Oconee Federal Financial Corp.
Form 10-Q
May 15, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended March 31, 2015

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 x No ¨.

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

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

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company x

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

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

There were 5,882,140 shares of Common Stock, par value $.01 per share, outstanding as of May 15, 2015.

OCONEE FEDERAL FINANCIAL CORP.

Form 10-Q Quarterly Report

Table of Contents

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED BALANCE SHEETS

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

(Unaudited)

PART I

ITEM 1. FINANCIAL STATEMENTS

	March 31, 2015 (Unaudited)	June 30, 2014 (*)
ASSETS		
Cash and due from banks	$ 1,774	$ 1,365
Interest-bearing deposits	23,693	10,525
Total cash and cash equivalents	25,467	11,890
Securities available-for-sale	103,513	103,806
Loans	322,351	230,786
Allowance for loan losses	(869)	(855)
Net loans	321,482	229,931
Loans held for sale	733	-
Premises and equipment, net	7,073	2,993
Real estate owned, net	2,499	744
Accrued interest receivable		
Loans	1,126	811
Investments	346	251
Restricted equity securities	440	325
Bank owned life insurance	8,978	8,758
Goodwill	2,870	-
Core deposit intangible	900	-
Loan servicing rights	1,319	-
Deferred tax assets	5,046	650
Other assets	909	342
Total assets	$ 482,701	$ 360,501
LIABILITIES		
Deposits		
Non-interest bearing	$ 17,999	$ 7,075
Interest bearing	382,778	273,940
Total deposits	400,777	281,015
Accrued interest payable and other liabilities	1,373	2,505
Total liabilities	402,150	283,520

SHAREHOLDERS' EQUITY		
Common stock, $0.01 par value, 100,000,000 shares authorized; 5,882,140 and 5,834,395 shares outstanding, respectively	65	64
Treasury stock, at par 589,899 and 600,699 shares, respectively	(6)	(6)
Additional paid-in capital	13,238	12,186
Retained earnings	68,294	66,705
Accumulated other comprehensive income (loss)	557	(147)
Unearned ESOP shares	(1,597)	(1,821)
Total shareholders' equity	80,551	76,981
Total liabilities and shareholders' equity	$ 482,701	$ 360,501

* Derived from audited consolidated financial statements

See accompanying notes to the consolidated financial statements

2

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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

(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Interest and dividend income:				
Loans, including fees	$ 4,047	$ 2,820	$ 10,267	$ 8,542
Securities, taxable	404	388	1,155	1,139
Securities, tax-exempt	50	2	126	2
Interest-bearing deposits and other	16	11	39	40
Total interest income	4,517	3,221	11,587	9,723
Interest expense:				
Deposits	309	345	932	1,156
Total interest expense	309	345	932	1,156
Net interest income	4,208	2,876	10,655	8,567
Provision for loan losses	7	41	16	82
Net interest income after provision for loan losses	4,201	2,835	10,639	8,485
Noninterest income:				
Service charges on deposit accounts	111	19	211	56
Income on bank owned life insurance	82	50	221	203
Mortgage banking income	147	-	181	-
Gain on sales of securities	120	70	149	215
Gain (loss) on sales of real estate owned	27	3	63	(11)
Other	(1)	37	1	35
Total noninterest income	486	179	826	498
Noninterest expense:				
Salaries and employee benefits	1,596	876	3,738	2,730
Occupancy and equipment	319	176	716	496
Data processing	135	71	309	200
Professional and supervisory fees	234	230	575	485
Office expense	109	80	196	109
Advertising	29	19	71	57
FDIC deposit insurance	78	40	154	118
Provision for real estate owned and related expenses	167	113	206	166

Other	214	68	408	270
Total noninterest expense	2,881	1,673	6,373	4,631
Income before income taxes	1,806	1,341	5,092	4,352
Income tax expense	610	486	1,825	1,567
Net income	$ 1,196	$ 855	$ 3,267	$ 2,785
Other comprehensive income (loss)				
Unrealized gain on securities available-for-sale	$ 993	$ 854	$ 1,280	$ 87
Tax effect	(374)	(325)	(483)	(33)
Reclassification adjustment for gains realized in net income	(120)	(70)	(149)	(215)
Tax effect	45	27	56	82
Total other comprehensive gain (loss)	544	486	704	(79)
Comprehensive income	$ 1,740	$ 1,341	$ 3,971	$ 2,706
Basic net income per share: (Note 2)	$ 0.21	$ 0.15	$ 0.58	$ 0.49
Diluted net income per share: (Note 2)	$ 0.21	$ 0.15	$ 0.57	$ 0.49
Dividends declared per share:	$ 0.10	$ 0.10	$ 0.30	$ 0.30

See accompanying notes to the consolidated financial statements

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

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

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Unearned ESOP Shares	Total
Balance at July 1, 2013	$ 64	$ (5)	$ 13,413	$ 65,315	$ (559)	$ (2,066)	$ 76,162
Net income	-	-	-	2,785	-	-	2,785
Other comprehensive loss	-	-	-	-	(79)	-	(79)
Transfers of securities from classified as held-to-maturity to available-for-sale	-	-	-	-	28	-	28
Purchase of 89,900 shares of treasury stock (1)	-	(1)	(1,599)	-	-	-	(1,600)
Issuance of 12,600 shares of restricted stock (2)	-	-	-	-	-	-	-
Stock-based compensation expense	-	-	184	-	-	-	184
Dividends (3) (4)	-	-	-	(1,650)	-	-	(1,650)
ESOP shares earned (4)	-	-	121	(14)	-	198	305
Balance at March 31, 2014	$ 64	$ (6)	$ 12,119	$ 66,436	$ (610)	$ (1,868)	$ 76,135
Balance at July 1, 2014	$ 64	$ (6)	$ 12,186	$ 66,705	$ (147)	$ (1,821)	$ 76,981
Net income	-	-	-	3,267	-	-	3,267
Other comprehensive income	-	-	-	-	704	-	704
Purchase of 1,800 shares of treasury stock (8)	-	-	(35)	-	-	-	(35)
Issuance of 12,600 shares of restricted stock (9)	-	-	-	-	-	-	-
Stock-based compensation expense	-	-	203	-	-	-	203
Common stock issued, 36,945 shares (5)	1	-	699	-	-	-	700
Dividends (6) (7)	-	-	25	(1,678)	-	-	(1,653)
ESOP shares earned (7)	-	-	160	-	-	224	384
Balance at March 31, 2015	$ 65	$ (6)	$ 13,238	$ 68,294	$ 557	$ (1,597)	$ 80,551

(1) The weighted average cost of treasury shares purchased during the nine months ended was $16.02 per share. Treasury stock repurchases were accounted for using the par value method.

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

(3) Cash dividends declared on July 25, 2013 were paid on August 29, 2013. Cash dividends declared on October 24, 2013 were paid on November 21, 2013. Cash dividends declared on January 30, 2014 were paid on February 27, 2014.

(4) Approximately $99 of cash dividends paid on shares in the ESOP was used as additional principal reduction on the ESOP debt, resulting in the release of approximately 8,000 additional shares. The portion of the dividend paid on allocated shares of approximately $14 was treated as a dividend. The remaining portion of the dividend payment and resulting release of approximately 7,000 shares was accounted for as additional compensation expense of approximately $63 for the nine months ended March 31, 2014.

(5) 36,945 shares issued to Oconee MHC at approximately $18.95 per share for the acquisition of Stephens Federal Bank.

(6) Cash dividends declared on July 24, 2014 were paid on August 21, 2014. Cash dividends declared on October 23, 2014 were paid on November 20, 2014. Cash dividends declared on January 29, 2015 were paid on February 26, 2015.

(7) Approximately $99 of cash dividends paid on shares in the ESOP was used as additional principal reduction on the ESOP debt, resulting in the release of approximately 8,000 additional shares. The portion of the dividend paid on allocated shares of approximately $25 was treated as a dividend. The remaining portion of the dividend payment and resulting release of approximately 8,000 shares was accounted for as additional compensation expense of approximately $74 for the nine months ended March 31, 2015.

(8) The weighted average cost of treasury shares purchased during the nine months ended was $19.81 per share. Treasury stock repurchases were accounted for using the par value method.

(9) On January 25, 2015, the Company granted 12,600 shares of restricted stock. The grant date fair value of these shares was $20.01.

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)

	Nine Months Ended	
	March 31, 2015	March 31, 2014
Cash Flows From Operating Activities		
Net income	$3,267	$2,785
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	16	82
Provision for real estate owned	112	87
Depreciation and amortization, net	782	681
Deferred loan fees, net	(3)	16
Deferred income tax expense	18	-
(Gain) loss on sale of real estate owned	(63)	11
Change in loan servicing asset	50	-
Gain on sales of securities	(149)	(215)
Mortgage loans originated for sale	(1,734)	-
Mortgage loans sold	1,492	-
Gain on sales of mortgage loans	81	-
Increase in cash surrender value of bank owned life insurance	(221)	(203)
ESOP compensation expense	384	305
Stock based compensation expense	203	184
Net change in operating assets and liabilities:		
Accrued interest receivable	(34)	(29)
Accrued interest payable	-	(2)
Other	(1,403)	(462)
Net cash provided by operating activities	2,798	3,240
Cash Flows From Investing Activities		
Net cash received from acquisition of Stephens Federal	24,079	-
Purchases of premises and equipment	(340)	(134)
Purchases of securities held-to-maturity	-	(3,486)
Purchases of securities available-for-sale	(23,009)	(28,553)
Proceeds from maturities, paydowns and calls of securities available-for-sale	14,654	10,402
Proceeds from maturities, paydowns and calls of securities held-to-maturity	-	-
Proceeds from sales of securities available-for-sale	11,025	14,278
Redemptions of restricted equity securities	27	129
Proceeds from sale of securities held-to-maturity	-	2,270
Proceeds from sale of real estate owned	1,750	197

Loan originations and repayments, net	3,732	(4,485)
Net cash provided by (used in) investing activities	31,918	(9,382)
Cash Flows from Financing Activities		
Net change in deposits	(19,451)	(10,026)
Dividends paid	(1,653)	(1,650)
Purchase of treasury stock	(35)	(1,600)
Net cash used in financing activities	(21,139)	(13,276)
Change in cash and cash equivalents	13,577	(19,418)
Cash and cash equivalents, beginning of year	11,890	37,942
Cash and cash equivalents, end of period	$25,467	$ 18,524

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 (70.80%) by Oconee Federal, MHC. These financial statements do not include the transactions and balances of Oconee Federal, MHC. On December 1, 2014, the Company completed its acquisition of Stephens Federal Bank. The consolidated financial statements include the results of operations of Stephen Federal Bank since the acquisition date.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company’s financial position as of March 31, 2015 and June 30, 2014 and the results of operations and cash flows for the interim periods ended March 31, 2015 and 2014. All interim amounts have not been audited, and the results of operations for the interim periods herein are not necessarily indicative of the results of operations to be expected for the year. These consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in the Form 10-K Annual Report of Oconee Federal Financial Corp. for the year ended June 30, 2014.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Loans held for sale, for which the fair value option has been elected, are recorded at fair value as of each balance sheet date. The fair value includes the servicing value of the loans as well as any accrued interest.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Purchased Credit Impaired Loans: The Company purchases individual loans and groups of loans, some of which have shown evidence of credit deterioration since origination. These purchased credit impaired loans are recorded at the amount paid, such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. Purchased credit impaired loans are accounted for individually. The Company estimates the amount and timing of expected cash flows for each loan, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loans' contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loans expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Purchased Performing Loans: The Company accounts for purchased performing loans at acquisition at fair value, which includes a credit discount. The resulting fair value (premium/discount) is amortized/accreted on a level yield basis over the estimated lives of the loans. There is no allowance for loan losses established for purchased performing loans, however a provision for loan losses is recorded for any further deterioration in these loans subsequent to the acquisition.

