UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended September 30, 2022

Or

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

For transition period from to

Commission File Number 001-35033

Oconee Federal Financial Corp.

(Exact Name of Registrant as Specified in Charter)

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

(864) 882-2765
Registrant's telephone number, including area code

Not Applicable
(Former name or former address, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	OFED	The NASDAQ Stock Market, LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

As of November 7, 2022, the registrant had 5,609,444 shares of common stock, $0.01 par value per share, outstanding.

OCONEE FEDERAL FINANCIAL CORP.

Form 10-Q Quarterly Report

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OCONEE FEDERAL FINANCIAL CORP.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share and per share data)

PART I

ITEM 1. FINANCIAL STATEMENTS

	September 30, 2022 (unaudited)	June 30, 2022
ASSETS		
Cash and due from banks	$ 3,432	$ 2,327
Interest-earning deposits	4,312	7,406
Fed funds sold	126	—
Total cash and cash equivalents	7,870	9,733
Securities available-for-sale	139,018	151,299
Loans	361,478	345,112
Allowance for loan losses	(1,389)	(1,339)
Net loans	360,089	343,773
Loans held for sale, at fair value	—	152
Premises and equipment, net	8,505	8,579
Real estate owned, net	106	—
Accrued interest receivable		
Loans	964	944
Investments	373	468
Restricted equity securities, at cost	1,564	1,189
Bank owned life insurance	20,512	20,398
Goodwill	2,593	2,593
Core deposit intangible	61	74
Loan servicing rights	347	345
Deferred tax assets	6,489	4,678
Other assets	527	567
Total assets	$ 549,018	$ 544,792
LIABILITIES		
Deposits		
Noninterest - bearing	$ 60,239	$ 60,697
Interest - bearing	399,469	398,985
Total deposits	459,708	459,682
Federal Home Loan Bank advances	19,000	9,000
Accrued interest payable and other liabilities	938	853
Total liabilities	479,646	469,535
SHAREHOLDERS' EQUITY		
Common stock, $0.01 par value, 100,000,000 shares authorized; 6,606,648 and 6,605,109 shares outstanding, respectively	66	66
Treasury stock, at par, 997,380 and 997,380 shares, respectively	(10)	(10)
Additional paid-in capital	6,049	6,055
Retained earnings	83,568	82,790
Accumulated other comprehensive loss	(20,274)	(13,588)
Unearned ESOP shares	(27)	(56)
Total shareholders' equity	69,372	75,257
Total liabilities and shareholders' equity	$ 549,018	$ 544,792

See accompanying notes to the consolidated financial statements

OCONEE FEDERAL FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE LOSS
(Unaudited)
(Amounts in thousands, except share and per share data)

	Three Months Ended	
	September 30, 2022	September 30, 2021
Interest and dividend income:		
Loans, including fees	$ 3,665	$ 3,445
Securities, taxable	758	352
Securities, tax-exempt	41	86
Other interest-earning assets	20	16
Total interest income	4,484	3,899
Interest expense:		
Deposits	218	306
Other borrowings	66	23
Total interest expense	284	329
Net interest income	4,200	3,570
Provision for loan losses	50	—
Net interest income after provision for loan losses	4,150	3,570
Noninterest income:		
Service charges on deposit accounts	116	100
Income on bank owned life insurance	114	113
Mortgage servicing income	26	30
Gain on sale of mortgage loans	8	106
ATM & debit card income	109	111
Change in fair value of equity securities, net	9	(50)
Loss on sale of securities, net	(84)	—
Gain on payoff of purchase credit impaired loans	189	—
Other	4	3
Total noninterest income	491	413
Noninterest expense:		
Salaries and employee benefits	1,598	1,696
Occupancy and equipment	484	482
Data processing	270	252
ATM & debit card expense	91	86
Professional and supervisory fees	127	108
Office expense	45	35
Advertising	68	78
FDIC deposit insurance	35	33
Foreclosed assets, net	1	(1)
Change in loan servicing asset	(2)	14
Other	189	212
Total noninterest expense	2,906	2,995
Income before income taxes	1,735	988
Income tax expense	396	217
Net income	$ 1,339	$ 771
Other comprehensive (loss)/income		
Unrealized losses on securities available-for-sale	$ (8,541)	$ (1,010)
Tax effect	1,789	213
Reclassification adjustment for losses realized in net income	84	—
Tax effect	(18)	—
Total other comprehensive loss	(6,686)	(797)
Comprehensive loss	$ (5,347)	$ (26)
Basic net income per share: (Note 3)	$ 0.24	$ 0.14
Diluted net income per share: (Note 3)	$ 0.24	$ 0.14
Dividends declared per share:	$ 0.10	$ 0.10

See accompanying notes to the consolidated financial statements

OCONEE FEDERAL FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(Amounts in thousands, except share and per share data)

For the three months ended September 30, 2022 and September 30, 2021

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Unearned ESOP Shares	Total
Balance at June 30, 2021	$ 66	$ (10)	$ 6,400	$ 80,915	$ 941	$ (212)	$ 88,100
Net income	—	—	—	771	—	—	771
Other comprehensive loss	—	—	—	—	(797)	—	(797)
Purchase of 2,865 shares of treasury stock (1)	—	—	(67)	—	—	—	(67)
Stock-based compensation expense	—	—	30	—	—	—	30
Dividends	—	—	—	(559)	—	—	(559)
ESOP shares earned	—	—	38	—	—	51	89
Balance at September 30, 2021	$ 66	$ (10)	$ 6,401	$ 81,127	$ 144	$ (161)	$ 87,567
Balance at June 30, 2022	$ 66	$ (10)	$ 6,055	$ 82,790	$ (13,588)	$ (56)	$ 75,257
Net income	—	—	—	1,339	—	—	1,339
Other comprehensive loss	—	—	—	—	(6,686)	—	(6,686)
Stock-based compensation expense	—	—	20	—	—	—	20
Dividends	—	—	13	(561)	—	—	(548)
ESOP shares earned	—	—	(39)	—	—	29	(10)
Balance at September 30, 2022	$ 66	$ (10)	$ 6,049	$ 83,568	$ (20,274)	$ (27)	$ 69,372

(1) The weighted average cost of treasury shares purchased during the three months ended September 30, 2021 was $23.43 per share. Treasury stock repurchases were accounted for using the par value method.

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)

	Three Months Ended	
	September 30, 2022	September 30, 2021
Cash Flows From Operating Activities		
Net income	$ 1,339	$ 771
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	50	—
Depreciation and amortization, net	264	530
Net amortization/(accretion) of purchase accounting adjustments	174	(56)
Deferred income tax benefit	(117)	(24)
Change in loan servicing asset	(2)	14
Net loss on sales of securities	84	—
Mortgage loans originated for sale	(661)	(5,109)
Mortgage loans sold	821	5,379
Gain on sales of mortgage loans	(8)	(106)
Change in fair value of equity securities	(9)	50
Increase in cash surrender value of bank owned life insurance	(114)	(113)
Gain on payoff of purchased credit impaired loans	(189)	—
ESOP shares earned	29	89
Stock based compensation expense	20	30
Net change in operating assets and liabilities:		
Accrued interest receivable and other assets	76	33
Accrued interest payable and other liabilities	85	(96)
Net cash provided by operating activities	1,842	1,392
Cash Flows From Investing Activities		
Purchases of premises and equipment	(67)	(88)
Purchases of securities available-for-sale	(11,150)	(22,202)
Proceeds from maturities, paydowns and calls of securities available-for-sale	3,817	8,370
Proceeds from sales of securities available-for-sale	11,049	—
Sales of restricted equity securities	150	374
Purchases of restricted equity securities	(525)	—
Loan originations and repayments, net	(16,457)	1,254
Net cash used in investing activities	(13,183)	(12,292)
Cash Flows from Financing Activities		
Net change in deposits	26	9,504
Proceeds from notes payable to FHLB	14,000	—
Repayment of notes payable to FHLB	(4,000)	(10,000)
Dividends paid	(548)	(559)
Purchase of treasury stock	—	(67)
Net cash provided/(used) by financing activities	9,478	(1,122)
Change in cash and cash equivalents	(1,863)	(12,022)
Cash and cash equivalents, beginning of period	9,733	30,649
Cash and cash equivalents, end of period	$ 7,870	$ 18,627

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, RISKS AND UNCERTAINTIES

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 (74.24%) by Oconee Federal, MHC. These financial statements do not include the transactions and balances of Oconee Federal, MHC.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company's financial position as of September 30, 2022 and June 30, 2022 and the results of operations and cash flows for the interim periods ended September 30, 2022 and 2021. All interim amounts are unaudited, and the results of operations for the interim periods herein are not necessarily indicative of the results of operations to be expected for the year ending June 30, 2023 or any other period. These consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2022.

