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

FORM 10-Q

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

For the Quarterly Period ended December 31, 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 February 6, 2023, the registrant had 5,609,268 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

	December 31, 2022 (unaudited)	June 30, 2022
ASSETS		
Cash and due from banks	$ 4,080	$ 2,327
Interest-earning deposits	2,575	7,406
Fed funds sold	347	—
Total cash and cash equivalents	7,002	9,733
Securities available-for-sale	138,212	151,299
Loans	378,994	345,112
Allowance for loan losses	(1,439)	(1,339)
Net loans	377,555	343,773
Loans held for sale, at fair value	—	152
Premises and equipment, net	8,367	8,579
Real estate owned, net	106	—
Accrued interest receivable		
Loans	1,083	944
Investments	421	468
Restricted equity securities, at cost	2,424	1,189
Bank owned life insurance	20,627	20,398
Goodwill	2,593	2,593
Core deposit intangible	48	74
Loan servicing rights	364	345
Deferred tax assets	6,056	4,678
Other assets	364	567
Total assets	$ 565,222	$ 544,792
LIABILITIES		
Deposits		
Noninterest - bearing	$ 52,126	$ 60,697
Interest - bearing	403,548	398,985
Total deposits	455,674	459,682
Federal Home Loan Bank advances	37,000	9,000
Accrued interest payable and other liabilities	904	853
Total liabilities	493,578	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	6,087	6,055
Retained earnings	84,105	82,790
Accumulated other comprehensive loss	(18,604)	(13,588)
Unearned ESOP shares	—	(56)
Total shareholders' equity	71,644	75,257
Total liabilities and shareholders' equity	$ 565,222	$ 544,792

See accompanying notes to the consolidated financial statements

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

	Three Months Ended		Six Months Ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Interest and dividend income:				
Loans, including fees	$ 3,785	$ 3,722	$ 7,452	$ 7,168
Securities, taxable	770	441	1,527	793
Securities, tax-exempt	38	86	79	172
Other interest-earning assets	32	16	52	31
Total interest income	4,625	4,265	9,110	8,164
Interest expense:				
Deposits	404	269	621	575
Other borrowings	246	19	313	42
Total interest expense	650	288	934	617
Net interest income	3,975	3,977	8,176	7,547
Provision for loan losses	50	—	100	—
Net interest income after provision for loan losses	3,925	3,977	8,076	7,547
Noninterest income:				
Service charges on deposit accounts	107	102	223	202
Income on bank owned life insurance	115	114	229	226
Mortgage servicing income	24	28	50	58
Gain/(loss) on sale of mortgage loans	(2)	42	6	149
ATM & debit card income	116	112	225	223
Change in fair value of equity securities, net	(14)	1	(5)	(49)
Loss on sale of securities, net	—	—	(84)	—
Gain on payoff of purchase credit impaired loans	—	—	189	—
Other	4	4	8	6
Total noninterest income	350	403	841	815
Noninterest expense:				
Salaries and employee benefits	1,652	1,716	3,251	3,412
Occupancy and equipment	482	494	966	977
Data processing	269	249	539	501
ATM & debit card expense	69	84	160	170
Professional and supervisory fees	106	129	233	236
Office expense	69	56	114	92
Advertising	63	57	131	134
FDIC deposit insurance	35	36	70	69
Foreclosed assets, net	—	—	1	(1)
Change in loan servicing asset	(17)	(11)	(19)	3
Other	207	187	396	398
Total noninterest expense	2,935	2,997	5,842	5,991
Income before income taxes	1,340	1,383	3,075	2,371
Income tax expense	244	147	640	364
Net income	$ 1,096	$ 1,236	$ 2,435	$ 2,007
Other comprehensive income/(loss)				
Unrealized gains/(losses) on securities available-for-sale	$ 2,107	$ (834)	$ (6,434)	$ (1,844)
Tax effect	(437)	174	1,352	387
Reclassification adjustment for losses realized in net income	—	—	84	—
Tax effect	—	—	(18)	—
Total other comprehensive income/(loss)	1,670	(660)	(5,016)	(1,457)
Comprehensive income/(loss)	$ 2,766	$ 576	$ (2,581)	$ 550
Basic net income per share: (Note 3)	$ 0.20	$ 0.22	$ 0.43	$ 0.36
Diluted net income per share: (Note 3)	$ 0.20	$ 0.22	$ 0.43	$ 0.36