Loan servicing rights: When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and are included with mortgage banking income on the Consolidated Statements of Income and Comprehensive Income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Goodwill and Core Deposit Intangible: Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill acquired in a purchase business combination is not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. Goodwill will be tested for impairment as of April 1, 2016 and annually thereafter on each fiscal year ended date, unless evidence exists to warrant more frequent testing.

Core deposit intangibles represent the estimated value of long-term deposit core deposit relationships acquired in a business combination. This value is amortized over the weighted-average estimated useful lives of deposit accounts using a method that we believe reasonably approximates the anticipated benefit stream from this intangible. The estimated useful lives are periodically reviewed for reasonableness. The core deposit intangible acquired will be amortized over 15 years using the original projections of future benefit stream of cash flows, adjusted periodically, if needed for potential impairment of the remaining unamortized balance of the core deposit intangible.

The fair value of the core deposit intangible at the acquisition date of December 1, 2014 was $959. Amortization expense of $44 and $59 was recognized for the three and nine months ended March 31, 2015. The remaining carrying amount of the core deposit intangible, net of accumulated amortization of $59 was $900.

Derivative Instruments and Hedging: The Company recognizes all derivatives as either assets or liabilities in the balance sheet, and measures those instruments at fair value. Changes in the fair value of those derivatives are reported in current earnings or other comprehensive income depending on the purpose for which the derivative is held and whether the derivative qualifies for hedge accounting. Loan commitments related to the origination or acquisition of mortgage loans that will be held for sale must be accounted for as derivative instruments. The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). The Company also enters into forward sales commitments for the mortgage loans underlying the rate lock commitments. The fair values of these two derivative financial instruments are collectively insignificant to the consolidated financial statements.

Reclassifications: Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation.

(3) ACQUISITION

On December 1, 2014, the Company and its parent company, Oconee Federal, MHC (“Oconee MHC”), completed the acquisition of Stephens Federal Bank (“Stephens Federal”). The acquisition was consummated in accordance with the Agreement and Plan of Merger by and among the Company, Oconee MHC, Oconee Federal and Stephens Federal dated February 26, 2014, as amended on May 6, 2014 (the “Merger Agreement”), pursuant to which Stephens Federal merged with and into the Association, with the Association as the surviving institution.

Pursuant to the terms of the Merger Agreement, Stephens Federal completed a voluntary supervisory conversion from a federally chartered mutual savings association to a federally chartered stock savings association immediately prior to the merger with the Association. Accordingly, no consideration was paid by the Association or the Company in connection with the acquisition of Stephens Federal; however, upon completion of the acquisition, the Company issued 36,945 shares of Company common stock to Oconee MHC, which is equal to the quotient of (i) the valuation of Stephens Federal, which was $700, as determined by an independent third party, divided by (ii) the average closing price of the Company’s common stock as reported on the NASDAQ for the 20 consecutive trading days ending on the third trading day preceding the effective date of the acquisition, or approximately $18.95 per share, rounded.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

A summary of assets received and liabilities assumed for Stephens Federal, as well as the initial, December 1, 2014, and subsequent fair value adjustments at March 31, 2015, are as follows:

	As Recorded by Stephens Federal	Initial Fair Value and Other Adjustments		Subsequent Fair Value and Other Adjustments		As Recorded by the Company
Consideration						
Common stock at $18.95 per share, 36,945 shares				$ -		$ 700
Assets						
Cash and cash equivalents	$ 24,079	$ -		$ -		$ 24,079
Securities available-for-sale	2,720	-		-		2,720
Loans	103,166	(6,742)	(1)	(965)	(7)	95,459
Mortgage loans held for sale	572	-		-		572
Premises and equipment, net	5,308	(1,324)	(2)	-		3,984
Real estate owned, net	6,198	(2,806)	(3)	-		3,392
Accrued interest receivable	376	-		-		376
Restricted equity securities	143	-		-		143
Core deposit intangible	-	-		959	(8)	959
Loan servicing rights	1,409	(40)	(4)	-		1,369
Other assets	141	4,091	(5)	700	(9)	4,932
Total assets acquired	$ 144,112	$ (6,821)		694		137,985
Liabilities						
Deposits	$ 139,160	$ 54	(6)	$ -		$ 139,214
Other liabilities	1,035	-		(94)	(10)	941
Total liabilities assumed	$ 140,195	$ 54		(94)		140,155
Net liabilities assumed				788		(2,170)
Goodwill				$ (788)	(11)	$ 2,870

Explanation of fair value adjustments:

(1)

The net fair value adjustment includes a total gross fair value adjustment of $8,892 to the unpaid principle balances of loans acquired, net of the existing allowance of $1,979, and deferred loans fees of $171. The gross fair value adjustment includes both credit, interest and liquidity components that comprise the entire discount. The fair value adjustment related to PCI loans was $6,676, and the fair value adjustment on purchased performing loans was $2,216. Based on an evaluation of the expected future cash flows for PCI loans, the accretable difference expected to be recognized into income as a yield adjustment on loans was $642. The entire discount on purchased performing loans will be accreted to income on a level-yield basis over each loan's contractual life.

(2) Premises and equipment were adjusted to reflect recently appraised values of the land and buildings for each branch acquired and the Company's estimates of the fair value of furniture, fixtures and equipment.

(3) The net adjustment reflects the fair value of real estate properties, less estimated costs to sell.

(4) The adjustment reflects the fair value of loan servicing rights based upon the net present value of future servicing cash flows net of costs.

(5) Represents adjustments in the net deferred tax assets resulting from the fair value adjustments related to the acquired assets and liabilities, identifiable intangibles and other deferred tax items. The fair value adjustment of the net deferred tax asset assumes an effective tax rate of approximately 36%.

(6) The value adjustment to time deposits reflecting the differences in the contractual interest rates and those currently offered. The premium will be amortized into interest expense over a 3.7 year life using the straight line method.

(7) Additional loans were identified as PCI, resulting in a net $578 increase in the fair value discount of those loans. Additionally, fair value estimates were updated on certain loans, increasing the fair value discount approximately $387.

(8) The value for the core deposit intangible at December 1, 2014.

(9) Change in other assets relate to changes in deferred taxes associated with the fair value discounts on PCI loans.

(10) This adjustment represents an adjustment to amounts determined to be over accrued by Stephens Federal for FDIC premiums owed.

(11) Changes to goodwill are a direct result of the adjustments to net assets acquired.

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The Company has determined the above noted acquisition constitutes a business combination as defined by generally accepted accounting principles. As such, the Company has recorded the assets purchased and liabilities assumed at their estimated fair values.

The estimated fair values are subject to refinement for up to one year after the closing date of the acquisition as additional information regarding closing date fair value becomes available. During this one year period, the causes of any changes in cash flow estimates are considered to determine whether the change results from circumstances that existed at the acquisition date or if the change results from an event that occurred after the date of acquisition.

With this acquisition, the Company expanded its presence in the northeast corner of Georgia in Stephens and Rabun Counties through the addition of three branches, which enhances our ability to grow by expanding our footprint into these nearby counties. None of the goodwill associated with this acquisition is deductible for income tax purposes.

The Company incurred transaction-related costs of $809, of which $103 and $238, respectively, were incurred in the three and nine months ended March 31, 2015. Transaction-related costs are expensed as incurred as a component of noninterest expense. Transaction-related costs primarily include professional services and data processing fees. Additionally, expenses related to systems conversions and other costs of integration are expected to be recorded throughout the remaining portion of our fiscal year 2015.

The following table discloses the impact of the merger with Stephens Federal since the acquisition on December 1, 2014 through March 31, 2015. The table also presents certain pro forma information as if Stephens Federal had been acquired on July 1, 2014 or July 1, 2013. These results combine the historical results of Stephens Federal in the Company's Consolidated Statement of Income and Comprehensive Income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on July 1, 2014 or July 1, 2013. Transaction-related costs as noted above are not included in the pro forma statements below. Additionally, the Company expects to achieve further operating cost savings as a result of the acquisition, which are not reflected in the pro forma amounts below:

	Actual from acquisition date through March 31,	Pro-forma for three months ended March 31,	Pro-forma for nine months ended March 31,	
	2015	2014	2015	2014
Net interest income	$ 1,577	$ 4,140	$ 12,660	$ 12,362
Noninterest income	374	215	1,255	1,219
Net income	404	1,229	4,161	3,553
Net income available to common shareholders	$ 404	$ 1,217	$ 4,117	$ 4,482
Pro-forma earnings per share:				
Basic		$ 0.19	$ 0.73	$ 0.75
Diluted		$ 0.19	$ 0.73	$ 0.71

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(4) EARNINGS PER SHARE ("EPS")

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

	Three Months Ended		Nine Months Ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Earnings per share				
Net income	$1,196	$855	$3,267	$2,785
Less: distributed earnings allocated to participating securities	(8)	(8)	(22)	(25)
Less: (undistributed income) dividends in excess of earnings allocated to participating securities	(8)	(4)	(22)	(17)
Net earnings available to common shareholders	$1,180	$843	$3,223	$2,743
Weighted average common shares outstanding including participating securities	5,880,480	5,844,087	5,853,577	5,844,865
Less: participating securities	(78,499)	(83,695)	(78,499)	(83,695)
Less: average unearned ESOP shares	(161,110)	(188,754)	(170,051)	(196,568)
Weighted average common shares outstanding	5,640,871	5,571,638	5,605,027	5,564,602
Basic earnings per share	$0.21	$0.15	$0.58	$0.49
Weighted average common shares outstanding	5,640,871	5,571,638	5,605,027	5,564,602
Add: dilutive effects of assumed exercises of stock options	76,901	55,607	68,256	51,379
Average shares and dilutive potential common shares	5,717,772	5,627,245	5,673,283	5,615,981
Diluted earnings per share	$0.21	$0.15	$0.57	$0.49

During the three and nine months ended March 31, 2015, 7,700 and 15,400 shares, respectively, were considered anti-dilutive. During the three and nine months ended March 31, 2014, 7,700 shares were considered anti-dilutive.