Reclassifications:

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

Cash Flows:

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

Use of Estimates:

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

Risks and Uncertainties:

The COVID-19 pandemic has had, and may continue to have, an adverse impact on the Company, its clients and the communities it serves. Given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID-19 pandemic on our business. The extent of such impact will depend on future developments, which are highly uncertain.

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

(2) NEW ACCOUNTING STANDARDS

Accounting Standards Update (“ASU”) 2022-03, “Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions”. Issued in June 2022, ASU 2022-03 provides guidance on the fair value measurement of an equity security that is subject to a contractual sale restriction and require specific disclosures related to such an equity security. The amendments are effective for financial statements issued for annual periods beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2022-02, “Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures”. Issued in March 2022, ASU 2022-02 provides guidance to improve the decision usefulness of information provided to investors about certain loan re-financings, restructurings, and write-offs. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2021-10, “Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance”. Issued in November 2021, ASU 2021-10 requires certain annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy to other accounting guidance. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2021. The Company adopted this standard on July 1, 2022. This pronouncement did not have a material effect on the financial statements.

ASU 2020-04, “Reference Rate Reform (Topic 848)”. Issued in March 2020, ASU 2020-04 provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The amendments are effective as of March 12, 2020 through December 31, 2022. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2019-11, “Codification to Improvements to Topic 326, Financial Instruments – Credit Losses”. Issued in November 2019, ASU 2019-11 provides guidance that addresses issues raised by stakeholders during the implementation of ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments affect a variety of Topics in the Accounting Standards Codification. For the Company, the amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted in any interim period as long as an entity has adopted the amendments in ASU 2016-13.

ASU 2019-10, “Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)”. Issued in November 2019, ASU 2019-10 provides guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies (such as the Company) applying standards on current expected credit losses (CECL), derivatives, hedging and leases. For the Company, the new effective date for Credit Losses (CECL) will be for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For the Company, the effective dates for Derivatives, Hedging and Leases were not deferred under this guidance.

ASU 2019-05, “Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief”. Issued in May 2019, ASU 2019-05 provides entities with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments. On October 16, 2019, the Financial Accounting Standards Board (“FASB”) announced a delay in the implementation schedule allowing certain entities, including smaller reporting companies (such as the Company) to adopt ASU 2016-13 in fiscal years beginning after December 15, 2022, and interim periods within those years.

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

(2) NEW ACCOUNTING STANDARDS (continued)

ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. Issued in June 2016, ASU 2016-13 provides financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in ASU 2016-13 eliminate the probable incurred loss recognition in current GAAP and reflect an entity’s current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets. For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination (“PCD assets”) that are measured at amortized cost, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Subsequent changes in the allowance for credit losses on PCD assets are recognized through the statement of income as a credit loss expense. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact of ASU 2016-13 on its consolidated financial statements by running parallel loss models. In November 2019, the FASB issued guidance delaying the implementation schedule and allowing certain entities, including smaller reporting companies (such as the Company) to adopt ASU 2016-13 in fiscal years beginning after December 15, 2022, and interim periods within those years.

There have been no accounting standards that have been issued or proposed by the FASB or other standards-setting bodies during the quarter ended September 30, 2022 that are expected to have a material impact on the Company’s financial position, results of operations or cash flows. The Company continues to evaluate the impact of standards previously issued and not yet effective, and has no changes in its assessment since filing the Annual Report on Form 10-K.

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

(3) EARNINGS PER SHARE ("EPS")

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

	Three Months Ended	
	September 30, 2022	September 30, 2021
Earnings per share		
Net income	$ 1,339	$ 771
Less: distributed earnings allocated to participating securities	(1)	(1)
Less: (undistributed income) dividends in excess of earnings allocated to participating securities	(1)	(1)
Net earnings available to common shareholders	$ 1,337	$ 769
Weighted average common shares outstanding including participating securities	5,608,331	5,592,583
Less: participating securities	(9,700)	(14,300)
Less: average unearned ESOP shares	(2,176)	(6,855)
Weighted average common shares outstanding	5,596,455	5,571,428
Basic earnings per share	$ 0.24	$ 0.14
Weighted average common shares outstanding	5,596,455	5,571,428
Add: dilutive effects of assumed exercises of stock options	3,502	44,960
Average shares and dilutive potential common shares	5,599,957	5,616,388
Diluted earnings per share	$ 0.24	$ 0.14

For each of the three months ended September 30, 2022 and 2021, 21,200 options were considered anti-dilutive as the exercise price was in excess of the average market price.

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

(4) SECURITIES AVAILABLE-FOR-SALE

Debt, mortgage-backed and equity securities have been classified in the consolidated balance sheets according to management's intent. U.S. Government agency mortgage-backed securities consists of securities issued by U.S. Government agencies and U.S. Government sponsored enterprises. Investment securities at September 30, 2022 and June 30, 2022 are as follows:

September 30, 2022	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Change in Fair Value Equity Securities**	**Fair Value**
Available-for-sale:					
FHLMC common stock	$ 20	$ —	$ —	$ 23	$ 43
Certificates of deposit	—	—	—	—	—
Municipal securities	8,696	—	(758)	—	7,938
CMOs	13,255	—	(1,664)	—	11,591
U.S. Government agency mortgage-backed securities	130,270	—	(20,967)	—	109,303
U.S. Treasury and Government agency bonds	12,417	—	(2,274)	—	10,143
Total available-for-sale	$ 164,658	$ —	$ (25,663)	$ 23	$ 139,018

June 30, 2022	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Change in Fair Value Equity Securities**	**Fair Value**
Available-for-sale:					
FHLMC common stock	$ 20	$ —	$ —	$ 14	$ 34
Certificates of deposit	1,247	2	—	—	1,249
Municipal securities	16,991	3	(397)	—	16,597
CMOs	14,145	—	(1,081)	—	13,064
U.S. Government agency mortgage-backed securities	123,652	—	(14,048)	—	109,604
U.S. Treasury and Government agency bonds	12,431	—	(1,680)	—	10,751
Total available-for-sale	$ 168,486	$ 5	$ (17,206)	$ 14	$ 151,299

Securities pledged at September 30, 2022 and June 30, 2022 had fair values of $38,337 and $19,322, respectively. These securities were pledged to secure public deposits and Federal Home Loan Bank ("FHLB") advances.

At September 30, 2022 and June 30, 2022, there were no holdings of securities of any one issuer, other than U.S. Government agencies and U.S. Government sponsored enterprises, in an amount greater than 10% of shareholders' equity.

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

(4) SECURITIES AVAILABLE-FOR-SALE (continued)

The following tables show the fair value and unrealized loss of securities that have been in unrealized loss positions for less than twelve months and for twelve months or more at September 30, 2022 and June 30, 2022. The tables also show the number of securities in an unrealized loss position for each category of investment security as of the respective dates.

	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Loss	Number in Unrealized Loss [(1)]	Fair Value	Unrealized Loss	Number in Unrealized Loss [(1)]	Fair Value	Unrealized Loss	Number in Unrealized Loss [(1)]
September 30, 2022									
Available-for-sale:									
Municipal securities	$ 7,938	$ (758)	21	$ —	$ —	—	$ 7,938	$ (758)	21
CMOs	7,469	(880)	13	4,122	(784)	2	11,591	(1,664)	15
U.S. Government agency mortgage-backed securities	47,410	(5,847)	50	61,893	(15,120)	39	109,303	(20,967)	89
U.S. Treasury and Government agency bonds	1,725	(269)	1	8,418	(2,005)	6	10,143	(2,274)	7
	$ 64,542	$ (7,754)	85	$ 74,433	$ (17,909)	47	$ 138,975	$ (25,663)	132

	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, 2022									
Available-for-sale:									
Municipal securities	$ 15,027	$ (397)	41	$ —	$ —	—	$ 15,027	$ (397)	41
CMOs	12,174	(972)	17	889	(109)	1	13,063	(1,081)	18
U.S. Government agency mortgage-backed securities	80,288	(9,197)	69	29,188	(4,851)	22	109,476	(14,048)	91
U.S. Treasury and Government agency bonds	3,822	(403)	2	6,930	(1,277)	5	10,752	(1,680)	7
	$ 111,311	$ (10,969)	129	$ 37,007	$ (6,237)	28	$ 148,318	$ (17,206)	157

(1) Actual amounts.

