

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**

**(State of Other Jurisdiction**

**of Incorporation)**

**201 East North Second Street, Seneca, South Carolina**

**(Address of Principal Executive Officers)**

**(864) 882-2765**

**32-0330122**

**(I.R.S Employer**

**Identification  
Number)**

**29678**

**(Zip Code)**

**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)**

|  | <b>December<br/>31, 2018</b> | <b>June 30,<br/>2018</b> |
|--|------------------------------|--------------------------|
|  | <b>(unaudited)</b>           |                          |
| <b>ASSETS</b>                                  |                              |                          |
| 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               |
| <b>LIABILITIES</b>                             |                              |                          |
| 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;<br>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<br>Ended   |                      | Six Months Ended        |                      |
|---|-------------------------|----------------------|-------------------------|----------------------|
|   | December<br>31,<br>2018 | December<br>31, 2017 | December<br>31,<br>2018 | December<br>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                  |

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|  |         |            |         |           |
|--|---------|------------|---------|-----------|
| 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<br>Stock | Treasury<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (loss) | Unearned<br>ESOP<br>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 <sup>(1)</sup> | —               | —                 | (377 )                           | —                    | —  | —                          | (377 )    |
| Stock-based compensation expense                           | —               | —                 | 13                               | —                    | —  | —                          | 13        |
| Dividends <sup>(2)</sup>                                   | —               | —                 | 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 <sup>(3)</sup> | —               | —                 | (615 )                           | —                    | —  | —                          | (615 )    |
| Stock-based compensation expense                           | —               | —                 | 72                               | —                    | —  | —                          | 72        |
| Dividends <sup>(4)</sup>                                   | —               | —                 | 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.

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)**

|   | <b>Six Months Ended</b> |                      |
|---|-------------------------|----------------------|
|   | December 31,<br>2018    | December 31,<br>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                  |

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|   |          |          |
|---|----------|----------|
| 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           | December  | December         | December  |
|  | 31,                | 31,       | 31,              | 31,       |
|  | 2018               | 2017      | 2018             | 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****(Unaudited)****(Amounts in thousands, except share and per share data)****(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:

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| December 31, 2018                                 |                   |                              |                               |               |
| 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     |

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| June 30, 2018                                     |                   |                              |                               |               |
| 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.

**OCONEE FEDERAL FINANCIAL CORP.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Amounts in thousands, except share and per share data)**

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 Unrealized Loss <sup>(1)</sup> | Fair Value        | Unrealized Loss | Number Unrealized Loss <sup>(1)</sup> | Fair Value | Unrealized Loss | Number Unrealized Loss <sup>(1)</sup> |
| 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 Unrealized Loss <sup>(1)</sup> | Fair Value        | Unrealized Loss | Number Unrealized Loss <sup>(1)</sup> | Fair Value | Unrealized Loss | Number Unrealized Loss <sup>(1)</sup> |
| 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.

**OCONEE FEDERAL FINANCIAL CORP.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Amounts in thousands, except share and per share data)**

The following table presents the 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 Fair    |           | Amortized Fair |           |
|   | Cost              | Value     | Cost           | 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 <sup>(1)</sup> | 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 |          |
|---------------------|--------------------|----------|------------------|----------|
|                     | December           |          | December         |          |
|                     | 31, 2018           | 31, 2017 | 31, 2018         | 31, 2017 |
| Available-for-sale: |                    |          |                  |          |
| 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<br>31,<br>2018 | June 30,<br>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        |



**OCONEE FEDERAL FINANCIAL CORP.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Amounts in thousands, except share and per share data)**

The following table presents the 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,<br>2018 | Beginning<br>Balance | Provision | Charge-offs | Recoveries | Ending<br>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           |
| <br>                                    |                      |           |             |            |                   |
| Six Months Ended December 31,<br>2018   | Beginning<br>Balance | Provision | Charge-offs | Recoveries | Ending<br>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           |



**OCONEE FEDERAL FINANCIAL CORP.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Amounts in thousands, except share and per share data)**

The following table presents the 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:            |                                       | Loans:                                |                                       |
|---------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
|                           | Individually Evaluated for Impairment | Collectively Evaluated for Impairment | Individually Evaluated for Impairment | 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             |

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|                           |         |     |      |   |     |         |
|---------------------------|---------|-----|------|---|-----|---------|
| 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,<br>2017 | Beginning<br>Balance | Provision | Charge-offs | Recoveries | Ending<br>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 |

**OCONEE FEDERAL FINANCIAL CORP.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Amounts in thousands, except share and per share data)**

The following table presents the 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:            |                                       | Loans:                                |                                       |
|---------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
|                           | Individually Evaluated for Impairment | Collectively Evaluated for Impairment | 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:

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

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|                         |         |          |      |          |      |
|-------------------------|---------|----------|------|----------|------|
| 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    |      |