10

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

Debt, mortgage-backed and equity securities have been classified in the consolidated balance sheets according to management's intent. U.S. Government agency mortgage-backed securities consist of securities issued by U.S. Government agencies and U.S. Government sponsored enterprises. Investment securities at March 31, 2015 and June 30, 2014 are as follows:

March 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
FHLMC common stock	$ 20	$ 165	$ -	$ 185
Certificates of deposit	6,225	35	(2)	6,258
Municipal securities	9,539	87	(25)	9,601
SBA loan pools	2,511	19	-	2,530
U.S. Government agency mortgage-backed securities	61,428	804	(274)	61,958
U.S. Government agency bonds	22,899	129	(47)	22,981
Total available-for-sale	$ 102,622	$ 1,239	$ (348)	$ 103,513

June 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
FHLMC common stock	$ 20	$ 294	$ -	$ 314
Preferred stock (1)	271	27	-	298
Certificates of deposit	7,221	24	(8)	7,237
Municipal securities	5,846	2	(39)	5,809
U.S. Government agency mortgage-backed securities	60,742	428	(730)	60,440
U.S. Government agency bonds	29,946	181	(419)	29,708
Total available-for-sale	$ 104,046	$ 956	$ (1,196)	$ 103,806

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

Securities pledged at March 31, 2015 had a carrying amount of $5,972 and were pledged to secure public deposits. No securities were pledge at June 30, 2014.

At March 31, 2015 and June 30, 2014, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The following tables show the fair value and unrealized loss of securities that have been in unrealized loss positions for less than twelve months and for more than twelve months at March 31, 2015 and June 30, 2014. The table also shows 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)**
March 31, 2015									
Available-for-sale:									
Certificates of deposit	$497	$ (1)	2	$248	$ (1)	1	$745	$ (2)	3
Municipal securities	2,370	(25)	7	-	-	-	2,370	(25)	7
SBA loan pools	-	-	-	-	-	-	-	-	-
U.S. Government agency mortgage-backed securities	6,117	(23)	4	12,105	(251)	12	18,222	(274)	16
U.S. Government agency bonds	-	-	-	6,947	(47)	4	6,947	(47)	4
	$8,984	$ (49)	13	$19,300	$ (299)	17	$28,284	$ (348)	30

	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, 2014									
Available-for-sale:									
Certificates of deposit	$1,237	$ (8)	5	$-	$ -	-	$1,237	$ (8)	5
Municipal securities	4,263	(39)	11	-	-	-	4,263	(39)	11
U.S. Government agency mortgage-backed securities	7,241	(24)	6	21,464	(706)	18	28,705	(730)	24
U.S. Government agency bonds	3,467	(5)	3	12,574	(414)	8	16,041	(419)	11
	$16,208	$ (76)	25	$34,038	$ (1,120)	26	$50,246	$ (1,196)	51

(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 cost and the financial condition and near-term prospects of the issuer. Additionally, the Company considers its intent to sell or whether it will be more likely than not it will be required to sell the security prior to the security's anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal Government agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

None of the unrealized losses at March 31, 2015 were recognized into net income for the three and nine months ended March 31, 2015 because the issuer's bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value of these securities is expected to recover as they approach their maturity date or reset date. None of the unrealized losses at June 30, 2014 were recognized as having OTTI during the three and nine months ended March 31, 2015.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The amortized cost and fair value of debt securities classified as available-for-sale at March 31, 2015 and June 30, 2014 by contractual maturity are summarized as follows:

	March 31, 2015		June 30, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	$3,748	$3,772	$4,002	$4,029
Due from one to five years	11,969	12,027	18,717	18,836
Due from five to ten years	19,605	19,694	13,297	13,047
Due after ten years	3,341	3,347	6,997	6,842
Mortgage-backed securities	63,939	64,488	60,742	60,440
Total	$102,602	$103,328	$103,755	$103,194

The following table presents the gross proceeds from sales of securities available-for-sale and held-to-maturity and gains or losses recognized for the three and nine months ended March 31, 2015 and 2014:

	Three Months Ended		Nine Months Ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Available-for-sale:				
Proceeds	$ 4,604	$ 3,420	$ 11,025	$ 14,278
Gross gains	120	70	149	163
Gross losses	-	-	-	(30)
Held-to-maturity:				
Proceeds	-	-	-	2,270
Gross gains	-	-	-	82
Gross losses	-	-	-	-
Total:				
Proceeds	$ 4,604	$ 3,420	$ 11,025	$ 16,548
Gross gains	$ 120	$ 70	$ 149	$ 245
Gross losses	$ -	$ -	$ -	$ (30)

During the nine months ended March 31, 2014, the Company sold two securities classified as held-to-maturity. One of those securities was a GNMA mortgage-backed security for which at least 85 percent of its original principal amount had been repaid. The second security was also a GNMA mortgage-backed security. Because the Company determined that it no longer had the positive intent to hold its investment in securities classified as held-to-maturity for an indefinite period of time because of the Company's desire to have more flexibility in managing the investment portfolio, all of the Company's securities classified as held-to-maturity were transferred to the available-for-sale category. The securities transferred had a total amortized cost of $7,800 and unrealized gross gains of $56 and unrealized gross losses of $11 at the time of transfer. The net unrealized gain of $45 was added to other comprehensive income at the time of transfer.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(6) LOANS

The components of loans at March 31, 2015 and June 30, 2014 were as follows:

	March 31, 2015	June 30, 2014
Real estate loans:		
One-to-four family	$265,810	$214,735
Multi-family	2,606	254
Home equity	8,778	227
Nonresidential	23,650	8,408
Agricultural	4,178	-
Construction and land	14,830	7,661
Total real estate loans	319,852	231,285
Commercial and industrial	920	-
Consumer and other loans	2,822	747
Total loans	323,594	232,032
Deferred net loan fees	(1,243)	(1,246)
Total loans net of deferred loan fees	$322,351	$230,786

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The following tables present the activity in the allowance for loan losses for the three and nine months ended March 31, 2015 by portfolio segment:

Three Months Ended March 31, 2015	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$ 782	$ 7	$ -	$ -	$ 789
Multi-family	4	-	-	-	4
Home equity	1	-	-	-	1
Nonresidential	50	(1)	-	-	49
Agricultural	-	-	-	-	-
Construction and land	26	(1)	-	-	25
Total real estate loans	863	5	-	-	868
Commercial and industrial	-	-	-	-	-
Consumer and other loans	1	2	(2)	-	1
Total loans	$ 864	$ 7	$ (2)	$ -	$ 869

Nine Months Ended March 31, 2015	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$ 736	$ 53	$ -	$ -	$ 789
Multi-family	4	-	-	-	4
Home equity	1	-	-	-	1
Nonresidential	52	(3)	-	-	49
Agricultural	-	-	-	-	-
Construction and land	59	(34)	-	-	25
Total real estate loans	852	16	-	-	868
Commercial and industrial	-	-	-	-	-
Consumer and other loans	3	-	(2)	-	1
Total loans	$ 855	$ 16	$ (2)	$ -	$ 869

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at March 31, 2015:

At March 31, 2015	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	$ 63	$ 727	$ 6,772	$ 259,038
Multi-family	-	4	-	2,606
Home equity	-	1	160	8,618
Nonresidential	3	46	2,852	20,798
Agricultural	-	-	1,476	2,702
Construction and land	-	24	808	14,022
Total real estate loans	66	802	12,068	307,784
Commercial and industrial	-	-	-	920
Consumer and other loans	-	1	-	2,822
Total loans	$ 66	$ 803	$ 12,068	$ 311,526

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The following tables present the activity in the allowance for loan losses for the three and nine months ended March 31, 2014 by portfolio segment:

Three Months Ended March 31, 2014	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$ 701	$ 39	$ -	$ -	$ 740
Multi-family	4	-	-	-	4
Home equity	1	-	-	-	1
Nonresidential	51	-	-	-	51
Agricultural	-	-	-	-	-
Construction and land	30	1	-	-	31
Total real estate loans	787	40	-	-	827
Commercial and industrial	-	-	-	-	-
Consumer and other loans	1	1	-	-	2
Total loans	$ 788	$ 41	$ -	$ -	$ 829

Nine Months Ended March 31, 2014	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$ 665	$ 79	$ (4)	$ -	$ 740
Multi-family	4	-	-	-	4
Home equity	1	-	-	-	1
Nonresidential	52	(1)	-	-	51
Agricultural	-	-	-	-	-
Construction and land	27	4	-	-	31
Total real estate loans	749	82	(4)	-	827
Commercial and industrial	-	-	-	-	-
Consumer and other loans	2	-	-	-	2
Total loans	$ 751	$ 82	$ (4)	$ -	$ 829

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 March 31, 2014:

At March 31, 2014	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	$ 81	$ 659	$ 2,470	$ 205,331
Multi-family	-	4	-	253
Home equity	-	1	-	239
Nonresidential	-	51	-	8,567
Agricultural	-	-	-	-
Construction and land	-	31	-	9,997
Total real estate loans	81	746	2,470	224,387
Commercial and industrial	-	-	-	-
Consumer and other loans	-	2	-	683
Total loans	$ 81	$ 748	$ 2,470	$ 225,070

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at June 30, 2014:

At June 30, 2014	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	$ 52	$ 684	$ 1,647	$ 213,088
Multi-family	-	4	-	254
Home equity	-	1	-	227
Nonresidential	-	52	-	8,408
Agricultural	-	-	-	-
Construction and land	-	59	-	7,661

Total real estate loans	52	800	1,647	229,638
Commercial and industrial	-	-	-	-
Consumer and other loans	-	3	-	747
Total loans	$ 52	$ 803	$ 1,647	$ 230,385

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The tables below present loans that were individually evaluated for impairment by portfolio segment at March 31, 2015 and June 30, 2014, including the average recorded investment balance and interest earned for the nine months ended March 31, 2015 and year ended June 30, 2014:

	March 31, 2015				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no recorded allowance:					
Real estate loans:					
One-to-four family	$7,414	$ 6,008	$ -	$ 3,191	$ 59
Multi-family	-	-	-	-	-
Home equity	256	160	-	80	1
Nonresidential	3,836	1,931	-	966	26
Agricultural	2,912	1,476	-	738	25
Construction and land	1,473	809	-	405	14
Total real estate loans	15,891	10,384	-	5,380	125
Commercial and industrial	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
Total	$15,891	$ 10,384	$ -	$ 5,380	$ 125
With recorded allowance:					
Real estate loans:					
One-to-four family	$992	$ 764	$ 63	$ 1,019	$ 24
Multi-family	-	-	-	-	-
Home equity	-	-	-	-	-
Nonresidential	1,451	920	3	460	21
Agricultural	-	-	-	-	-
Construction and land	-	-	-	-	-
Total real estate loans	2,443	1,684	66	1,479	45
Commercial and industrial	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
Total	$2,443	$ 1,684	$ 66	$ 1,479	$ 45
Totals:					
Real estate loans	$18,334	$ 12,068	$ 66	$ 6,859	$ 172