The Company evaluates securities for other-than-temporary impairments ("OTTI") at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company considers the length of time and the extent to which the fair value has been less than amortized cost and the financial condition and near-term prospects of the issuer. Additionally, the Company considers its intent to sell or whether it will be more likely than not it will be required to sell the security prior to the security's anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by federal Government agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

None of the unrealized losses at September 30, 2022 were recognized into net income for the three months ended September 30, 2022 because the issuers' bonds are of high credit quality, management does not intend to sell and it is more likely than not that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value of these securities is expected to recover as they approach their maturity date or reset date. None of the unrealized losses at June 30, 2022 were recognized as having OTTI during the year ended June 30, 2022.

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

(4) SECURITIES AVAILABLE-FOR-SALE (continued)

The following table presents the amortized cost and fair value of debt securities classified as available-for-sale at September 30, 2022 and June 30, 2022 by contractual maturity.

	September 30, 2022		June 30, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	$ —	$ —	$ 1,247	$ 1,249
Due from one to five years	1,448	1,377	4,756	4,727
Due after five years to ten years	17,974	15,296	22,244	20,391
Due after ten years	1,691	1,408	2,422	2,230
Mortgage-backed securities, CMOs and FHLMC stock(1)	143,545	120,937	137,817	122,702
Total available for sale	$ 164,658	$ 139,018	$ 168,486	$ 151,299

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

The following table presents the gross proceeds from sales of securities available-for-sale and gains or losses recognized for the three months ended September 30, 2022 and 2021:

	Three Months Ended	
Available-for-sale:	**September 30, 2022**	**September 30, 2021**
Proceeds	$ 11,049	$ —
Gross gains	—	—
Gross losses	(84)	—

The tax benefit related to the net realized loss for the three months ended September 30, 2022 was $18.

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(5) LOANS

The components of loans at September 30, 2022 and June 30, 2022 were as follows:

	September 30, 2022	June 30, 2022
Real estate loans:		
One-to-four family	$ 285,045	$ 276,410
Multi-family	356	368
Home equity	6,324	4,803
Nonresidential	24,250	24,629
Agricultural	2,542	2,573
Construction and land	38,678	32,836
Total real estate loans	357,195	341,619
Commercial and industrial	3,128	2,313
Consumer and other loans	1,155	1,180
Total loans	$ 361,478	$ 345,112

The table above includes net deferred loan fees of $2,263 and $2,157 at September 30, 2022 and June 30, 2022, respectively.

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(5) LOANS (continued)

The following table presents the activity in the allowance for loan losses for the three months ended September 30, 2022 by portfolio segment:

Three months ended September 30, 2022	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$ 965	$ 11	$ —	$ —	$ 976
Multi-family	9	(6)	—	—	3
Home equity	34	10	—	—	44
Nonresidential	158	—	—	—	158
Agricultural	15	—	—	—	15
Construction and land	132	24	—	—	156
Total real estate loans	1,313	39	—	—	1,352
Commercial and industrial	24	11	—	—	35
Consumer and other loans	2	—	—	—	2
Total loans	$ 1,339	$ 50	$ —	$ —	$ 1,389

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at September 30, 2022:

	Ending Allowance on Loans:		Loans:	
At September 30, 2022	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate loans:				
One-to-four family	$ —	$ 976	$ 582	$ 284,463
Multi-family	—	3	—	356
Home equity	—	44	—	6,324
Nonresidential	—	158	467	23,783
Agricultural	—	15	—	2,542
Construction and land	—	156	—	38,678
Total real estate loans	—	1,352	1,049	356,146
Commercial and industrial	—	35	—	3,128
Consumer and other loans	—	2	—	1,155
Total loans	$ —	$ 1,389	$ 1,049	$ 360,429

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(5) LOANS (continued)

The following table presents the activity in the allowance for loan losses for the three months ended September 30, 2021 by portfolio segment:

Three months ended September 30, 2021	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$ 992	$ 10	$ —	$ —	$ 1,002
Multi-family	4	—	—	—	4
Home equity	41	—	—	—	41
Nonresidential	133	2	—	—	135
Agricultural	15	—	—	—	15
Construction and land	103	(13)	—	—	90
Total real estate loans	1,288	(1)	—	—	1,287
Commercial and industrial	22	1	—	—	23
Consumer and other loans	29	—	—	—	29
Total loans	$ 1,339	$ —	$ —	$ —	$ 1,339

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at June 30, 2022:

	Ending Allowance on Loans:		Loans:	
At June 30, 2022	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate loans:				
One-to-four family	$ —	$ 965	$ 948	$ 275,462
Multi-family	—	9	—	368
Home equity	—	34	—	4,803
Nonresidential	—	158	478	24,151
Agricultural	—	15	—	2,573
Construction and land	—	132	—	32,836
Total real estate loans	—	1,313	1,426	340,193
Commercial and industrial	—	24	—	2,313
Consumer and other loans	—	2	—	1,180
Total loans	$ —	$ 1,339	$ 1,426	$ 343,686

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(5) LOANS (continued)

The tables below present loans that were individually evaluated for impairment by portfolio segment at September 30, 2022 and June 30, 2022, including the average recorded investment balance and interest earned for the three months ended September 30, 2022 and the year ended June 30, 2022:

	September 30, 2022				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no recorded allowance:					
Real estate loans:					
One-to-four family	$ 584	$ 582	$ —	$ 765	$ 8
Multi-family	—	—	—	—	—
Home equity	—	—	—	—	—
Nonresidential	495	467	—	473	—
Agricultural	—	—	—	—	—
Construction and land	—	—	—	—	—
Total real estate loans	1,079	1,049	—	1,238	8
Commercial and industrial	—	—	—	—	—
Consumer and other loans	—	—	—	—	—
Total	$ 1,079	$ 1,049	$ —	$ 1,238	$ 8
With recorded allowance:					
Real estate loans:					
One-to-four family	$ —	$ —	$ —	$ —	$ —
Multi-family	—	—	—	—	—
Home equity	—	—	—	—	—
Nonresidential	—	—	—	—	—
Agricultural	—	—	—	—	—
Construction and land	—	—	—	—	—
Total real estate loans	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Consumer and other loans	—	—	—	—	—
Total	$ —	$ —	$ —	$ —	$ —
Totals:					
Real estate loans	$ 1,079	$ 1,049	$ —	$ 1,238	$ 8
Consumer and other loans	—	—	—	—	—
Total	$ 1,079	$ 1,049	$ —	$ 1,238	$ 8

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(5) LOANS (continued)

	June 30, 2022				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no recorded allowance:					
Real estate loans:					
One-to-four family	$ 952	$ 948	$ —	$ 474	$ 38
Multi-family	—	—	—	—	—
Home equity	—	—	—	—	—
Nonresidential	507	478	—	239	—
Agricultural	—	—	—	—	—
Construction and land	—	—	—	—	—
Total real estate loans	1,459	1,426	—	713	38
Commercial and industrial	—	—	—	—	—
Consumer and other loans	—	—	—	—	—
Total	$ 1,459	$ 1,426	$ —	$ 713	$ 38
With recorded allowance:					
Real estate loans:					
One-to-four family	$ —	$ —	$ —	$ —	$ —
Multi-family	—	—	—	—	—
Home equity	—	—	—	—	—
Nonresidential	—	—	—	—	—
Agricultural	—	—	—	—	—
Construction and land	—	—	—	—	—
Total real estate loans	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Consumer and other loans	—	—	—	—	—
Total	$ —	$ —	$ —	$ —	$ —
Totals:					
Real estate loans	$ 1,459	$ 1,426	$ —	$ 713	$ 38
Consumer and other loans	—	—	—	—	—
Total	$ 1,459	$ 1,426	$ —	$ 713	$ 38

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(5) LOANS (continued)

The following tables present the aging of past due loans as well as nonaccrual loans. Nonaccrual loans and accruing loans past due 90 days or more include both smaller balance homogenous loans and larger balance loans that are evaluated either collectively or, if over $250, individually for impairment.

