Noninterest Income. Noninterest income increased $56 thousand, or 7.3%, to $820 thousand for the six months ended December 31, 2018 from $764 thousand for the six months ended December 31, 2017. Mortgage servicing income decreased $12 thousand due to the declining size of the loan servicing portfolio. The net gain on sales of investment securities available for sale was $1 thousand for the six months ended December 31, 2018 compared to $10 thousand for the six months ended December 31, 2017. Gains on the sale of securities are largely market driven. Gain on sale of mortgage loans was $49 thousand and $14 thousand for the six months ended December 31, 2018 and 2017, respectively. We actively started selling mortgage loans in December 2017. Gain on disposition of purchase credit impaired loans was $22 thousand for the six months ended December 31, 2018 due to the liquidation of one loan. There were no liquidations for the six months ended December 31, 2017. Changes in all other noninterest income items were due to normal periodic fluctuations.

Noninterest Expense. Noninterest expense for the six months ended December 31, 2018 increased by $93 thousand, or 1.6%, to $6.05 million from $5.95 million for the same period in 2017. Salaries and employee benefits increased $204 thousand due to routine increases. Occupancy and equipment increased $37 thousand due to routine upgrades and improvements. Data processing decreased $18 thousand due to fewer routine upgrades in the current period as well as more favorable third-party service pricing.

Professional and supervisory fees decreased $57 thousand due to reduced audit and regulatory examination fees. Foreclosed asset expense decreased $4 thousand due to reduced gains on the disposal of properties offset by reduced maintenance and repairs on foreclosed properties. The change in the value of the loan servicing portfolio decreased $41 thousand due to market conditions. Changes in all other noninterest expense items were due to normal periodic fluctuations.

Income Tax Expense. Tax expense decreased $1.2 million, or 72.3%, to $447 thousand for the six months ended December 31, 2018 from $1.6 million for the six months ended December 31, 2017. The decrease was primarily due to a reduction in the federal corporate tax rate from 35% to 21% along with a $973 thousand adjustment to the Company's deferred tax asset in the prior year as a result of the *Tax Cuts and Jobs Act* that was enacted on December 22, 2017. Our effective income tax rate was 19.6% and 66.9% for the six months ended December 31, 2018 and 2017, respectively.

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 25% of total assets (as of December 31, 2018), or approximately $124.7 million as of that date, with a remaining availability of $92.2 million as of December 31, 2018.

Common Stock Dividends. On August 16, 2018 and November 21, 2018, the Company paid a $0.10 per share cash dividend on its common stock for a total of $1.1 million.

Equity Compensation Plans. During the three months ended December 31, 2018, no shares of restricted stock or common stock options were issued.

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, 2018. 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, 2018, 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 of smaller reporting companies, such as the Company.

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

(a) None.

(b) Not applicable.

(c) ***Issuer Repurchases.*** On November 24, 2015, the Board of Directors authorized the repurchase of up to 175,000 of the Company's common stock.

In connection with the authorization of this stock repurchase program, the Board of Directors terminated the Company's existing stock repurchase program, which had authorized the Company to purchase up to 150,000 shares of its issued and outstanding common stock. The Company had previously purchased a total of 113,400 shares of its common stock at a weighted average price of $16.04 per share under the existing stock repurchase program.

The following table sets forth information in connection with repurchases of the Company's common stock for the quarter ended December 31, 2018:

	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**	
October 1 - October 31, 2018	2,653	$ 26.25	2,653		25,078	
November 1 - November 30, 2018	—	—	0		25,078	
December 1 - December 31, 2018	1,004	$ 24.90	1,004		24,074	(2)
Total	3,657	$ 25.88	3,657	(1)		

(1)

All shares were purchased pursuant to a publicly announced repurchase program that was approved by the Board of Directors on November 24, 2015.

(2)

Represents the maximum number of shares available for repurchase under the November 24, 2015 plan at December 31, 2018.

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 in the “Index to Exhibits” immediately following the Signatures.

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 13, 2019

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

/s/ John W. Hobbs
John W. Hobbs
Senior Vice President and Chief Financial Officer

INDEX TO EXHIBITS

Exhibit Number	Description
31.1	Certification of Curtis T. Evatt, President and Chief Executive Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
31.2	Certification of John W. Hobbs, Senior Vice President and Chief Financial Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
32	Certification of Curtis T. Evatt, President and Chief Executive Officer, and John W. Hobbs, 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 December 31, 2018, 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