Dividends declared per share:	$ 0.10	$ 0.10	$ 0.20	$ 0.20

See accompanying notes to the consolidated financial statements

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

For the three months ended December 31, 2022 and December 31, 2021

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Unearned ESOP Shares	Total
Balance at September 30, 2021	$ 66	$ (10)	$ 6,401	$ 81,127	$ 144	$ (161)	$ 87,567
Net income	—	—	—	1,236	—	—	1,236
Other comprehensive loss	—	—	—	—	(660)	—	(660)
Purchase of 5,025 shares of treasury stock (1)	—	—	(121)	—	—	—	(121)
Stock-based compensation expense	—	—	31	—	—	—	31
Dividends (2)	—	—	—	(547)	—	—	(547)
ESOP shares earned	—	—	99	—	—	52	151
Balance at December 31, 2021	$ 66	$ (10)	$ 6,410	$ 81,816	$ (516)	$ (109)	$ 87,657
Balance at September 30, 2022	$ 66	$ (10)	$ 6,049	$ 83,568	$ (20,274)	$ (27)	$ 69,372
Net income	—	—	—	1,096	—	—	1,096
Other comprehensive income	—	—	—	—	1,670	—	1,670
Stock-based compensation expense	—	—	21	—	—	—	21
Dividends (3)	—	—	—	(559)	—	—	(559)
ESOP shares earned	—	—	17	—	—	27	44
Balance at December 30, 2022	$ 66	$ (10)	$ 6,087	$ 84,105	$ (18,604)	$ —	$ 71,644

(1) The weighted average cost of treasury shares purchased during the three months ended December 31, 2021 was $24.11 per share. Treasury stock repurchases were accounted for using the par value method.

(2) Approximately $75 of cash dividends paid on shares in the ESOP was used as an additional principal reduction on the ESOP debt, resulting in the release of approximately 7,000 additional shares. The portion of the dividend paid on allocated shares of approximately $63 and resulting release of approximately 5,700 shares, was treated as a dividend. The portion of the dividend paid on unallocated shares of approximately $12 and resulting release of approximately 1,300 shares, and was accounted for as additional compensation expense for the three months ended December 31, 2021.

(3) Upon the final payment on the ESOP debt, approximately $113 was principal reduction resulting in the release of approximately 10,700 additional shares. The portion of the payment on allocated shares of approximately $110 and resulting release of approximately 10,600 shares, was treated as a dividend. The portion of the payment on unallocated shares of approximately $3 and resulting release of approximately 100 shares, and was accounted for as additional compensation expense for the three months ended December 31, 2022.

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 six months ended December 31, 2022 and December 31, 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	—	—	—	2,007	—	—	2,007
Other comprehensive loss	—	—	—	—	(1,457)	—	(1,457)
Purchase of 7,890 shares of treasury stock (1)	—	—	(188)	—	—	—	(188)
Stock-based compensation expense	—	—	61	—	—	—	61
Dividends (2)	—	—	—	(1,106)	—	—	(1,106)
ESOP shares earned	—	—	137	—	—	103	240
Balance at December 31, 2021	$ 66	$ (10)	$ 6,410	$ 81,816	$ (516)	$ (109)	$ 87,657
Balance at June 30, 2022	$ 66	$ (10)	$ 6,055	$ 82,790	$ (13,588)	$ (56)	$ 75,257
Net income	—	—	—	2,435	—	—	2,435
Other comprehensive loss	—	—	—	—	(5,016)	—	(5,016)
Stock-based compensation expense	—	—	41	—	—	—	41
Dividends (3)	—	—	2	(1,120)	—	—	(1,118)
ESOP shares earned	—	—	(11)	—	—	56	45
Balance at December 31, 2022	$ 66	$ (10)	$ 6,087	$ 84,105	$ (18,604)	$ —	$ 71,644

(1) The weighted average cost of treasury shares purchased during the six months ended December 31, 2021 was $23.86 per share. Treasury stock repurchases were accounted for using the par value method.