Total past due loans and nonaccrual loans at September 30, 2022:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Nonaccrual Loans	Accruing Loans Past Due 90 Days or More
Real estate loans:								
One-to-four family	$ 2,160	$ 946	$ 403	$ 3,509	$ 281,536	$ 285,045	$ 843	$ —
Multi-family	202	—	—	202	154	356	—	—
Home equity	86	—	—	86	6,238	6,324	—	—
Nonresidential	151	—	—	151	24,099	24,250	467	—
Agricultural	—	—	—	—	2,542	2,542	—	—
Construction and land	883	—	—	883	37,795	38,678	—	—
Total real estate loans	3,482	946	403	4,831	352,364	357,195	1,310	—
Commercial and industrial	—	—	—	—	3,128	3,128	—	—
Consumer and other loans	—	—	—	—	1,155	1,155	—	—
Total	$ 3,482	$ 946	$ 403	$ 4,831	$ 356,647	$ 361,478	$ 1,310	$ —

COVID-19 Loan Modifications:

As a result of disruptions in economic conditions caused by COVID-19, the financial regulators issued guidance encouraging banks to work constructively with borrowers affected by the virus in our community. This guidance provided that the agencies will not criticize financial institutions that mitigate credit risk through prudent actions consistent with safe and sound practices. Section 4013 of the CARES Act, “Temporary Relief from Troubled Debt Restructurings,” which was extended by the Consolidated Appropriations Act for the fiscal year ending September 30, 2021, provided banks the option to temporarily suspend certain requirements under ASC 340-10 troubled debt restructuring classifications for a limited period of time to account for the effects of COVID-19. The Federal Reserve and the other banking agencies and regulators also issued a joint statement encouraging banks to work prudently with borrowers and to describe the agencies’ interpretations of how accounting rules under ASC 310-40 apply to certain COVID-19 related modifications. We have not considered any of the COVID-19 related modifications we performed to be troubled debt restructurings. Included in the table above are $5,227 in loans still remaining that were modified to defer principal payments or principal and interest payments from three to six months based on the affected borrower’s request and need for COVID-19 financial relief. All loans modified for COVID-19 financial relief were current at the time of modification. Of this amount, there were $3,615 in one-to-four family loans, $1,256 in non-residential loans and $356 in multi-family loans. As of September 30, 2022, $4,763 of such loans were current and $464 were 30 days or more past due. As of September 30, 2022, all of the COVID-19 related modifications had returned to regular payment status.

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(5) LOANS (continued)

Total past due and nonaccrual loans by portfolio segment at June 30, 2022:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Nonaccrual Loans	Accruing Loans Past Due 90 Days or More
Real estate loans:								
One-to-four family	$ 2,632	$ 891	$ 696	$ 4,219	$ 272,191	$ 276,410	$ 1,401	$ —
Multi-family	—	—	208	208	160	368	208	—
Home equity	17	—	—	17	4,786	4,803	—	—
Nonresidential	82	156	—	238	24,391	24,629	478	—
Agricultural	—	—	—	—	2,573	2,573	—	—
Construction and land	436	—	—	436	32,400	32,836	—	—
Total real estate loans	3,167	1,047	904	5,118	336,501	341,619	2,087	—
Commercial and industrial	—	—	—	—	2,313	2,313	—	—
Consumer and other loans	—	—	—	—	1,180	1,180	—	—
Total	$ 3,167	$ 1,047	$ 904	$ 5,118	$ 339,994	$ 345,112	$ 2,087	$ —

Included in the table above are $7,459 in loans still remaining that were modified to defer principal payments or principal and interest payments from three to six months based on the affected borrower's request and need for COVID-19 financial relief. All loans modified for COVID-19 financial relief were current at the time of modification. Of this amount, there were $4,846 in one-to-four family loans, $2,246 in non-residential loans and $367 in multi-family loans. As of June 30, 2022, $6,984 were current and $475 were 30 days or more past due.

Troubled Debt Restructurings:

At September 30, 2022 and June 30, 2022, total loans that have been modified as troubled debt restructurings were $496 and $869, respectively, which consisted of one non-residential real estate loan and one one-to-four family first lien loans at September 30, 2022 and one non-residential real estate loan and two one-to-four family first lien loans at June 30, 2022. Additionally, there were no commitments to lend any additional amounts on any loan after the modification. No loans have been modified as troubled debt restructurings during the three months ended September 30, 2022. No loans modified as troubled debt restructurings have defaulted since restructuring. All of these loans are on nonaccrual at September 30, 2022 and June 30, 2022. At September 30, 2022 and June 30, 2022, $467 and $839, respectively, were individually evaluated for impairment.

Allowance for Loan Loss:

There have been no changes to our allowance for loan loss methodology during the quarter ended September 30, 2022. We have assessed the impact of the COVID-19 pandemic on the allowance for loan loss using the information that is available. However, the fluidity of this pandemic precludes any prediction as to its ultimate impact. Due to the increase in the size of the loan portfolio, a $50 provision for loan losses was recorded during the quarter ended September 30, 2022. We believe the recorded allowance is adequate as of September 30, 2022. We will continue to review and make adjustments as may be necessary. To the best of our knowledge, we have recorded all losses that are both probable and reasonably estimable for the three months ended September 30, 2022 and September 30, 2021.

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(5) LOANS (continued)

Loan Grades:

The Company utilizes a grading system whereby all loans are assigned a grade based on the risk profile of each loan. Loan grades are determined based on an evaluation of relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. All loans, regardless of size, are analyzed and are given a grade based upon the management’s assessment of the ability of borrowers to service their debts.

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

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

Special Mention: Loan assets of this grade have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects for the loan or of the institution’s credit position at some future date.

Substandard: Loan assets of this grade are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Portfolio Segments:

One-to-four family: One-to-four family residential loans consist primarily of loans secured by first or second deeds of trust on primary residences, and are originated as adjustable-rate or fixed-rate loans for the construction, purchase or refinancing of a mortgage. These loans are collateralized by owner-occupied properties located in the Company's market area. The Company currently originates residential mortgage loans for our portfolio with loan-to-value ratios of up to 80% for traditional owner-occupied homes.

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

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

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.

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(5) LOANS (continued)

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

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

Loans secured by nonresidential real estate generally are larger than one-to-four family residential loans and involve greater credit risk. Nonresidential real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general, including the current adverse conditions.

The Company considers a number of factors in originating nonresidential real estate loans. The Company evaluates the qualifications and financial condition of the borrower, including credit history, cash flows, the applicable business plan, the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with the Company and other financial institutions. In evaluating the property securing the loan, the factors the Company considers include the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt service coverage ratio (the ratio of net operating income to debt service). The collateral underlying all nonresidential real estate loans is appraised by outside independent appraisers approved by our board of directors. Personal guarantees may be obtained from the principals of nonresidential real estate borrowers.

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

Loans secured by agricultural real estate generally are larger than one-to-four family residential loans and involve greater credit risk. Agricultural real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general, including the current adverse conditions.

Construction and Land: The Company makes construction loans to individuals for the construction of their primary residences and to commercial businesses for their real estate needs. These loans generally have maximum terms of twelve months, and upon completion of construction convert to conventional amortizing mortgage loans. Residential construction loans have rates and terms comparable to one-to-four family residential mortgage loans that the Company originates. Commercial construction loans have rate and terms comparable to commercial loans that we originate. During the construction phase, the borrower generally pays interest only. Generally, the maximum loan-to-value ratio of our owner-occupied construction loans is 80%. Residential construction loans are generally underwritten pursuant to the same guidelines used for originating permanent residential mortgage loans. Commercial construction loans are generally underwritten pursuant to the same guidelines used for originating commercial loans.

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

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(5) LOANS (continued)

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

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

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

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

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

Total loans by risk grade and portfolio segment at September 30, 2022:

	Pass	Pass-Watch	Special Mention	Substandard	Doubtful	Total
Real estate loans:						
One-to-four family	$ 281,341	$ 1,417	$ 737	$ 1,550	$ —	$ 285,045
Multi-family	356	—	—	—	—	356
Home equity	6,263	61	—	—	—	6,324
Nonresidential	23,654	—	—	596	—	24,250
Agricultural	2,542	—	—	—	—	2,542
Construction and land	38,491	156	31	—	—	38,678
Total real estate loans	352,647	1,634	768	2,146	—	357,195
Commercial and industrial	3,128	—	—	—	—	3,128
Consumer and other loans	1,155	—	—	—	—	1,155
Total	$ 356,930	$ 1,634	$ 768	$ 2,146	$ —	$ 361,478

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(5) LOANS (continued)

Total loans by risk grade and portfolio segment at June 30, 2022:

	Pass	Pass-Watch	Special Mention	Substandard	Doubtful	Total
Real estate loans:						
One-to-four family	$ 268,631	$ 2,806	$ 2,412	$ 2,561	$ —	$ 276,410
Multi-family	160	—	—	208	—	368
Home equity	4,603	193	—	7	—	4,803
Nonresidential	23,763	—	188	678	—	24,629
Agricultural	2,573	—	—	—	—	2,573
Construction and land	32,637	166	—	33	—	32,836
Total real estate loans	332,367	3,165	2,600	3,487	—	341,619
Commercial and industrial	2,313	—	—	—	—	2,313
Consumer and other loans	1,180	—	—	—	—	1,180
Total	$ 335,860	$ 3,165	$ 2,600	$ 3,487	$ —	$ 345,112

(6) BORROWINGS

At September 30, 2022 and June 30, 2022, advances from the Federal Home Loan Bank were as follows:

	September 30, 2022	
	Balance	Stated Interest Rate
FHLB advances due January 2023 through January 2025	$ 19,000	1.40% - 3.34%
Total	$ 19,000	

	June 30, 2022	
	Balance	Stated Interest Rate
FHLB advances due September 2021 through January 2025	$ 9,000	1.40% - 2.05%
Total	$ 9,000	

Payments over the next five years are as follows:

2023	$16,500
2025	$ 2,500

The weighted average interest rate of all outstanding FHLB advances was 2.75% and 1.74% on September 30, 2022 and June 30, 2022, respectively.