Consumer and other loans	-	-	-	-	-
Total	$18,334	$ 12,068	$ 66	$ 6,859	$ 172

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	June 30, 2014				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no recorded allowance:					
Real estate loans:					
One-to-four family	$374	$ 374	$ -	$ 1,054	$ 8
Multi-family	-	-	-	-	-
Home equity	-	-	-	-	-
Nonresidential	-	-	-	-	-
Agricultural	-	-	-	-	-
Construction and land	-	-	-	-	-
Total real estate loans	374	374	-	1,054	8
Commercial and industrial	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
Total	$374	$ 374	$ -	$ 1,054	$ 8
With recorded allowance:					
Real estate loans:					
One-to-four family	$1,273	$ 1,273	$ 52	$ 763	$ 9
Multi-family	-	-	-	-	-
Home equity	-	-	-	-	-
Nonresidential	-	-	-	-	-
Agricultural	-	-	-	-	-
Construction and land	-	-	-	-	-
Total real estate loans	1,273	1,273	52	763	9
Commercial and industrial	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
Total	$1,273	$ 1,273	$ 52	$ 763	$ 9
Totals:					
Real estate loans	$1,647	$ 1,647	$ 52	$ 1,817	$ 17
Consumer and other loans	-	-	-	-	-
Total	$1,647	$ 1,647	$ 52	$ 1,817	$ 17

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The following table presents the aging of the recorded investment in past due loans at March 31, 2015 and June 30, 2014 by portfolio segment of loans:

March 31, 2015

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing Loans Past Due 90 Days or More
Real estate loans:							
One-to-four family	$ 4,893	$ 1,110	$ 3,565	$ 9,568	$ 256,242	$ 265,810	$ -
Multi-family	-	-	-	-	2,606	2,606	-
Home equity	102	35	27	164	8,614	8,778	-
Nonresidential	632	500	806	1,938	21,712	23,650	-
Agricultural	-	-	-	-	4,178	4,178	-
Construction and land	178	-	190	368	14,462	14,830	-
Total real estate loans	5,805	1,645	4,588	12,038	307,814	319,852	-
Commercial and industrial	-	-	-	-	920	920	-
Consumer and other loans	1	-	-	1	2,821	2,822	-
Total	$ 5,806	$ 1,645	$ 4,588	$ 12,039	$ 311,555	$ 323,594	$ -

June 30, 2014

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing Loans Past Due 90 Days or More
Real estate loans:							
One-to-four family	$ 4,856	$ 893	$ 1,053	$ 6,802	$ 207,933	$ 214,735	$ -
Multi-family	-	-	-	-	254	254	-
Home equity	-	-	-	-	227	227	-

Nonresidential	87	-	-	87	8,321	8,408	-
Construction and land	-	-	-	-	7,661	7,661	-
Total real estate loans	4,943	893	1,053	6,889	224,396	231,285	-
Consumer and other loans	-	-	-	-	747	747	-
Total	$ 4,943	$ 893	$ 1,053	$ 6,889	$ 225,143	$ 232,032	$ -

At March 31, 2015, nonaccrual loans were $4,768, of which $4,588 are classified in the “90 Days or More” category, and two loans for $180 in the “60 to 89” day category. Nonaccrual loans at June 30, 2014 were $1,647. All of these loans are disclosed by portfolio segment above in the "90 days or more past due" column at June 30, 2014, except one loan in the "60-89 days past due" category with a carrying amount of $220 and one loan in the "30-59 days past due" category with a carrying amount of $374.

21

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Troubled Debt Restructurings:

As of March 31, 2015, the Company had a recorded investment in a troubled debt restructuring for an agricultural loan of $501. There were no troubled debt restructurings at June 30, 2014. This loan was acquired as a purchased credit impaired loan at December 1, 2014 at an unpaid principal amount of $1,156. The fair value discount allocated to this loan at that time was $656. The terms of this loan were modified to include a permanent reduction in its principal amount of $159, and both the principal and nonaccretable discount on this loan were adjusted accordingly. No provision for loan loss for this impairment was required. There are no commitments to lend any additional amounts under this loan. Additionally, under the terms of the restructuring, the term of the loan was extended approximately 29 months. Given that both the outstanding contractual principal receivable and the nonaccretable discount on the loan were reduced by the same amount, the pre-modified and post-modified balance of this loan remained unchanged. There were no defaults on this loan during the three months ended March 31, 2015. The first payment due under the new terms is April 1, 2015.

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

Loan Grades:

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 one-to-four family residence. These loans are collateralized by owner-occupied properties located in the Company's market area. We currently originate residential mortgage loans for our portfolio with loan-to-value ratios of up to 80% for traditional owner-occupied homes.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

Home Equity: The Company offers home equity loans and lines of credit secured by first or second deeds of trust on primary residences in the Company's market area. Our 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 principle 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 we originate generally have terms of 5 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. In addition, because a church's financial stability often depends on donations from congregation members, some of whom may not reside in our market area, rather than income from business operations, repayment may be affected by economic conditions that affect individuals located both in our market area and in other market areas with which we are not as familiar. In addition, due to the unique nature of church buildings and properties, the real estate securing church loans may be less marketable than other nonresidential real estate.

Agricultural: As a result of the Stephens Federal acquisition, we acquired agricultural real estate loans. These loans are secured by farmland and related improvements in the Company’s market area. These loans generally have terms of 5 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.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

Commercial and Industrial Loans: As a result of the Stephens Federal acquisition, we acquired commercial and industrial loans. These 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: We offer installment loans for various consumer purposes to individuals for household, family and other personal expenditures. The maximum terms of consumer loans is 36 months for unsecured loans, 12 months for loans secured by marketable securities and 18-60 months for loans secured by a vehicle, depending on the age of the vehicle. We generally only extend consumer loans to existing customers or their immediate family members, and these loans generally have relatively low limits.

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

To separate acquired loans from originated loans for presentation purposes, the Company has prepared the following tables showing each portfolio segment by risk grade for originated and for acquired loans at March 31, 2015. Loan risk grades were determined based on an analysis performed at March 31, 2015.

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Originated loans:

March 31, 2015	Pass	Pass-Watch	Special Mention	Substandard	Doubtful	Total
Real estate loans:						
One-to-four family	$212,137	$1,626	$ 225	$ 2,586	$ -	$216,574
Multi-family	250	-	-	-	-	250
Home equity	155	11	-	-	-	166
Nonresidential	7,697	-	-	-	-	7,697
Agricultural	-	-	-	-	-	-
Construction and land	7,389	17	-	-	-	7,406
Total real estate loans	227,628	1,654	225	2,586	-	232,093
Commercial and industrial	-	-	-	-	-	-
Consumer and other loans	1,338	-	-	-	-	1,338
Total	$228,966	$1,654	$ 225	$ 2,586	$ -	$233,431

Acquired loans:

March 31, 2015	Pass	Pass-Watch	Special Mention	Substandard	Doubtful	Total
Real estate loans:						
One-to-four family	$38,064	$ 5,437	$ 1,405	$ 4,186	$ -	$49,092
Multi-family	2,356	-	-	-	-	2,356
Home equity	8,063	214	174	160	-	8,611
Nonresidential	6,513	4,961	1,627	2,567	283	15,951

Agricultural	1,239	433	1,030	1,476	-	4,178
Construction and land	5,358	914	490	808	-	7,570
Total real estate loans	61,593	11,959	4,726	9,197	283	87,758
Commercial and industrial	902	16	2	-	-	920
Consumer and other loans	1,462	6	9	8	-	1,485
Total	$63,957	$ 11,981	$ 4,737	$ 9,205	$ 283	$90,163

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The following table present total loans by segment and loan risk grade at June 30, 2014:

June 30, 2014	Pass	Pass-Watch	Special Mention	Substandard	Doubtful	Total
Real estate loans:						
One-to-four family	$213,088	$ -	$ -	$ -	$ 1,647	$214,735
Multi-family	254	-	-	-	-	254
Home equity	227	-	-	-	-	227
Nonresidential	8,408	-	-	-	-	8,408
Agricultural	-	-	-	-	-	-
Construction and land	7,661	-	-	-	-	7,661
Total real estate loans	229,638	-	-	-	1,647	231,285
Commercial and industrial	-	-	-	-	-	-
Consumer and other loans	747	-	-	-	-	747
Total	$230,385	$ -	$ -	$ -	$ 1,647	$232,032

Purchased Credit Impaired Loans:

The following table presents the acquired purchased credit impaired loans, net of related discount, at March 31, 2015:

	March 31, 2015
Real estate loans:	
One-to-four family	$3,800
Multi-family	-
Home equity	134
Nonresidential	2,849
Agricultural	1,476
Construction and land	808
Total real estate loans	9,067

Commercial and industrial	-
Consumer and other loans	-
Total loans	$9,067

Carrying amounts listed above are net of an allowance for loan losses of $4.

26

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The following table presents the changes in the carrying value and the accretable yield on purchased credit impaired loans for the three and nine months ended March 31, 2015:

	Three Months Ended		Nine Months Ended	
	Accretable Yield	Carrying Value	Accretable Yield	Carrying Value
Balance at beginning of period	$(630)	$9,615	$(642)	$9,671
Subsequent adjustments	22	1,272	22	1,272
Liquidations	-	(1,708)	-	(1,708)
Reductions from payments	-	(53)	-	(121)
Income	119	(55)	131	(43)
Change in the allowance	-	(4)	-	(4)
Balance at end of period	$(489)	$9,067	$(489)	$9,067

The following table presents loans acquired during the nine months ended March 31, 2015, at acquisition date, accounted for as purchased credit impaired loans:

	December 1, 2014
Contractually required payments receivable	$21,774
Contractual cash flows not expected to be collected (nonaccretable)	(10,213)
Expected cash flows	11,561
Accretable yield	(620)
Fair value of acquired loans	$10,941

The following table presents the carrying amount of purchased credit impaired loans for which future cash flows could not be reasonably estimated. Income is not recognized on these loans.

	March 31, 2015
Balance at beginning of period:	$3,743
Reductions from payments and liquidations	(1,745)
Balance at end of period:	$1,998

Interest income recognized on a cost recovery basis for loans for which future cash flows could not be reasonably estimated was $4 for the three and nine months ended March 31, 2015.

27

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

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

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

Investment Securities:

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

Impaired Loans:

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

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.

Real estate owned:

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

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Assets and liabilities measured at fair value on a recurring basis at March 31, 2015 and June 30, 2014 are summarized below:

	Fair Value Measurements		
	(Level 2)	(Level 3)	(Level 2)
	March 31, 2015		June 30, 2014
Financial assets:			
Securities available-for-sale	$103,513	$-	$103,806
Loan servicing rights	-	1,319	-
Total financial assets	$103,513	$1,319	$103,806

Presented in the table below are assets measured at fair value on a nonrecurring basis using level 3 inputs at March 31, 2015 and June 30, 2014:

	Fair Value Measurements	
	(Level 3)	(Level 3)
	March 31, 2015	June 30, 2014
Financial assets:		
Impaired real estate loans, with specific allocations:		
One-to-four-family	$764	$1,221
Non-financial assets:		
Real estate owned, net:		
One-to-four-family	1,366	744
Nonresidential	365	-
Construction and land	768	-
Total non-financial assets	2,499	744

Total assets measured at fair value on a non-recurring basis	$3,263	$1,965

The Company's impaired loans at March 31, 2015 and June 30, 2014, which were measured for impairment using the fair value of collateral less costs to sell, had carrying amounts of $764 and $1,221, respectively. The carrying value included a valuation allowance of $63 and $52, respectively. The impact to the provision for loan losses from the change in the valuation allowance for the nine months ended March 31, 2015 was an increase of $16.