(2) Approximately $75 of cash dividends paid on shares in the ESOP was used as an additional principal reduction on the ESOP debt, resulting in the release of approximately 7,000 additional shares. The portion of the dividend paid on allocated shares of approximately $63 and resulting release of approximately 5,700 shares, was treated as a dividend. The portion of the dividend paid on unallocated shares of approximately $12 and resulting release of approximately 1,300 shares, and was accounted for as additional compensation expense for the six months ended December 31, 2021.

(3) Upon the final payment on the ESOP debt, approximately $113 was principal reduction resulting in the release of approximately 10,700 additional shares. The portion of the payment on allocated shares of approximately $110 and resulting release of approximately 10,600 shares, was treated as a dividend. The portion of the payment on unallocated shares of approximately $3 and resulting release of approximately 100 shares, and was accounted for as additional compensation expense for the six months ended December 31, 2022.

See accompanying notes to the consolidated financial statements

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

	Six Months Ended	
	December 31, 2022	December 31, 2021
Cash Flows From Operating Activities		
Net income	$ 2,435	$ 2,007
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	100	—
Depreciation and amortization, net	506	988
Net amortization/(accretion) of purchase accounting adjustments	139	(118)
Deferred income tax benefit	(127)	(66)
Change in loan servicing asset	(19)	3
Net loss on sales of securities	84	—
Mortgage loans originated for sale	(859)	(7,821)
Mortgage loans sold	1,017	7,403
Gain on sales of mortgage loans	(6)	(149)
Change in fair value of equity securities	5	49
Increase in cash surrender value of bank owned life insurance	(229)	(227)
Gain on payoff of purchased credit impaired loans	(189)	—
ESOP shares earned	56	240
Stock based compensation expense	41	61
Net change in operating assets and liabilities:		
Accrued interest receivable and other assets	100	148
Accrued interest payable and other liabilities	51	102
Net cash provided by operating activities	3,105	2,620
Cash Flows From Investing Activities		
Purchases of premises and equipment	(64)	(102)
Purchases of securities available-for-sale	(11,150)	(36,238)
Proceeds from maturities, paydowns and calls of securities available-for-sale	6,628	17,111
Proceeds from sales of securities available-for-sale	11,049	—
Sales of restricted equity securities	150	375
Purchases of restricted equity securities	(1,385)	—
Loan originations and repayments, net	(33,938)	930
Net cash used in investing activities	(28,710)	(17,924)
Cash Flows from Financing Activities		
Net change in deposits	(4,008)	3,626
Proceeds from notes payable to FHLB	32,000	—
Repayment of notes payable to FHLB	(4,000)	(10,000)
Dividends paid	(1,118)	(1,106)
Purchase of treasury stock	—	(188)
Net cash provided/(used) by financing activities	22,874	(7,668)
Change in cash and cash equivalents	(2,731)	(22,972)
Cash and cash equivalents, beginning of period	9,733	30,649
Cash and cash equivalents, end of period	$ 7,002	$ 7,677

See accompanying notes to the consolidated financial statements

(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 December 31, 2022 and June 30, 2022 and the results of operations and cash flows for the interim periods ended December 31, 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 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.

(2) NEW ACCOUNTING STANDARDS

Accounting Standards Update ("ASU") 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848". Issued in December 2022, the FASB issued amendments to extend the period of time preparers can use the reference rate reform relief guidance under Accounting Standards Codification (ASC) Topic 848 from December 31, 2022, to December 31, 2024, to address the fact that all London Interbank Offered Rate (LIBOR) tenors were not discontinued as of December 31, 2021, and some tenors will be published until June 2023. The amendments are effective immediately for all entities and applied prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

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.

(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 a parallel loss model. 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 December 31, 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.