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances are collateralized by $26,014 and $14,779 of investment securities at September 30, 2022 and June 30, 2022, respectively. The Association has also pledged as collateral FHLB stock and has entered into a blanket collateral agreement whereby qualifying mortgages, free of other encumbrances and at various discounted values as determined by the FHLB, will be maintained. Based on this collateral, the Association is eligible to borrow up to a total of $136,707 at September 30, 2022.

There were no overnight borrowings at September 30, 2022 or June 30, 2022.

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(7) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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). We invest in the common stock of the Federal Home Loan Bank of Atlanta and in preferred and common stock of First National Bankers Bancshares, Inc. The stock is classified as restricted equity securities and is carried at cost.

Impaired Loans:

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. There were no impaired loans with specific allocations at September 30, 2022 or June 30, 2022.

Loans Held for Sale:

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.

Loan Servicing Rights:

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

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(7) FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Real Estate Owned:

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

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

Deposits:

The fair values disclosed for demand deposit, money market and savings accounts are equal to the amount payable on demand at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates of deposit to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

FHLB Advances:

The fair values of the Company's FHLB advances are estimated using discounted cash flow analysis based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Assets measured at fair value on a recurring basis at September 30, 2022 and June 30, 2022 are summarized below:

	Fair Value Measurements			
	September 30, 2022		June 30, 2022	
	(Level 2)	(Level 3)	(Level 2)	(Level 3)
Financial assets:				
Securities available-for-sale:				
FHLMC common stock	$ 43	$ —	$ 34	$ —
Certificates of deposit	—	—	1,249	—
Municipal securities	7,938	—	16,597	—
CMOs	11,591	—	13,064	—
U.S. Government agency mortgage-backed securities	109,303	—	109,604	—
U.S. Treasury and Government agency bonds	10,143	—	10,751	—
Total securities available-for-sale	139,018	—	151,299	—
Loan servicing rights	—	347	—	345
Total financial assets	$ 139,018	$ 347	$ 151,299	$ 345

There are no liabilities measured at fair value on a recurring basis.

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(7) FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The table below presents a reconciliation of all Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs for the three months ended September 30, 2022 and 2021:

	Fair Value Measurements (Level 3)	
	Three Months Ended	
	September 30, 2022	September 30, 2021
	Loan Servicing Rights	Loan Servicing Rights
Balance at beginning of period:	$ 345	$ 305
Unrealized net gains/(losses) included in net income	2	(14)
Balance at end of period:	$ 347	$ 291

The table below presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value at September 30, 2022 and June 30, 2022.

	Level 3 Quantitative Information				
	September 30, 2022 Fair Value	June 30, 2022 Fair Value	Valuation Technique	Unobservable Inputs	Range
Loan servicing rights	$ 347	$ 345	Discounted cash flows	Discount rate, estimated timing of cash flows	10.88% to 11.88%

Presented in the table below are assets measured at fair value on a nonrecurring basis using level 3 inputs at September 30, 2022 and June 30, 2022:

	Fair Value Measurements	
	September 30, 2022 (Level 3)	June 30, 2022 (Level 3)
Non-financial assets:		
Real estate owned, net:		
Nonresidential	$ 106	$ —
Total non-financial assets	106	—
Total assets measured at fair value on a non-recurring basis	$ 106	$ —

Real estate owned is carried at the lower of carrying value or fair value less costs to sell. The carrying value of real estate owned at September 30, 2022 was $106. There were no valuation allowances associated with these properties at September 30, 2022. There was no real estate owned at June 30, 2022.

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(7) FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Many of the Company's assets and liabilities are short-term financial instruments whose carrying amounts reported in the consolidated balance sheets approximate fair value. These items include cash and cash equivalents, bank owned life insurance, accrued interest receivable and payable balances, variable rate loan and deposits that re-price frequently and fully. The estimated fair values of the Company's remaining on-balance sheet financial instruments at September 30, 2022 and June 30, 2022 are summarized below:

	September 30, 2022				
	Carrying Amount	Fair Value			
		(Level 1)	(Level 2)	(Level 3)	Total
Financial assets					
Securities available-for-sale	$ 139,018	$ —	$ 139,018	$ —	$ 139,018
Loans, net [1]	360,089	—	—	345,808	345,808
Loan servicing rights	347	—	—	347	347
Restricted equity securities	1,564	N/A	N/A	N/A	N/A
Financial liabilities					
Deposits	$ 459,708	$ —	$ 453,738	$ —	$ 453,738
FHLB Advances	19,000	—	18,750	—	18,750

	June 30, 2022				
	Carrying Amount	Fair Value			
		(Level 1)	(Level 2)	(Level 3)	Total
Financial assets					
Securities available-for-sale	$ 151,299	$ —	$ 151,299	$ —	$ 151,299
Loans, net [1]	343,773	—	—	325,859	325,859
Loans held for sale[2]	152	—	—	152	152
Loan servicing rights	345	—	—	345	345
Restricted equity securities	1,189	N/A	N/A	N/A	N/A
Financial liabilities					
Deposits	$ 459,682	$ —	$ 454,970	$ —	$ 454,970
FHLB Advances	9,000	—	8,868	—	8,868

(1) Carrying amount of loans is net of unearned income and the allowance. In accordance with the adoption of ASU No. 2016-01, the fair value of loans as of September 30, 2022 and June 30, 2022 was measured using an exit price notion.

(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 3 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 $10.00 per share during 2011. The Company makes discretionary contributions to the ESOP and pays dividends on unallocated shares to the ESOP, and the ESOP uses funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation and expense is recorded. Dividends on allocated shares increase participant accounts.

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(8) EMPLOYEE STOCK OWNERSHIP PLAN (continued)

Participants receive the shares at the end of employment. The Company makes contributions to the ESOP each December. There were no discretionary contributions made to the ESOP for debt retirement in 2022 or 2021. Total ESOP compensation expense for the three months ended September 30, 2022 was $2 and for the three months ended September 30, 2021 was $89.

Shares held by the ESOP at September 30, 2022 and June 30, 2022 were as follows:

	September 30, 2022	June 30, 2022
Committed to be released to participants	8,032	5,355
Allocated to participants	165,060	165,060
Unearned	837	3,514
Total ESOP shares	173,929	173,929
Fair value of unearned shares	$ 20	$ 76

(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 could not be less than the fair market value on the date the stock option was granted. The compensation committee of the board of directors had sole discretion to determine the amount and to whom equity incentive awards were granted. The Plan remains in effect as long as any awards or options are outstanding. However, the ability to grant awards or options ceased as of April 5, 2022.

The following table summarizes stock option activity for the three months ended September 30, 2022:

	Options	Weighted- Average Exercise Price/Share	Aggregate Intrinsic Value (1)
Outstanding - June 30, 2022	49,900	$ 22.48	
Granted	—	—	
Exercised	(6,000)	19.40	
Forfeited	—	—	
Outstanding - September 30, 2022	43,900	$ 22.90	$ 54
Fully vested and exercisable at September 30, 2022	30,100	$ 21.92	$ 66
Expected to vest in future periods	13,800		
Fully vested and expected to vest - September 30, 2022	43,900	$ 22.90	$ 54

(1) The intrinsic value for stock options is defined as the difference between the current market value and the exercise price. The current market price was based on the closing price of common stock of $24.12 per share on September 30, 2022.

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(9) STOCK BASED COMPENSATION (continued)

The following table summarizes stock option activity for the three months ended September 30, 2021:

	Options	Weighted- Average Exercise Price/Share	Aggregate Intrinsic Value (1)
Outstanding - June 30, 2021	131,901	$ 15.70	
Granted	—	—	
Exercised	—	—	
Forfeited	—	—	
Outstanding - September 30, 2021	131,901	$ 15.70	$ 1,036
Fully vested and exercisable at September 30, 2021	112,401	$ 14.15	$ 1,057
Expected to vest in future periods	19,500		
Fully vested and expected to vest - September 30, 2021	131,901	$ 15.70	$ 1,036

(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 $23.56 per share on September 30, 2021.