Real estate owned is carried at the lower of carrying value or fair value less costs to sell. The outstanding balances of real estate owned and their respective valuation allowances at March 31, 2015 and June 30, 2014 were $2,499 and $80 and $744 and $164, respectively. There were write downs of legacy real estate owned of $112 thousand for the three and nine months ended March 31, 2015. As a result of the acquisition, the Company acquired $3,392 in real estate owned accounted for at fair value. No impairments in value were recorded for these properties for the three or nine months ended March 31, 2015.

29

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The table below presents a reconciliation of loan servicing rights, which are measured at fair value on a recurring basis using significant unobservable inputs for Level 3 for the three and nine months ended March 31, 2015:

	Fair Value Measurements (Level 3)	
	Three Months Ended	Nine Months Ended
Balance at beginning of period:	$1,341	$ -
Purchases	-	1,369
Total losses included in earnings	(22)	(50)
Balance at end of period:	$1,319	$ 1,319

The table below presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at March 31, 2015 and June 30, 2014.

	Level 3 Quantitative Information				
	March 31, 2015 **Fair Value**	June 30, 2014 **Fair Value**	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired real estate loans net, with specific allocations: One-to-four family	$764	$1,221	Sales comparison approach	Adjustment for differences between the comparable sales	0% to 30% (15%)
Real estate owned net:					
One-to-four-family	$1,366	$744	Sales comparison approach	Adjustment for differences between the comparable sales	0% to 20% (10%)

Nonresidential	365	-	Sales comparison approach	Adjustment for differences between the comparable sales	0% to 20% (10%)
Construction and land	768	-	Sales comparison approach	Adjustment for differences between the comparable sales	0% to 20% (10%)

30

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Many of the Company's assets and liabilities are short-term financial instruments whose carrying amounts reported in the consolidated balance sheet approximate fair value. These items include cash and cash equivalents, accrued interest receivable and payable balances, variable rate loan and deposits that re-price frequently and fully. The estimated fair values of the Company's remaining on-balance sheet financial instruments at March 31, 2015 and June 30, 2014 are summarized below:

	March 31, 2015				
	Carrying Amount	Fair Value (Level 1)	(Level 2)	(Level 3)	Total
Financial assets					
Securities available-for-sale	$103,513	$-	$103,513	$-	$103,513
Loans, net	322,351	-	-	324,177	324,177
Loans held for sale (2)	733	-	-	733	733
Loan servicing rights	1,319	-	-	1,319	1,319
Restricted equity securities (1)	440	N/A	N/A	N/A	N/A
Financial liabilities					
Deposits	$400,777	$135,731	$265,197	$-	$400,928

	June 30, 2014				
	Carrying Amount	Fair Value (Level 1)	(Level 2)	(Level 3)	Total
Financial assets					
Securities available-for-sale	$103,806	$-	$103,806	$-	$103,806
Loans, net	229,931	-	-	233,176	233,176
Restricted equity securities (1)	325	N/A	N/A	N/A	N/A
Financial liabilities					
Deposits	$281,015	$80,904	$200,662	$-	$281,566

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

(2) 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 2 classification.

(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 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. An additional $100 discretionary contribution was paid to the ESOP for additional debt retirement during the nine months ended March 31, 2015, which resulted in the release of additional shares and recognition of additional compensation expense of $140. No contributions to the ESOP were made during the three months ended March 31, 2015. The expense recognized for the three months and nine months ended March 31, 2015 and 2014 was $91 and $384, and $76 and $305, respectively.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Shares held by the ESOP at March 31, 2015 and June 30, 2014 were as follows:

	March 31, 2015	June 30, 2014
Committed to be released to participants	4,969	9,464
Allocated to participants	85,248	57,902
Unearned	158,625	181,476
Total ESOP shares	248,842	248,842
Fair value of unearned shares	$3,183,609	$3,277,457

(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.

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

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

On January 23, 2015, the compensation committee of the board of directors approved the issuance of 7,700 stock options to purchase Company stock and 12,600 shares of restricted stock to one of the Company's officers. Stock options and restricted stock have vesting periods of 7 years, a percentage of which and vests annually at each anniversary date of grant. Stock options expire ten years after issuance. Apart from the vesting schedule for both stock options and restricted stock, there are no performance-based conditions or any other material conditions applicable to the awards issued.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The following table summarizes stock option activity for the nine months ended March 31, 2015:

	Options	Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (1)
Outstanding - July 1, 2014	240,986	$ 11.58		
Granted	7,700	20.01		
Exercised	-	-		
Forfeited	-	-		
Outstanding - March 31, 2015	248,686	$ 11.84	7.12	$2,046,433
Fully vested and exercisable at March 31, 2015	85,528	$ 11.58	7.12	$726,133
Expected to vest in future periods	163,158			
Fully vested and expected to vest - March 31, 2015	248,686	$ 11.84	7.12	$2,046,433

(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 $20.07 per share on March 31, 2015.

The fair value for each option grant is estimated on the date of grant using the Black-Scholes-Merton option pricing model that uses the following assumptions. The Company uses the U.S. Treasury yield curve in effect at the time of the grant to determine the risk-free interest rate. The expected dividend yield is estimated using the projected annual dividend level and recent stock price of the Company’s common stock at the date of grant. Expected stock volatility is based on historical volatilities of the SNL Financial Index of Thrifts. The expected life of the options is calculated based on the “simplified” method as provided for under 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:

	Fiscal Years Granted		
	2015	2014	2012
Risk-free interest rate	1.68 %	2.32 %	1.54 %
Expected dividend yield	2.00 %	2.33 %	3.45 %
Expected stock volatility	15.91	15.5	15.3
Expected life (years)	8	8	8
Fair value	$2.86	$2.46	$1.00

Stock options are assumed to be earned ratably over their respective vesting periods and charged to compensation expense based upon their grant date fair value and the number of options assumed to be earned. There were 21,835 and 32,105 options that were earned during the nine months ended March 31, 2015 and 2014, respectively. Stock-based compensation expense for stock options for the three and nine months ended March 31, 2015 and 2014 was $12 and $34, and $11 and $33, respectively. Total unrecognized compensation cost related to stock options was $143 at March 31, 2015 and is expected to be recognized over a weighted-average period of 3.0 years.

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The following table summarizes non-vested restricted stock activity for the nine months ended March 31, 2015:

	March 31, 2015
Balance - beginning of year	67,699
Granted	12,600
Forfeited	-
Vested	(1,800)
Balance - end of period	78,499
Weighted average grant date fair value	$ 13.15

The fair value of the restricted stock awards is amortized to compensation expense over their respective vesting periods and is based on the market price of the Company's common stock at the date of grant multiplied by the number of shares granted that are expected to vest. The weighted-average grant date fair value of restricted stock granted on April 27, 2012 was $11.58 per share or $1,009. The weighted-average grant date fair value of restricted stock granted on November 13, 2013 was $17.16 per share or $216. The weighted-average grant date fair value of restricted stock granted on January 23, 2015 was $20.01 per share or $252. Stock-based compensation expense for restricted stock included in noninterest expense for the three and nine months ended March 31, 2015 and 2014 was $60 and $169, and $53 and $151, respectively. Unrecognized compensation expense for nonvested restricted stock awards was $872 at March 31, 2015 and is expected to be recognized over a weighted-average period of 4.6 years.

(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 March 31, 2015 are as follows:

	March 31, 2015
Mortgage loan portfolio serviced for:	
FHLMC	$ 141,653

Custodial escrow balances maintained in connection with serviced loans were $301 at March 31, 2015.

Activity for loan servicing rights for the three months ended March 31, 2015 is as follows:

	Three Months Ended March 31, 2015
Loan servicing rights:	
Beginning of period:	$ 1,341
Additions	-
Change in fair value	(22)
End of period:	$ 1,319

34

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Fair value at March 31, 2015 was determined using a discount rate of 9.50%, prepayment speed assumptions ranging from 7.0% to 19.8% 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 nine months ended March 31, 2015 and 2014:

	March 31, 2015	March 31, 2014
Cash paid during the period for:		
Interest paid	$932	$1,158
Income taxes paid	$1,240	$1,955
Supplemental noncash disclosures:		
Transfers from loans to real estate owned	$163	$69
Unrealized gains (losses) on securities available-for-sale, net	$704	$(79)
Transfer from securities held-to-maturity to available-for-sale	$-	$7,805
Unrealized gains on securities held-to-maturity, transferred to available for sale	$-	$45
Acquisition:		
Assets acquired (excluding goodwill of $2,870)	$137,985	$-
Liabilities assumed	$140,155	$-
Acquisition price (common stock issued to OFED, MHC)	$700	$-
Goodwill recorded	$2,870	$-

(12) REGULATORY CAPITAL

Effective January 1, 2015 (with a phase-in period of two to four years for certain components), the Association became subject to new capital regulations adopted by the Board of Governors of the Federal Reserve System ("FRB") and the FDIC, which implement the Basel III regulatory capital reforms and the changes required by the Dodd-Frank Act. The new regulations require a new common equity Tier 1 ("CETI") capital ratio of 4.5%, increase the minimum

Tier 1 capital to risk-weighted assets ratio to 6.0% from 4.0%, require a minimum total capital to risk-weighted assets ratio of 8.0% and require a minimum Tier 1 leverage ratio of 4.0%. CETI generally consists of common stock and retained earnings, subject to applicable adjustments and deductions. Under new prompt corrective action regulations, in order to be considered “well capitalized,” the Association must maintain a CETI capital ratio of 6.5% (new) and a Tier 1 ratio of 8.0% (increased from 6.0%), a total risk based capital ratio of 10.0% (unchanged) and a Tier 1 leverage ratio of 5.0% (unchanged). In addition, the regulations establish a capital conservation buffer above the required capital ratios that phases in beginning January 1, 2016 at 0.625% of risk-weighted assets and increases each year by 0.625% until it is fully phased in at 2.5% effective January 1, 2019. Beginning January 1, 2016, failure to maintain the capital conservation buffer will limit the ability of the Association and the Company to pay dividends, repurchase shares or pay discretionary bonuses.

The new regulations implemented changes to what constitutes regulatory capital. Certain instruments will no longer constitute qualifying capital, subject to phase-out periods. In addition, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of CETI will be deducted from capital. The Association has elected to permanently opt out of the inclusion of accumulated other comprehensive income in capital calculations, as permitted by the regulations. This opt-out will reduce the impact of market volatility on our regulatory capital ratios.

The new regulations also changed the risk weights of certain assets, including an increase in the risk weight of certain high volatility commercial real estate acquisition, development and construction loans and non-residential mortgage loans that are 90 days past due or on nonaccrual status to 150% from 100%, a credit conversion factor for the unused portion of commitments with maturities of less than one year that are not cancellable to 20% from 0%, an increase in the risk weight for mortgage servicing g and deferred tax assets that are not deducted from capital to 250% from 100%, and an increase in the risk weight for equity exposures to 600% from 0%.