(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		Six Months Ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Earnings per share				
Net income	$ 1,096	$ 1,236	$ 2,435	$ 2,007
Less: distributed earnings allocated to participating securities	(1)	(2)	(2)	(3)
Less: (undistributed income) dividends in excess of earnings allocated to participating securities	(1)	(1)	(2)	(2)
Net earnings available to common shareholders	$ 1,094	$ 1,233	$ 2,431	$ 2,002
Weighted average common shares outstanding including participating securities	5,609,268	5,589,974	5,608,800	5,591,279
Less: participating securities	(9,700)	(14,300)	(9,700)	(14,300)
Less: average unearned ESOP shares	(1,339)	(8,553)	(2,677)	(11,154)
Weighted average common shares outstanding	5,598,229	5,567,121	5,596,423	5,565,825
Basic earnings per share	$ 0.20	$ 0.22	$ 0.43	$ 0.36
Weighted average common shares outstanding	5,598,229	5,567,121	5,596,423	5,565,825
Add: dilutive effects of assumed exercises of stock options	4,460	47,539	64,544	46,274
Average shares and dilutive potential common shares	5,602,689	5,614,660	5,660,967	5,612,099
Diluted earnings per share	$ 0.20	$ 0.22	$ 0.43	$ 0.36

For the three and the six months ended December 31, 2022 and 2021, 21,200 options were considered anti-dilutive as the exercise price was in excess of the average market price.

(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 December 31, 2022 and June 30, 2022 are as follows:

December 31, 2022	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Change in Fair Value Equity Securities**	**Fair Value**
Available-for-sale:					
FHLMC common stock	$ 20	$ —	$ —	$ 9	$ 29
Municipal securities	8,683	—	(515)	—	8,168
CMOs	13,018	—	(1,757)	—	11,261
U.S. Government agency mortgage-backed securities	127,631	—	(19,160)	—	108,471
U.S. Treasury and Government agency bonds	12,402	—	(2,119)	—	10,283
Total available-for-sale	$ 161,754	$ —	$ (23,551)	$ 9	$ 138,212

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 December 31, 2022 and June 30, 2022 had fair values of $55,633 and $19,322, respectively. These securities were pledged to secure public deposits and Federal Home Loan Bank ("FHLB") advances.

At December 31, 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.

(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 December 31, 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		
December 31, 2022	**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)**
Available-for-sale:									
Municipal securities	$ 7,809	$ (428)	20	$ 359	$ (87)	1	$ 8,168	$ (515)	21
CMOs	3,746	(344)	7	7,515	(1,413)	8	11,261	(1,757)	15
U.S. Government agency mortgage-backed securities	36,853	(3,280)	41	71,618	(15,880)	48	108,471	(19,160)	89
U.S. Treasury and Government agency bonds	—	—	—	10,283	(2,119)	7	10,283	(2,119)	7
	$ 48,408	$ (4,052)	68	$ 89,775	$ (19,499)	64	$ 138,183	$ (23,551)	132

	Less than 12 Months			12 Months or More			Total		
June 30, 2022	**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)**
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 December 31, 2022 were recognized into net income for the three or six months ended December 31, 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.

(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 December 31, 2022 and June 30, 2022 by contractual maturity.

	December 31, 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	1,447	1,394	4,756	4,727
Due after five years to ten years	17,948	15,619	22,244	20,391
Due after ten years	1,690	1,438	2,422	2,230
Mortgage-backed securities, CMOs and FHLMC stock [(1)]	140,669	119,761	137,817	122,702
Total available for sale	$ 161,754	$ 138,212	$ 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 and six months ended December 31, 2022 and 2021:

	Three Months Ended		Six Months Ended	
Available-for-sale:	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Proceeds	$ —	$ —	$ 11,049	$ —
Gross gains	—	—	—	—
Gross losses	—	—	(84)	—

The tax benefit related to the net realized loss for the six months ended December 31, 2022 was $18.