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 1,159 and 1,437 options that were earned during the three months ended September 30, 2022 and 2021, respectively. Stock-based compensation expense for stock options for the three months ended September 30, 2022 was $5 and for the three months ended September 30, 2021 was $5. Total unrecognized compensation cost related to stock options was $45 at September 30, 2022 and is expected to be recognized over a weighted-average period of 3.0 years.

The following table summarizes non-vested restricted stock activity for the three months ended September 30, 2022 and September 30, 2021:

	September 30, 2022	September 30, 2021
Balance - beginning of year	9,700	14,300
Granted	—	—
Forfeited	—	—
Vested	—	—
Balance - end of period	9,700	14,300
Weighted average grant date fair value	$ 22.97	$ 22.50

The fair value of the restricted stock awards is amortized to compensation expense over their respective vesting periods and is based on the market price of the Company's common stock at the date of grant multiplied by the number of shares granted that are expected to vest. Stock-based compensation expense for restricted stock included in noninterest expense for the three months ended September 30, 2022 was $16 and for the three months ended September 30, 2021 was $25. Unrecognized compensation expense for non-vested restricted stock awards was $199 at September 30, 2022 and is expected to be recognized over a weighted-average period of 3.6 years.

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(10) LOAN SERVICING RIGHTS

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

The principal balances of those loans at September 30, 2022 and June 30, 2022 are as follows:

	September 30, 2022	June 30, 2022
Mortgage loan portfolio serviced for:		
FHLMC	$ 38,117	$ 39,476

Custodial escrow balances maintained in connection with serviced loans were $598 and $453 at September 30, 2022 and June 30, 2022.

Activity for loan servicing rights for the three months ended September 30, 2022 and 2021 is as follows:

	Three Months Ended	
	September 30, 2022	September 30, 2021
Loan servicing rights:		
Beginning of period:	$ 345	$ 305
Change in fair value	2	(14)
End of period:	$ 347	$ 291

Fair value at September 30, 2022 was determined using a discount rate of 11.88%, prepayment speed assumptions ranging from 6.40% to 16.30% Conditional Prepayment Rate ("CPR") depending on the loans' coupon, term and seasoning, and a weighted average default rate of 3.0%. Fair value at September 30, 2021 was determined using a discount rate of 8.63%, prepayment speed assumptions ranging from 10.36% to 19.69% Conditional Prepayment Rate ("CPR") depending on the loans' coupon, term and seasoning, and a weighted average default rate of 10.0%.

(11) SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the three months ended September 30, 2022 and 2021 is as follows:

	September 30, 2022	September 30, 2021
Cash paid during the period for:		
Interest paid	$ 282	$ 327
Income taxes paid	$ 250	$ 310
Supplemental noncash disclosures:		
Transfers from loans to real estate owned	$ 106	$ —
Change in unrealized gain/loss on securities available-for-sale	$ (8,462)	$ (1,010)

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(12) SUBSEQUENT EVENTS

Dividend Declared

On October 27, 2022, the Board of Directors of Oconee Federal Financial Corp. declared a quarterly cash dividend of $0.10 per share of Oconee Federal Financial Corp.'s common stock. The dividend is payable to stockholders of record as of November 10, 2022, and will be paid on or about November 23, 2022.

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

This Quarterly Report on Form 10-Q contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include:

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

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic, and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this Quarterly Report on Form 10-Q.

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 in response to changes in economic conditions (including real estate values, loan demand, inflation, commodity prices and employment levels) nationally and in our market areas;
- the social and economic effects of the COVID-19 pandemic or any other pandemic;
- adverse changes in the financial industry, securities, credit and national and local real estate markets (including real estate values);
- significant increases in our delinquencies and loan losses, including as a result of our inability to resolve classified assets, changes in the underlying cash flows of our borrowers, and management’s assumptions in determining the adequacy of the allowance for loan losses;
- credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and in our allowance and provision for loan losses;
- use of estimates for determining the fair value of certain of our assets, which may prove to be incorrect and result in significant declines in valuations;
- increased competition among depository and other financial institutions;
- our ability to attract and maintain deposits, including introducing new deposit products;
- inflation and changes in interest rates generally, including changes in the relative differences between short term and long term interest rates and in deposit interest rates, that may affect our net interest margin and funding sources;
- fluctuations in the demand for loans, which may be affected by the number of unsold homes, land and other properties in our market areas and by declines in the value of real estate in our market area;
- declines in the yield on our assets resulting from the current low interest rate environment;
- our ability to successfully implement our business strategies, including attracting and maintaining deposits and introducing new financial products;
- risks related to high concentration of loans secured by real estate located in our market areas;
- changes in the level of government support of housing finance;
- the results of examinations by our regulators, including the possibility that our regulators may, among other things, require us to increase our reserve for loan losses, write down assets, change our regulatory capital position, limit our ability to borrow funds or maintain or increase deposits, or prohibit us from paying dividends, which could adversely affect our dividends and earnings;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- changes in laws or government regulations or policies affecting financial institutions, which could result in, among other things, increased deposit insurance premiums and assessments, capital requirements (particularly the new capital regulations), regulatory fees and compliance costs and the resources we have available to address such changes;
- changes in the ability of third-party providers to perform their obligations to us;
- technological changes that may be more difficult or expensive than expected;
- cyber-attacks, computer viruses and other technological risks that may breach the security of our websites or other systems to obtain unauthorized access to confidential information, destroy data or disable our systems;
- the effect of any global or national war, conflict or act of terrorism;
- our reliance on a small executive staff;
- changes in our compensation and benefit plans, and our ability to retain key members of our senior management team and to address staffing needs to implement our strategic plan;
- changes in consumer spending, borrowing and savings habits;

- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;
- our ability to control costs and expenses, particularly those related to operating as a publicly traded company;
- the effects of actual government shutdowns;
- the ability of the U.S. government to manage federal debt limits;
- other changes in our financial condition or results of operations that reduce capital available to pay dividends;
- other changes in the financial condition or future prospects of issuers of securities that we own, including our stock in the FHLB of Atlanta; and
- other economic, competitive, governmental, regulatory and operational factors affecting our operations, pricing, products and services.

Critical Accounting Policies

There were no material changes to the critical accounting policies as disclosed in the Annual Report on Form 10-K for Oconee Federal Financial Corp. for the year ended June 30, 2022, as filed with the Securities and Exchange Commission.

Comparison of Financial Condition at September 30, 2022 and June 30, 2022

Our total assets increased by $4.2 million, or 0.8%, to $549.0 million at September 30, 2022 from $544.8 million at June 30, 2022.

Total cash and cash equivalents decreased $1.9 million, or 19.1%, to $7.9 million at September 30, 2022 from $9.7 million at June 30, 2022. The decrease in cash and cash equivalents was due to funds being used during the three month period to invest in higher yielding assets.

Our available-for-sale securities portfolio decreased by $12.3 million from $151.3 million at June 30, 2022 to $139.0 million at September 30, 2022. The decrease in securities classified as available-for-sale was primarily a result of unrealized losses in the portfolio due to the rising interest rate environment.

Gross loans increased $16.4 million, or 4.7%, to $361.5 million at September 30, 2022 from $345.1 million at June 30, 2022. This increase was primarily a result of loan originations generally outpacing loan repayments during the three months ended September 30, 2022.

Deferred tax assets increased by $1.8 million from $4.7 million at June 30, 2022 to $6.5 million at September 30, 2022. The increase was primarily a result of the unrealized losses in the securities portfolio due to the rising interest rate environment.

Deposits were $459.7 million at September 30, 2022 and at June 30, 2022. Oconee Federal, MHC's cash is held on deposit with the Association. We generally do not accept brokered deposits and no brokered deposits were accepted during the three months ended September 30, 2022.

FHLB advances increased $10.0 million, or 111.1%, to $19.0 million at September 30, 2022 from $9.0 million at June 30, 2022. The increase was due to funding needs for loan growth. We have credit available under a loan agreement with the Federal Home Loan Bank of Atlanta in the amount of 25% of our total assets as of September 30, 2022, or approximately $136.7 million. We had no federal funds purchased as of September 30, 2022 or as of June 30, 2022.

Total shareholders' equity decreased $5.9 million, or 7.8%, to $69.4 million at September 30, 2022 compared to $75.3 million at June 30, 2022. The decrease was primarily the result of net income for the three months ended September 30, 2022 of $1.3 million being more than offset by $6.7 million in other comprehensive loss, and $561 thousand in dividends distributed. The other comprehensive loss is attributed to unrecognized losses in the investment portfolio due to rising market rates. The Association exceeded all regulatory capital requirements at September 30, 2022 and June 30, 2022.