(13) SUBSEQUENT EVENTS

On April 30, 2015, the Board of Directors of Oconee Federal Financial Corp. (the “Company”) declared a quarterly cash dividend of $0.10 per share of the Company’s common stock. The dividend is payable to stockholders of record as of May 14, 2015, and will be paid on or about May 28, 2015.

Table of Contents

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

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

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

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

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

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

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

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

- increased competition among depository and other financial institutions;

- our ability to attract and maintain deposits, including attracting and maintaining deposits from former depositors of Stephens Federal and introducing new deposit products;

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

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

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

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

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

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

- 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;
- the integration of our business with that of Stephens Federal may not be successful, or such integration may take longer to accomplish than expected;
- the growth opportunities and cost savings from the acquisition of Stephens Federal may not be fully realized or may take longer to realize than expected;
- our ability to manage increased expenses following the acquisition of Stephens Federal, including salary and employee benefit expenses, occupation expenses, additional provisions related to loans acquired from Stephens Federal and expenses related to foreclosed real estate acquired from Stephens Federal;
- operating costs, customer losses and business disruption following the acquisition of Stephens Federal, including adverse effects of relationships with employees, may be greater than expected;
- changes in laws or government regulations or policies affecting financial institutions, including the Dodd-Frank Act and the JOBS Act, which could result in, among other things, increased deposit insurance premiums and assessments, capital requirements (particularly the new capital regulations), regulatory fees and compliance costs and the resources we have available to address such changes;
- our reliance on a small executive staff;
- changes in our compensation and benefit plans, and our ability to retain key members of our senior management team and to address staffing needs to implement our strategic plan;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;
- our ability to control costs and expenses, particularly those related to operating as a publicly traded company;

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

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

- the availability, effectiveness and security of our information technology systems;

- the ability of key third-party service providers to perform their obligations to us;

- 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, 2014, as filed with the Securities and Exchange Commission.

37

Table of Contents

Comparison of Financial Condition at March 31, 2015 and June 30, 2014

Our total assets increased by $122.2 million, or 33.9%, to $482.7 million at March 31, 2015 from $360.5 million at June 30, 2014. The increase is a reflection of the acquisition of Stephens Federal on December 1, 2014. As a result of the acquisition, we acquired $138.0 million in total assets at fair value, which included the recognition of $2.9 million in goodwill and approximately $4.7 million in deferred tax assets resulting from the fair value adjustments related to the acquired assets and liabilities, identifiable intangibles and other deferred tax items. These assets reflect the Company’s preliminary estimates of fair value and could be adjusted during the one year adjustment period allowed under generally accepted accounting principles.

Total gross loans increased by $91.6 million, or 39.7%, to $322.4 million at March 31, 2015 from $230.8 million at June 30, 2014. This increase was largely due to the increase in loans from the acquisition. The net fair value of loans acquired was $95.5 million. Net of loans acquired, loans actually decreased by approximately $4.0 million. The decrease is reflective of a decline in loans originated and held as an investment in our portfolio compared to loan repayments. Considering the net fair value of loans acquired, all segments of our loan portfolio increased at March 31, 2015 as compared to June 30, 2014. Two of the largest segments of our portfolio that increased included an increase in our one-to-four family real estate loans, which increased by $51.1 million, or 23.8%, to $265.8 million at March 31, 2015 from $214.7 million at June 30, 2014 and nonresidential loans, which increased by $15.2 million to $23.7 million at March 31, 2015 from $8.4 million at June 30, 2014. Additionally, we added agricultural loans and commercial and industrial loans as a result of the acquisition, and the balance of these segments were $4.2 million and $920 thousand, respectively, at March 31, 2015.

Deposits increased $119.8 million, or 42.6%, to $400.8 million at March 31, 2015 from $281.0 million at June 30, 2014. The net fair value of deposits acquired was $139.2 million. The net decline of $19.4 million, excluding the increase from acquired deposits, reflects the continued decline in interest-bearing deposits, primarily our certificates of deposits, from depositors moving their deposits into higher yielding investments in the market. Oconee Federal, MHC’s cash is held on deposit with the Company. We generally do not accept brokered deposits and no brokered deposits were accepted during the nine months ended March 31, 2015.

We had no advances from the Federal Home Loan Bank of Atlanta as of March 31, 2015 or June 30, 2014. We have credit available under a loan agreement with the Federal Home Loan Bank of Atlanta in the amount of 11% of total assets (as of March 31, 2015), or approximately $53.7 million.

Total equity increased $3.6 million, or 4.6%, to $80.6 million at March 31, 2015 compared to $77.0 million at June 30, 2014. The increase in total equity is primarily reflective of net income of $3.3 million, net of dividends paid of $1.7 million, the acquisition of Stephens Federal, which resulted in $700 thousand of common stock being issued to Oconee, MHC, the combined effect of ESOP compensation expense and stock-based compensation expense of $587 thousand, the purchase of treasury stock of $35 thousand and net accumulated other comprehensive income of $704 thousand for the nine months ended March 31, 2015.

Table of Contents

Nonperforming Assets

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

	March 31, 2015	June 30, 2014
	(Dollars in thousands)	
Nonaccrual loans:		
Real estate loans:		
One-to-four family	$3,745	$1,647
Multi-family	-	-
Home equity	27	-
Agricultural	-	-
Nonresidential	806	-
Construction and land	190	-
Total real estate loans	4,768	1,647
Commercial and industrial	-	-
Consumer and other loans	-	-
Total nonaccrual loans	$4,768	$1,647
Accruing loans past due 90 days or more:		
Real estate loans:		
One-to-four family	$-	$-
Multi-family	-	-
Home equity	-	-
Agricultural	-	-
Nonresidential	-	-
Construction and land	-	-
Total real estate loans	-	-
Commercial and industrial	-	-
Consumer and other loans		
Total accruing loans past due 90 days or more	-	-
Total of nonaccrual and 90 days or more past due loans	$4,768	$1,647
Real estate owned, net:		
One-to-four family	$1,366	$744
Multi-family	-	-
Home equity	-	-
Agricultural	-	-
Nonresidential	365	-
Construction and land	768	-
Other nonperforming assets	-	-
Total nonperforming assets	$7,267	$2,391

Troubled debt restructurings	-	-
Troubled debt restructurings and total nonperforming assets	$7,267	$2,391
Total nonperforming loans to total loans	1.47 %	0.71 %
Total nonperforming assets to total assets	1.51 %	0.66 %
Total nonperforming assets to loans and real estate owned	2.24 %	1.03 %

39

Table of Contents

Interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $131 thousand and $33 thousand for the nine months ended March 31, 2015 and 2014, respectively. Interest of $164 thousand and $64 thousand was recognized on these loans and is included in net income for the nine months ended March 31, 2015 and 2014, respectively.

The increase in the ratio of nonperforming loans to total loans is a reflection of $2.2 million in nonperforming loans at March 31, 2015 that were acquired as part of the Stephens Federal acquisition. These loans along with all other nonperforming loans are evaluated separately for impairment. Our impaired loans at March 31, 2015 were $18.3 million. Impaired loans exceed nonaccrual loans primarily as a result of loans acquired that at acquisition had evidence of credit deterioration since origination of the loan; therefore, we identified these loans as impaired at acquisition, even if those loans were at that time or at March 31, 2015 currently performing. These loans, referred to as PCI loans, will remain as PCI throughout their remaining lives. Additionally, in cases where there is more than one loan under the same relationship, all loans within that relationship are evaluated for impairment, regardless of their current status as performing. The increase in the ratio of total nonperforming assets to total assets is a reflection of the above mentioned acquired nonperforming loans as well as $3.4 million of other real estate owned acquired as part of the Stephens Federal transaction.

Analysis of Net Interest Margin

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

Table of Contents

	For the Three Months Ended					
	March 31, 2015			March 31, 2014		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in Thousands)					
Assets:						
Interest-earning assets:						
Loans	$326,828	$ 4,047	4.95 %	$225,298	$ 2,820	5.01 %
Investment securities	96,767	404	1.67	99,628	388	1.56
Investment securities, tax-free	8,896	50	2.25	250	2	3.20
Interest-bearing deposits and other	15,429	16	0.41	19,790	11	0.22
Total interest-earning assets	447,920	4,517	4.03	344,966	3,221	3.73
Noninterest-earning assets	38,004			14,457		
Total assets	$485,924			$359,423		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$48,832	$ 13	0.11 %	$19,033	$ 3	0.06 %
Money market deposits	16,437	6	0.14	13,562	7	0.20
Regular savings and other deposits	47,618	18	0.16	39,697	37	0.38
Certificates of deposit	270,828	272	0.41	205,880	298	0.59
Total interest-bearing deposits	383,715	309	0.33	278,172	345	0.50
Total interest-bearing liabilities	383,715			278,172		
Noninterest bearing deposits	20,155			4,692		
Other noninterest-bearing liabilities	1,723			1,113		
Total liabilities	405,593			283,977		
Equity	80,331			75,446		
Total liabilities and equity	$485,924			$359,423		
Net interest income		$ 4,208			$ 2,876	
Interest rate spread			3.70 %			3.23 %
Net interest margin			3.76 %			3.33 %
Average interest-earning assets to average interest-bearing liabilities	1.17 X			1.24 X		

41

Table of Contents

	For the Nine Months Ended March 31, 2015			March 31, 2014		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in Thousands)					
Assets:						
Interest-earning assets:						
Loans	$274,695	$ 10,267	4.98 %	$223,333	$ 8,542	5.10 %
Investment securities	94,938	1,155	1.62	98,460	1,139	1.54
Investment securities, tax-free	7,213	126	2.33	83	2	3.20
Interest-bearing deposits and other	11,266	39	0.46	26,224	40	0.20
Total interest-earning assets	388,112	11,587	3.98	348,100	9,723	3.72
Noninterest-earning assets	26,200			15,556		
Total assets	$414,312			$363,656		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$31,878	$ 21	0.09 %	$19,030	$ 9	0.06 %
Money market deposits	14,210	19	0.18	12,859	19	0.20
Regular savings and other deposits	44,708	91	0.27	39,565	113	0.38
Certificates of deposit	230,623	801	0.46	210,489	1,015	0.64
Total interest-bearing deposits	321,419	932	0.39	281,943	1,156	0.55
Total interest-bearing liabilities	321,419			281,943		
Noninterest bearing deposits	12,334			4,685		
Other noninterest-bearing liabilities	1,783			1,302		
Total liabilities	335,536			287,930		
Equity	78,776			75,726		
Total liabilities and equity	$414,312			$363,656		
Net interest income		$ 10,655			$ 8,567	
Interest rate spread			3.59 %			3.17 %
Net interest margin			3.66 %			3.28 %
Average interest-earning assets to average interest-bearing liabilities	1.21 X			1.23 X		

Table of Contents

Comparison of Operating Results for the Three Months Ended March 31, 2015 and March 31, 2014

General. We recognized net income of $1.2 million for the three months ended March 31, 2015 as compared to net income of $855 thousand for the three months ended March 31, 2014. Although net interest income before the provision for loan losses increased by $1.3 million, or 46.3%, to $4.2 million for the three months ended March 31, 2015 as compared with $2.9 million for the three months ended March 31, 2014, the increase in noninterest expense of $1.2 million, or 72.2% to $2.9 million for the three months ended March 31, 2015 from $1.7 million for the three months ended March 31, 2014 offset the increase in net interest income. The increase in noninterest expenses was primarily related to the increase in salaries and employee benefits and other operating expenses as a result of the acquisition of Stephens Federal as of December 1, 2014 and recognition of three month's operating expenses and increase in certain officer's salaries during the three months ended March 31, 2015.