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

(5) LOANS

The components of loans at December 31, 2022 and June 30, 2022 were as follows:

	December 31, 2022	June 30, 2022
Real estate loans:		
One-to-four family	$ 298,958	$ 276,410
Multi-family	348	368
Home equity	6,977	4,803
Nonresidential	23,504	24,629
Agricultural	2,515	2,573
Construction and land	42,703	32,836
Total real estate loans	375,005	341,619
Commercial and industrial	2,816	2,313
Consumer and other loans	1,173	1,180
Total loans	$ 378,994	$ 345,112

The table above includes net deferred loan fees of $2,292 and $2,157 at December 31, 2022 and June 30, 2022, respectively.

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

(5) LOANS (continued)

The following table presents the activity in the allowance for loan losses for the three and six months ended December 31, 2022 by portfolio segment:

Three months ended December 31, 2022	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$ 976	$ 40	$ —	$ —	$ 1,016
Multi-family	3	—	—	—	3
Home equity	44	5	—	—	49
Nonresidential	158	(6)	—	—	152
Agricultural	15	—	—	—	15
Construction and land	156	16	—	—	172
Total real estate loans	1,352	55	—	—	1,407
Commercial and industrial	35	(5)	—	—	30
Consumer and other loans	2	—	—	—	2
Total loans	$ 1,389	$ 50	$ —	$ —	$ 1,439

Six months ended December 31, 2022	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$ 965	$ 51	$ —	$ —	$ 1,016
Multi-family	9	(6)	—	—	3
Home equity	34	15	—	—	49
Nonresidential	158	(6)	—	—	152
Agricultural	15	—	—	—	15
Construction and land	132	40	—	—	172
Total real estate loans	1,313	94	—	—	1,407
Commercial and industrial	24	6	—	—	30
Consumer and other loans	2	—	—	—	2
Total loans	$ 1,339	$ 100	$ —	$ —	$ 1,439

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at December 31, 2022:

	Ending Allowance on Loans:		Loans:	
At December 31, 2022	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate loans:				
One-to-four family	$ —	$ 1,016	$ —	$ 298,958
Multi-family	—	3	—	348
Home equity	—	49	—	6,977
Nonresidential	—	152	456	23,048
Agricultural	—	15	—	2,515
Construction and land	—	172	—	42,703
Total real estate loans	—	1,407	456	374,549
Commercial and industrial	—	30	—	2,816
Consumer and other loans	—	2	—	1,173
Total loans	$ —	$ 1,439	$ 456	$ 378,538

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

(5) LOANS (continued)

The following table presents the activity in the allowance for loan losses for the three and six months ended December 31, 2021 by portfolio segment:

Three months ended December 31, 2021	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$ 1,002	$ (13)	$ —	$ —	$ 989
Multi-family	4	—	—	—	4
Home equity	41	—	—	—	41
Nonresidential	135	4	—	—	139
Agricultural	15	—	—	—	15
Construction and land	90	5	—	—	95
Total real estate loans	1,287	(4)	—	—	1,283
Commercial and industrial	23	3	—	—	26
Consumer and other loans	29	1	—	—	30
Total loans	$ 1,339	$ —	$ —	$ —	$ 1,339

Six months ended December 31, 2021	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$ 992	$ (3)	$ —	$ —	$ 989
Multi-family	4	—	—	—	4
Home equity	41	—	—	—	41
Nonresidential	133	6	—	—	139
Agricultural	15	—	—	—	15
Construction and land	103	(8)	—	—	95
Total real estate loans	1,288	(5)	—	—	1,283
Commercial and industrial	22	4	—	—	26
Consumer and other loans	29	1	—	—	30
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

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

(5) LOANS (continued)

The tables below present loans that were individually evaluated for impairment by portfolio segment at December 31, 2022 and June 30, 2022, including the average recorded investment balance and interest earned for the six months ended December 31, 2022 and the year ended June 30, 2022:

	December 31, 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	$ —	$ —	$ —	$ 474	$ —
Multi-family	—	—	—	—	—
Home equity	—	—	—	—	—
Nonresidential	484	456	—	467	—
Agricultural	—	—	—	—	—
Construction and land	—	—	—	—	—
Total real estate loans	484	456	—	941	—
Commercial and industrial	—	—	—	—	—
Consumer and other loans	—	—	—	—	—
Total	$ 484	$ 456	$ —	$ 941	$ —
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	$ 484	$ 456	$ —	$ 941	$ —
Consumer and other loans	—	—	—	—	—
Total	$ 484	$ 456	$ —	$ 941	$ —