Nonperforming Assets

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

	September 30, 2022	June 30, 2022
	(Dollars in thousands)	
Nonaccrual loans:		
Real estate loans:		
One-to-four family	$ 843	$ 1,401
Multi-family	—	208
Home equity	—	—
Nonresidential	467	478
Agricultural	—	—
Construction and land	—	—
Total real estate loans	1,310	2,087
Commercial and industrial	—	—
Consumer and other loans	—	—
Total nonaccrual loans	$ 1,310	$ 2,087
Accruing loans past due 90 days or more:		
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	$ 1,310	$ 2,087
Real estate owned, net:		
One-to-four family	$ —	$ —
Nonresidential	106	—
Construction and land	—	—
Other nonperforming assets	—	—
Total nonperforming assets	$ 1,416	$ 2,087
Accruing troubled debt restructurings	$ —	$ —
Troubled debt restructurings and total nonperforming assets	$ 1,416	$ 2,087
Total nonperforming loans to total loans	0.36%	0.60%
Total nonperforming assets to total assets	0.26%	0.38%
Total nonperforming assets to loans and real estate owned	0.39%	0.60%

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

Nonperforming assets, which are comprised of nonaccrual loans only, decreased $671 thousand from $2.1 million as of June 30, 2022 to $1.42 million as of September 30, 2022. There were no accruing loans past due 90 days or more at either date. The decrease in nonaccrual loans primarily related to normal monthly fluctuations combined with payoffs. Nonperforming assets to total assets and nonperforming assets to loans and real estate owned were 0.26% and 0.39%, respectively, at September 30, 2022 compared to 0.38% and 0.60%, respectively at June 30, 2022.

Analysis of Net Interest Margin

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

	For the Three Months Ended					
	September 30, 2022			September 30, 2021		
	Average Balance	Interest and Dividends (1)	Yield/ Cost	Average Balance	Interest and Dividends (1)	Yield/ Cost
	(Dollars in Thousands)					
Assets:						
Interest-earning assets:						
Loans	$ 352,847	$ 3,665	$ 4.15%	$ 337,626	$ 3,445	4.08%
Investment securities	159,045	758	1.91	130,286	352	1.08
Investment securities, tax-free	7,138	41	2.30	15,057	86	2.28
Interest bearing deposits in other banks	2,735	15	2.18	20,887	10	0.19
Federal Funds Sold	52	0	2.72	83	0	0.12
Other interest-earning assets	1,289	5	1.54	1,377	6	1.66
Total interest-earning assets	523,106	4,484	3.43	505,316	3,899	3.09
Noninterest-earning assets	25,547			39,331		
Total assets	$ 548,653			$ 544,647		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$ 94,732	$ 33	0.14%	$ 77,066	$ 27	0.14%
Money market deposits	92,491	42	0.18	82,359	32	0.15
Savings	51,713	8	0.06	44,456	10	0.09
Certificates of deposit	161,361	135	0.33	184,377	237	0.51
Total interest-bearing deposits	400,297	218	0.22	388,258	306	0.31
Federal Funds Purchased	646	4	2.58	—	—	—
Short Term FHLB Borrowings	9,109	53	2.30	9,167	4	0.16
Long Term FHLB Borrowings	2,554	9	1.40	5,000	19	1.52
Total interest-bearing liabilities	412,606	284	0.27	402,425	329	0.32
Noninterest bearing deposits	58,352			52,791		
Other noninterest-bearing liabilities	932			842		
Total liabilities	471,890			456,058		
Equity	76,763			88,589		
Total liabilities and equity	$ 548,653			$ 544,647		
Net interest income		$ 4,200			$ 3,570	
Interest rate spread			3.16%			2.76%
Net interest margin			3.21%			2.83%
Average interest-earning assets to average interest-bearing liabilities	1.27x			1.26x		

(1) Categories that show zero are below $1 thousand.

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for the major categories of our interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to (i) changes attributable to changes in volume (i.e., changes in average balances multiplied by the prior-period average rate) and (ii) changes attributable to rate (i.e., changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate. There are no out-of-period items or adjustments to exclude from this table.

	Three Months Ended September 30, 2022 Compared to 2021		
	Volume	Rate	Net
	(Dollars in thousands)		
Interest income:			
Loans	$ 157	$ 63	$ 220
Investment securities	70	291	361
Interest bearing deposits in other banks	—	5	5
Other interest-earning assets	—	(1)	(1)
Total	227	358	585
Interest expense:			
Deposits	10	(98)	(88)
Federal Funds Purchased	4	—	4
Short Term FHLB Borrowings	—	49	49
Long Term FHLB Borrowings	(9)	(1)	(10)
Total	5	(50)	(45)
Increase in net interest income	$ 222	$ 408	$ 630

Contractual Maturities and Interest Rate Sensitivity

The following table summarizes the scheduled repayments of our loan portfolio at September 30, 2022. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less. Loans are presented net of loans in process.

	Real Estate Loans								
	One-to-Four Family	Multi-family	Home Equity	Non-Residential	Agricultural	Construction and Land	Commercial and Industrial	Consumer and Other	Total
	(Dollars in thousands)								
Amounts due in:									
One year or less	$ 1,926	$ —	$ 61	$ 516	$ —	$ 2,467	$ 387	$ 685	$ 6,042
More than one to five years	8,998	—	316	11,009	2,049	12,943	2,643	374	38,332
More than five to fifteen years	42,999	154	5,665	12,643	493	1,339	98	31	63,422
More than fifteen years	231,122	202	282	82	—	21,929	—	65	253,682
Total	$ 285,045	$ 356	$ 6,324	$ 24,250	$ 2,542	$ 38,678	$ 3,128	$ 1,155	$361,478

Variable Rate loans with greater than one year maturity	$ 68,697
Fixed Rate loans with greater than one year maturity	286,739
	$ 355,436

Comparison of Operating Results for the Three Months Ended September 30, 2022 and September 30, 2021

General. We reported net income of $1.3 million for the three months ended September 30, 2022 as compared to net income of $771 thousand for the three months ended September 30, 2021. Interest income increased $585 thousand for the three months ended September 30, 2022 compared to the three months ended September 30, 2021 and interest expense decreased $45 thousand, resulting in a net increase to net interest income of $630 thousand. Noninterest income increased $78 thousand for the three months ended September 30, 2022 compared to the three months ended September 30, 2021. Total noninterest expense decreased $89 thousand. Tax expense increased $179 thousand.

Interest Income. Interest income increased by $585 thousand to $4.5 million for the three months ended September 30, 2022. The yield on interest-earning assets increased 34 basis points from 3.09% for the three months ended September 30, 2021 to 3.43% for the three months ended September 30, 2022. Total average interest-earning assets increased by $17.8 million to $523.1 million for the three months ended September 30, 2022 from $505.3 million for the three months ended September 30, 2021.

Interest income on loans increased by $220 thousand to $3.7 million from $3.4 million for the three months ended September 30, 2022 and September 30, 2021, respectively. The yield on loans increased seven basis points from 4.08% for the three months ended September 30, 2021 to 4.15% for the three months ended September 30, 2022. The average balance of loans increased by $15.2 million, or 4.5%, to $352.8 million for the three months ended September 30, 2022 from $337.6 million for the three months ended September 30, 2021. The increase in the average balance of our loans is reflective of increased originations offsetting normal loan repayments.

Interest income on investment securities increased $361 thousand, or 82.4%, to $799 thousand for the three months ended September 30, 2022 from $438 thousand for the three months ended September 30, 2021. This reflected an increase of $20.8 million, or 14.3%, in the average balances of securities to $166.2 million from $145.3 million for the three months ended September 30, 2022 and 2021, respectively, combined with an increase in the total average yield of our investment securities of 71 basis points to 1.92% from 1.21%. The increase in average balances of our investment securities is reflective of our efforts during the past twelve months to invest in higher yielding assets. Our increased yields are reflective of overall higher investment rates that were available on purchases made during the prior twelve months.

Income on other interest earning assets increased by $4 thousand, or 25.0%, to $20 thousand for the three months ended September 30, 2022 from $16 thousand for the three months ended September 30, 2021. The average balance of other interest-earning assets decreased $18.3 million to $4.1 million for the three months ended September 30, 2022 from $22.3 million for the three months ended September 30, 2021 and the yield increased 172 basis points over the same period. The decrease in average balance was primarily due to money market funds being used to purchase higher yielding assets during the prior twelve months. The increase in yield was primarily a result of a shift in composition of earning assets in this category combined with an overall increase in market rates. Money market funds decreased resulting in a higher percentage of restricted equity securities, which earned higher rates during the three months ended September 30, 2022. Federal Funds rates increased due to an overall increase in market rates.