Interest Income. Interest income increased by $1.3 million, or 40.2%, to $4.5 million for the three months ended March 31, 2015 from $3.2 million for the three months ended March 31, 2014. The increase reflected an increase on the yield of interest-earning assets of 30 basis points to 4.03% for the three months ended March 31, 2015 as compared to 3.73% for the three months ended March 31, 2014 and the increase in the average balance of interest earning assets by $103.0 million, or 29.8%, to $447.9 million for the three months ended March 31, 2015 from $345.0 million for the three months ended March 31, 2014. The increase in the average balance of interest earning assets was primarily the result of the acquisition of Stephens Federal and the addition of $103.2 million in loans at par. The overall increase in yield is a reflection of the shift in investment from lower interest yielding interest-bearing deposits and other to higher yielding investment securities and loans.

Interest income on loans increased by $1.2 million, or 43.5%, to $4.0 million for the three months ended March 31, 2015 from $2.8 million for the three months ended March 31, 2014. The increase reflected an increase of $101.5 million, or 45.1%, in average balance of loans to $326.8 million for the three months ended March 31, 2015 from $225.3 million for the three months ended March 31, 2014, offset partially by a decrease in the yield on loans of 6 basis points to 4.95% from 5.01% for the same periods. Interest income on investment securities increased by $64 thousand, or 16.4%, to $454 thousand for the three months ended March 31, 2015 from $390 thousand for the three months ended March 31, 2014. The increase reflected an increase in the average balance of securities of $5.8 million, or 5.8%, to $105.7 million for the three months ended March 31, 2015 from $99.9 million for the three months ended March 31, 2014 and an increase of 16 basis points in the yield on securities to 1.72% from 1.56%. The increase in average balances of our investment securities is reflective of our efforts to continue to invest in high-quality investment securities during this period of low loan demand.

Interest Expense. Interest expense decreased by $36 thousand, or 10.4%, to $309 thousand for the three months ended March 31, 2015 from $345 thousand for the three months ended March 31, 2014. The decrease reflected a decrease of 17 basis points in the average rate paid on deposits for the three months ended March 31, 2015 to 0.33% from 0.50% for the three months ended March 31, 2014. The decrease in the average rate paid on deposits more than offset the increase of $105.5 million, or 37.9%, in the average balances of interest-bearing deposits to $383.7 million for the three months ended March 31, 2015 from $278.2 million for the three months ended March 31, 2014. The largest decrease in interest expense came from certificates of deposit, which decreased by $26 thousand, or 8.7%, to $272 thousand for the three months ended March 31, 2015 from $298 thousand for the same period in 2014. The decrease is reflective of a decrease in the average rate paid on these deposits of 18 basis points to 41 basis points for the three months ended March 31, 2015 compared to 59 basis points for the three months ended March 31, 2014, which more than offset the increase of $64.9 million, or 31.5%, in the average balance of these deposits to $270.8 million for the three months ended March 31, 2015 from $205.9 million for the three months ended March 31, 2014. The increase in the average balance of certificates of deposits as well as the total average balance of interest bearing deposits is primarily the result of the acquisition of Stephens Federal's deposits of $139.2 million on December 1, 2014.

Net Interest Income. Net interest income before the provision for loan losses increased by $1.3 million, or 46.3%, to $4.2 million for the three months ended March 31, 2015 from $2.9 million for the three months ended March 31, 2014. Our interest rate spread and net interest margin for the three months ended March 31, 2015 increased to 3.70% and 3.76%, respectively, from 3.23% and 3.33%, respectively, for the three months ended March 31, 2014. The increase in interest rate spread and net interest margin are reflective of both higher yields on interest-earning assets and lower cost of funds on interest-bearing liabilities. The average balance of interest-bearing deposits and other decreased $4.4 million, or 22.0%, to $15.4 million for the three months March 31, 2015 from $19.8 million for the three months ended March 31, 2014. The average balances of loans and investment securities combined increased $107.3 million, or 33.0%, to $432.5 million for the three months ended March 31, 2015 from $325.2 million for the three months ended March 31, 2014.

Provision for Loan Losses. We recorded a provision for loan losses of $7 thousand for the three months ended March 31, 2015, compared with a provision of $41 thousand for the three months ended March 31, 2014. There were charges offs of $2 thousand recorded for the three months ended March 31, 2015. No charge offs were recorded for the three months ended March 31, 2014. A provision of $6 thousand was recorded for the loans acquired from Stephens Federal. All of the loans acquired were recorded at fair value, which included discounts for credit. We evaluated the acquired loan portfolio consistent with the Company's standard for evaluating our originated loans in that we separately evaluate loans for which we believe to be impaired individually and for all other loans we evaluate for the need for an allowance on a pool level based on our individual loan portfolio segments. All PCI loans were evaluated again at March 31, 2015 individually for further credit deterioration. Our nonperforming loans to total loans and nonperforming assets to total assets ratios increased to 1.41% and 1.57%, respectively, at March 31, 2015 from 0.71% and 0.66%, respectively, at June 30, 2014. This increase is the result of acquiring nonperforming loans and other real estate owned in the Stephens Federal acquisition of which the balance at March 31, 2015 was $2.2 million and $3.4 million, respectively. These loans are net of the initial fair value discounts, and based on the aforementioned impaired loan evaluation, we determined no further impairment was necessary. Therefore, the increase in the credit quality metrics stated above is not a reflection of a deterioration of credit quality in our originated portfolio. Our allowance for loan losses was $869 thousand at March 31, 2015 and $855 thousand at June 30, 2014, 0.27% and 0.37% of gross loans, respectively.

We used the same methodology in assessing the allowances for both periods. To the best of our knowledge, we have recorded all losses that are both probable and reasonably estimable for the three months ended March 31, 2015 and 2014.

Noninterest Income. Noninterest income increased by $307 thousand, or 171.5%, for the three months ended March 31, 2015 to $486 thousand compared to $179 thousand for the three months ended March 31, 2014. As a result of the acquisition of Stephens Federal, we obtained a mortgage loan servicing portfolio and staff expertise in origination and selling mortgage loans to Freddie Mac. As a result, we recognized $147 thousand of mortgage banking income. Additionally, the other significant increases were related to service charges on deposit accounts of $92 thousand, or 484.2%, to $111 thousand for the three months ended March 31, 2015 from $19 thousand for the same period in 2014 and gain on sales of securities of $50 thousand, or 71.4%, to $120 thousand for the three months ended March 31, 2015 from $70 thousand for the same period in 2014. The increases were partially offset by a decrease in other of $38 thousand, or 102.7%, to a loss of $1 thousand for the three months ended March 31, 2015 from $37 thousand for the three months ended March 31, 2014. The decrease was primarily due to decreases in the fair value of the mortgage servicing rights of $22 thousand during the three months ended March 31, 2015.

Noninterest Expense. Noninterest expense for the three months ended March 31, 2015 increased by $1.2 million, or 72.2%, to $2.9 million from $1.7 million for the same period in 2014. The increase in noninterest expense is primarily reflective of increases in salaries and employee benefits of $720 thousand, or 82.2%, to $1.6 million for the three months ended March 31, 2015 from $876 thousand for the three months ended March 31, 2014. Additionally, the other significant increases were related to occupancy and equipment of $143 thousand, or 81.3%, to $319 thousand for the three months ended March 31, 2015 from $176 thousand for the same period in 2014, data processing of $64 thousand, or 90.1%, to $135 thousand for the three months ended March 31, 2015 from $71 thousand for the same period in 2014, provision for real estate owned of $54 thousand, or 47.8%, to $167 thousand for the three months ended March 31, 2015 from $113 thousand for the same period in 2014, and other of $146 thousand, or 214.7%, to $214 thousand for the three months ended March 31, 2015 from $68 thousand for the same period in 2014. The increase in salaries and employee benefits is due to increases in salaries of certain management level employees and the addition of Stephens Federal’s employees, which added approximately 37 new full-time equivalents. The increase in occupancy and equipment expenses is related to the increase in additional costs to maintain three new added branch facilities as well as moderate increases in depreciation expense due to the addition of property and equipment, all as a result of the Stephens Federal acquisition. The increase in the provision for real estate owned and related expenses is primarily due to the increase in the number of real estate owned as a result of the Stephens Federal acquisition. The increase in other expenses is primarily due to amortization of the core deposit intangible of $44 thousand for the three months ended March 31, 2015, combined with $35 thousand of Georgia business occupancy taxes and small increases in other expenses as a result of the Stephens Federal acquisition.

Income Tax Expense. Income tax expense for the three months ended March 31, 2015 was $610 thousand compared with $486 thousand for the three months ended March 31, 2014. Our effective income tax rate was 33.8% and 36.2% for the same periods, respectively.

Comparison of Operating Results for the Nine Months Ended March 31, 2015 and March 31, 2014

General. We recognized net income of $3.3 million for the nine months ended March 31, 2015 as compared to net income of $2.8 million for the nine months ended March 31, 2014. Although net interest income before the provision for loan losses increased by $2.2 million, or 25.4%, to $10.7 million for the nine months ended March 31, 2015 as compared with $8.5 million for the nine months ended March 31, 2014, the increase in noninterest expense of $1.7 million, or 37.6% to $6.4 million for the nine months ended March 31, 2015 from $4.6 million for the nine months ended March 31, 2014 partially offset the increase in net interest income. The increase in noninterest expenses was primarily related to the increase in salaries and employee benefits and other operating expenses as a result of the acquisition of Stephens Federal as of December 1, 2014 and recognition of four month’s operating expenses and increase in certain officer’s salaries during the nine months ended March 31, 2015.

Interest Income. Interest income increased by $1.9 million, or 19.2%, to $11.6 million for the nine months ended March 31, 2015 from $9.7 million for the nine months ended March 31, 2014. The increase reflected both an increase in the yield on interest earning assets and an increase in the average balance of interest earning assets for the nine months ended March 31, 2015. The yield for the nine months ended March 31, 2015 increased by 26 basis points to 3.98% for the nine months ended March 31, 2015 from 3.72% from the nine months ended March 31, 2014. The average balance on interest earning assets increased by $40.0 million to $388.1 million for the nine months ended March 31, 2015 from $348.1 million for the nine months ended March 31, 2014. The increase in the average balance of interest earning assets was primarily the result of the acquisition of Stephens Federal and the addition of $103.2 million in loans at contractual principle receivable. The overall increase in yield is a reflection of the shift in investment from lower interest yielding interest-bearing deposits and other to higher yielding investment securities and loans.