Interest Expense. Interest expense decreased $45 thousand, or 13.7%, to $284 thousand for the three months ended September 30, 2022 from $329 thousand for the three months ended September 30, 2021. The average rate paid on interest bearing liabilities decreased five basis points from 0.32% for the three months ended September 30, 2021 to 0.27% for the three months ended September 30, 2022. This decrease was primarily due to the maturity of older certificates of deposit, which were at higher rates.

Interest expense on deposits decreased $88 thousand, or 28.8%, to $218 thousand for the three months ended September 30, 2022 from $306 thousand for the three months ended September 30, 2021. The average rate paid on interest bearing deposits decreased nine basis points from 0.31% for the three months ended September 30, 2021 to 0.22% for the three months ended September 30, 2022. The decrease in the average rate paid on deposits was offset by an increase in the average balance of interest bearing deposits of $12.0 million, or 3.1%, to $400.3 million for the three months ended September 30, 2022 from $388.3 million for the three months ended September 30, 2021.

The largest decrease in deposit interest expense was related to expense on certificates of deposit, which decreased by $102 thousand, or 43.0% to $135 thousand for the three months ended September 30, 2022 from $237 thousand for the three months ended September 30, 2021. The decrease in interest expense on these deposits was attributable to a decrease in the average cost on these deposits to 0.33% from 0.51%, in addition to a $23.0 million decrease in average balances. The decrease in interest expense on these deposits is due to the maturity of older certificates of deposit, which were at higher rates. The decrease in the average balance of these deposits is reflective of normal deposit fluctuation.

Interest expense on NOW, demand deposits, regular savings and other deposits increased by $4 thousand to $41 thousand for the three months ended September 30, 2022 from $37 thousand for the three months ended September 30, 2021. The increase in interest expense on these deposits was attributable to a $24.9 million increase in average balances, offset by a decrease in the average cost on these deposits to 0.11% from 0.12%. The decrease in interest expense on these deposits is reflective of a decrease in our savings rates. The increase in the average balance of these deposits is reflective of normal deposit fluctuation.

Interest expense on money market deposits increased by $10 thousand, or 31.3%, to $42 thousand for the three months ended September 30, 2022 from $32 thousand for the three months ended September 30, 2021. The increase in interest expense on these deposits was attributable to an increase in the average cost on these deposits to 0.18% from 0.15% combined with a $10.1 million increase in average balances. The increase in interest expense on these deposits is reflective of an overall increase in market rates. The increase in the average balance of these deposits is reflective of normal deposit fluctuation.

Interest expense for other borrowings increased by $43 thousand, or 188.9%, to $66 thousand for the three months ended September 30, 2022 from $23 thousand for the three months ended September 30, 2021. Other borrowings include both FHLB advances as well as any overnight federal funds purchased. The increase in interest expense on other borrowings was attributable to an increase in the average cost of the borrowings to 2.14% from 0.64% offset by a $1.9 million decrease in average balances. The increase in the cost of these borrowings is reflective of an overall increase in market rates. The decrease in the average balance of these borrowings is reflective of normal borrowing fluctuation.

Net Interest Income. Net interest income before the provision for loan losses increased by $630 thousand, or 17.7%, to $4.2 million for the three months ended September 30, 2022. Our interest rate spread and net interest margin increased to 3.16% and 3.21%, from 2.76% and 2.83%, for the three months ended September 30, 2022 and September 30, 2021, respectively. The increase in income on earning assets combined with the decrease in cost of interest bearing liabilities contributed to the increase in net interest margin for the three months ended September 30, 2022.

Provision for Loan Losses. We recorded a $50 thousand provision for loan losses for the three months ended September 30, 2022 and no provision for the three months ended September 30, 2021. There were no charge-offs for the three months ended September 30, 2022 or for the three months ended September 30, 2021. The provision for the three months ended September 30, 2022 is primarily due to the growth of the loan portfolio balance.

Our total allowance for loan losses was $1.4 million, or 0.38% of total gross loans as of September 30, 2022 and $1.3 million, or 0.39% of total gross loans as of June 30, 2022. There were no specifically identified impaired loans at September 30, 2022 or June 30, 2022. Total loans individually evaluated for impairment decreased $377 thousand, or 26.4%, to $1.0 million at September 30, 2022 compared to $1.4 million at June 30, 2022.

To the best of our knowledge, we have recorded all losses that are both probable and reasonably estimable for the three months ended September 30, 2022 and 2021. There have been no changes to our allowance for loan loss methodology during three months ended September 30, 2022.

Noninterest Income. Noninterest income increased $78 thousand, or 18.9%, to $491 thousand for the three months ended September 30, 2022 from $413 thousand for the three months ended September 30, 2021. Gain on sale of mortgage loans was $8 thousand and $106 thousand for the three months ended September 30, 2022 and 2021, respectively. Loan sales declined due to a decrease in demand brought on by the increased rate environment. The change in the fair value of equity securities was a gain of $9 thousand for the three months ended September 30, 2022 compared to a loss of $50 thousand for the three months ended September 30, 2021. Gains or losses on the fair value of equity securities are market driven. There were $84 thousand in losses on the sale of securities for the three months ended September 30, 2022, and no sale of securities for the three months ended September 30, 2021. Securities were sold during the quarter ended September 30, 2022 to adjust the investment portfolio to yield higher net earnings going forward. The net gain on payoff of purchase credit impaired loans was $189 thousand for the three months ended September 30, 2022 due to the liquidation of one loan. There were no payoffs of purchase credit impaired loans for the three months ended September 30, 2021. Changes in all other noninterest income items were due to normal periodic fluctuations.

Noninterest Expense. Noninterest expense for the three months ended September 30, 2022 decreased by $89 thousand, or 3.0%, to $2.9 million for three months ended September 30, 2022. Salaries and employee benefits decreased $98 thousand due to reduced ESOP costs and higher deferred loan costs. Data processing increased $18 thousand due to routine upgrades and volume increases in the current period. Professional and supervisory fees increased $19 thousand due to normal periodic fluctuations. For the three months ended September 30, 2022, we recognized a gain in the value of the loan servicing asset of $2 thousand compared to $14 thousand loss for the three months ended September 30, 2021. The fair value of our loan servicing asset is subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Changes in all other noninterest expense items were due to normal periodic fluctuations.

Income Tax Expense. Tax expense increased $179 thousand, or 82.5%, to $396 thousand for the three months ended September 30, 2022 from $217 thousand for the three months ended September 30, 2021. This was due to an increase in pre-tax income during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021. Our effective income tax rate was 22.8% and 22.0% for the three months ended September 30, 2022 and 2021, respectively.

Liquidity and Capital Resources

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

Liquidity management is both a daily and long-term responsibility of management. Our liquidity monitoring process is designed to contend with changing economic situations, which would include the COVID-19 pandemic. We have therefore not changed our daily or long-term liquidity management procedures. 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. Treasury and Government sponsored agencies and mortgage-backed securities of short duration. If we require funds beyond our ability to generate them internally, we have credit available under a loan agreement with the Federal Home Loan Bank of Atlanta in the amount of 25% of total assets, as of September 30, 2022, or approximately $136.7 million as of that date, with a remaining availability of $117.7 million as of September 30, 2022.

Common Stock Dividends. On August 25, 2022, the Company paid a $0.10 per share cash dividend on its common stock for a total of $561 thousand.

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 September 30, 2022. 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 September 30, 2022, there have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934, amended) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

(a) None.

(b) Not applicable.

(c) Issuer Repurchases.

There were no stock repurchases during the first quarter of fiscal 2023.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits required by Item 601 of Regulation S-K are included with this Form 10-Q and are listed below.

Exhibit number	Description
31.1	Certification of Curtis T. Evatt, President and Chief Executive Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
31.2	Certification of John W. Hobbs, Executive Vice President and Chief Financial Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
32	Certification of Curtis T. Evatt, President and Chief Executive Officer, and John W. Hobbs, Executive Vice President and Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, 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
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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: November 14, 2022

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

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

Exhibit 31.1

CERTIFICATION

I, Curtis T. Evatt, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Oconee Federal Financial Corp.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2022

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

Exhibit 31.2

CERTIFICATION

I, John W. Hobbs, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Oconee Federal Financial Corp.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2022

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

Exhibit 32

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Oconee Federal Financial Corp. (the "Company") on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission (the "Report"), the undersigned, Curtis T. Evatt, President and Chief Executive Officer, and John W. Hobbs, Executive Vice President and Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Curtis T. Evatt — Date: November 14, 2022
Curtis T. Evatt
President and Chief Executive Officer

/s/ John W. Hobbs — Date: November 14, 2022
John W. Hobbs
Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Oconee Federal Financial Corp. and will be retained by Oconee Federal Financial Corp. and furnished to the Securities and Exchange Commission or its staff upon request.