Interest income on loans increased by $1.7 million, or 20.2%, to $10.3 million for the nine months ended March 31, 2015 from $8.5 million for the nine months ended March 31, 2014. The increase reflected an increase of $51.4 million, or 23.0%, in average balance of loans to $274.7 million for the nine months ended March 31, 2015 from $223.3 million for the nine months ended March 31, 2014, offset partially by a decrease in the yield on loans of 12 basis points to 4.98% from 5.10% for the same periods. Interest income on investment securities increased by $140 thousand, or 12.3%, to $1.3 million for the nine months ended March 31, 2015 from $1.1 million for the nine months ended March 31, 2014. The increase reflected an increase in the average balance of securities of $3.6 million, or 3.7%, to $102.2 million for the nine months ended March 31, 2015 from $98.5 million for the nine months ended March 31, 2014 and an increase of 13 basis points in the yield on securities to 1.67% from 1.54%. The increase in average balances of our investment securities is reflective of our efforts to continue to invest in high-quality investment securities during this period of low loan demand.

Interest Expense. Interest expense decreased $224 thousand, or 19.4%, to $932 thousand for the nine months ended March 31, 2015 from $1.2 million for the nine months ended March 31, 2014. The decrease reflected a decrease of 16 basis points in the average rate paid on deposits for the nine months ended March 31, 2015 to 0.39% from 0.55% for the nine months ended March 31, 2014. The decrease in yield offset the increase in the average balance of interest-bearing deposits of $39.5 million, or 14.0%, to $321.4 million for the nine months ended March 31, 2015 compared to $281.9 million for the nine months ended March 31, 2014. The largest decrease in interest expense came from certificates of deposit, which decreased by $214 thousand, or 21.1%, to $801 thousand for the nine months ended March 31, 2015 from $1.0 million for the same period in 2014. The decrease is reflective of a decrease in the average rate paid on these deposits of 18 basis points to 46 basis points for the nine months ended March 31, 2015 compared to 64 basis points for the nine months ended March 31, 2014. The decrease in the average rate of certificates of deposits more than offset the increase in the average balances of these deposits of $20.1 million, or 9.6%, to $230.6 million for the nine months ended March 31, 2015 as compared to $210.5 million for the nine months ended March 31, 2014. The increase in the average balance of certificates of deposits as well as the total average balance of interest bearing deposits is primarily the result of the acquisition of Stephens Federal's deposits of $139.2 million on December 1, 2014.

Net Interest Income. Net interest income before the provision for loan losses increased by $2.1 million, or 24.4%, to $10.7 million for the nine months ended March 31, 2015 from $8.6 million for the nine months ended March 31, 2014. Our interest rate spread and net interest margin for the nine months ended March 31, 2015 increased to 3.59% and 3.66%, respectively, from 3.17% and 3.28%, respectively, for the nine months ended March 31, 2014. The increase in interest rate spread and net interest margin are reflective of both higher yields on interest-earning assets and lower cost of funds on interest-bearing liabilities. The average balance of interest-bearing deposits and other decreased $15.0 million, or 57.0%, to $11.3 million for the nine months March 31, 2015 from $26.2 million for the nine months ended March 31, 2014. The average balances of loans and investment securities, combined, increased $55.0 million, or 17.1%, to $376.8 million for the nine months ended March 31, 2015 from $321.9 million for the nine months ended March 31, 2014.

Provision for Loan Losses. We recorded a provision for loan losses of $16 thousand for the nine months ended March 31, 2015, compared with a provision of $82 thousand for the nine months ended March 31, 2014. There were $2 thousand of charge offs recorded for the nine months ended March 31, 2015 and $4 thousand of charge offs recorded in during the nine months ended March 31, 2014. The decrease in the provision is primarily related to our continued strength in the credit quality of our loan portfolio. A provision of $6 thousand was recorded for the loans acquired from Stephens Federal. All of the loans

45

acquired were recorded at fair value, which included discounts for credit. We evaluated the acquired loan portfolio consistent with the Company's standards for evaluating our originated loans in that we separately evaluate loans for which we believe to be impaired individually and for all other loans we evaluate for the need for an allowance on a pool level based on our individual loan portfolio segments. All PCI loans were evaluated again at March 31, 2015 individually for further credit deterioration. Our nonperforming loans to total loans and nonperforming assets to total assets ratios did increase to 1.41% and 1.46%, respectively, at March 31, 2015 from 0.71% and 0.66%, respectively, at June 30, 2014. This increase is the result of acquiring nonperforming loans and other real estate owned in the Stephens Federal acquisition of which the balance at March 31, 2015 was $2.2 million and $3.4 million, respectively. These loans are net of the initial fair value discounts, and based on the aforementioned impaired loan evaluation, we determined no further impairment was necessary. Therefore, the increase in the credit quality metrics stated above is not a reflection of a deterioration of credit quality in our originated portfolio. Our allowance for loan losses was $869 thousand at March 31, 2015 and $855 thousand at June 30, 2014, 0.27% and 0.37% of gross loans, respectively.

We used the same methodology in assessing the allowances for both periods. To the best of our knowledge, we have recorded all losses that are both probable and reasonably estimable for the nine months ended March 31, 2015 and 2014.

Noninterest Income. Noninterest income increased by $328 thousand, or 65.9%, to $826 thousand for the nine months ended March 31, 2015 compared to $498 thousand for the nine months ended March 31, 2014. As a result of the acquisition of Stephens Federal, we obtained a mortgage loan servicing portfolio and staff expertise in origination and selling mortgage loans to Freddie Mac. As a result, we recognized $181 thousand of mortgage banking income. Service charges on deposit accounts increased by $155 thousand, or 276.8%, to $211 thousand for the nine months ended March 31, 2015 from $56 thousand for the nine months ended March 31, 2014 primarily due to the increase in the number of deposit accounts from the Stephens Federal acquisition. Gain on sales of securities was $149 thousand and $215 thousand for the nine months ended March 31, 2015 and 2014, respectively. The decrease in the gain on sales of securities is just a reflection of fewer securities sold during those same periods. Gain (loss) on sales of real estate owned increased by $74 thousand to $63 thousand during the nine months ended March 31, 2015 compared to a loss of $11 thousand for the nine months ended March 31, 2014 due to an increase in the volume of real estate owned sales and improvements in the market.

Noninterest Expense. Noninterest expense for the nine months ended March 31, 2015 increased by $1.8 million, or 37.6%, to $6.4 million from $4.6 million for the same period in 2014. The increase in noninterest expense is primarily reflective of increases in salaries and employee benefits of $1.0 million, or 36.9%, to $3.7 million for the nine months ended March 31, 2015 from $2.7 million for the nine months ended March 31, 2014. Additionally, the other significant increases were related to occupancy and equipment of $220 thousand, or 44.4%, to $716 thousand for the nine months ended March 31, 2015 from $496 thousand for the same period in 2014, data processing of $109 thousand, or 54.5%, to $309 thousand for the nine months ended March 31, 2015 from $200 thousand for the same period in 2014, professional and supervisory fees of $90 thousand, or 18.6%, to $575 thousand for the nine months ended March 31, 2015 from $485 thousand for the nine months ended March 31, 2014, office expense of $87 thousand, or 79.8%, to $196 thousand for the nine months ended March 31, 2015 from $109 thousand for the nine months ended March 31, 2014, and other of $138 thousand, or 51.1%, to $408 thousand for the nine months ended March 31, 2015 from $270 thousand for the nine months ended March 31, 2014. The increase in salaries and employee benefits is due to increases in salaries of certain management level employees, the addition of Stephens Federal's employees, which added approximately 37 new full-time equivalents, and an increase in compensation expense related to our ESOP of $80 thousand to $385 thousand for the nine months ended March 31, 2015 from $305 thousand for the nine months ended March 31, 2015. The primary reason for the increase is related to the increase in our stock price relative to the same period in 2014. The increases in occupancy and equipment expenses, data processing, and office expense are related to the increase in additional costs to maintain three new added branch facilities as well as moderate increases in depreciation expense due to the addition of property and equipment, all as a result of the Stephens Federal acquisition. The increase in professional and supervisory fees is predominantly related to the $238 thousand of merger related expenses incurred during the nine months ended March 31, 2015. The increase in other is primarily due to amortization of the core deposit intangible of $59 thousand, combined with $35 thousand of Georgia business occupancy taxes and small increases in other expenses as a result of the Stephens Federal acquisition.

Income Tax Expense. Income tax expense for the nine months ended March 31, 2015 was $1.8 million compared with $1.6 million for the nine months ended March 31, 2014. Our effective income tax rate was 35.8% for the nine months ended March 31, 2015 and 36.0% for the nine months ended March 31, 2014.

Liquidity and Capital Resources

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

Liquidity management is both a daily and long-term responsibility of management. We adjust our investments in liquid assets based upon management's assessment of (i) expected loan demand, (ii) expected deposit flows, (iii) yields available on interest-earning deposits and investment securities, and (iv) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning overnight deposits, federal funds sold, and short and intermediate-term U.S. Government sponsored agencies and mortgage-backed securities of short duration. If we require funds beyond our ability to generate them internally, we have credit available under a loan agreement with the Federal Home Loan Bank of Atlanta in the amount of 11% assets (as of March 31, 2015), or approximately $53.7 million.

Common Stock Dividend Policy. On August 21, 2014, the Company paid a $0.10 per share cash dividend on its common stock for a total of $583 thousand, on November 20, 2014 the Company paid a $0.10 per share cash dividend on its common stock for a total of $583 thousand, and on February 26, 2015 the Company paid a $0.10 per share cash dividend on its common stock for a total of $588 thousand.

Equity Compensation Plans. During the nine months ended March 31, 2015, 12,600 shares of restricted stock and 7,700 stock options were issued to an executive.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2015. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

During the quarter ended March 31, 2015, 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, as amended) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

(a) None.

(b) Not applicable.

(c) ***Issuer Repurchases.*** On June 19, 2013, the Board of Directors authorized the repurchase of up to 150,000 shares of the Company's common stock. The repurchase authorization has no expiration date. During the three months ended March 31, 2015, the Company repurchased the following shares:

	Total Number of Shares Purchased	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plan**	**Approximate Maximum Dollar Value or Number of Shares That May Yet be Purchased Under Publicly Announced Plan**

January 1 - January 31, 2015	—	—	—		48,500	(2)
February 1 - February 28, 2015	—	—	—		48,500	(2)
March 1 - March 31, 2015	1,800	19.60	1,800	(1)	46,700	(2)
Total	1,800	$19.60	1,800			

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

(2) Represents the maximum number of shares available for repurchase under the June 19, 2013 plan at March 31, 2015.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

47

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Table of Contents

SIGNATURES

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

Oconee Federal Financial Corp.

Date: May 15, 2015

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

/s/ H. Allen Salter
H. Allen Salter
Executive Vice President, Chief Financial Officer and Treasurer

Table of Contents

INDEX TO EXHIBITS

Exhibit number	Description
31.1	Certification of T. Rhett Evatt, Chairman and Chief Executive Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
31.2	Certification of H. Allen Salter, Executive Vice President, Chief Financial Officer and Treasurer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
32.1	Certification of T. Rhett Evatt, Chairman and Chief Executive Officer, and H. Allen Salter, Executive Vice President, Chief Financial Officer, and Treasurer. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, 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