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

(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

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

(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 December 31, 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	$ 4,252	$ 1,059	$ 227	$ 5,538	$ 293,420	$ 298,958	$ 421	$ —
Multi-family	—	—	—	—	348	348	—	—
Home equity	168	—	—	168	6,809	6,977	—	—
Nonresidential	—	—	82	82	23,422	23,504	537	—
Agricultural	—	—	—	—	2,515	2,515	—	—
Construction and land	—	—	—	—	42,703	42,703	—	—
Total real estate loans	4,420	1,059	309	5,788	369,217	375,005	958	—
Commercial and industrial	—	—	—	—	2,816	2,816	—	—
Consumer and other loans	—	—	—	—	1,173	1,173	—	—
Total	$ 4,420	$ 1,059	$ 309	$ 5,788	$ 373,206	$ 378,994	$ 958	$ —

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. 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. We have not considered any of the COVID-19 related modifications we performed to be troubled debt restructurings. Included in the table above are $5,047 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 $3,480 in one-to-four family loans, $1,219 in non-residential loans and $348 in multi-family loans. As of December 31, 2022, $4,878 of such loans were current and $169 were 30 days or more past due. As of December 31, 2022, all of the COVID-19 related modifications had returned to regular payment status.

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

(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 December 31, 2022 and June 30, 2022, total loans that have been modified as troubled debt restructurings were $484 and $869, respectively, which consisted of one non-residential real estate loan and one one-to-four family first lien loan at December 31, 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 six months ended December 31, 2022. No loans modified as troubled debt restructurings have defaulted since restructuring. All of these loans are on nonaccrual at December 31, 2022 and June 30, 2022. At December 31, 2022 and June 30, 2022, $456 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 December 31, 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 December 31, 2022. We believe the recorded allowance is adequate as of December 31, 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 and six months ended December 31, 2022 and December 31, 2021.

(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.

(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%.

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

(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 December 31, 2022:

	Pass	Pass-Watch	Special Mention	Substandard	Doubtful	Total
Real estate loans:						
One-to-four family	$ 295,914	$ 1,417	$ 723	$ 904	$ —	$ 298,958
Multi-family	348	—	—	—	—	348
Home equity	6,916	61	—	—	—	6,977
Nonresidential	22,840	—	—	664	—	23,504
Agricultural	2,515	—	—	—	—	2,515
Construction and land	42,505	168	30	—	—	42,703
Total real estate loans	371,038	1,646	753	1,568	—	375,005
Commercial and industrial	2,816	—	—	—	—	2,816
Consumer and other loans	1,173	—	—	—	—	1,173
Total	$ 375,027	$ 1,646	$ 753	$ 1,568	$ —	$ 378,994

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

(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 December 31, 2022 and June 30, 2022, advances from the Federal Home Loan Bank were as follows:

	December 31, 2022	
	Balance	Stated Interest Rate
FHLB advances due January 2023 through January 2025	$ 37,000	1.40% - 4.55%
Total	$ 37,000	

	June 30, 2022	
	Balance	Stated Interest Rate
FHLB advances due September 2021 through January 2025	$ 9,000	1.40% - 0.05%
Total	$ 9,000	

Payments over the next five fiscal years are as follows:

2023	$34,500
2025	$ 2,500

The weighted average interest rate of all outstanding FHLB advances was 3.94% and 1.74% on December 31, 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 $43,371 and $14,779 of investment securities at December 31, 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 $137,770 at December 31, 2022.

There were no overnight borrowings at December 31, 2022 or June 30, 2022.

(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 December 31, 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.

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

(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 December 31, 2022 and June 30, 2022 are summarized below:

	Fair Value Measurements			
	December 31, 2022		June 30, 2022	
	(Level 2)	(Level 3)	(Level 2)	(Level 3)
Financial assets:				
Securities available-for-sale:				
FHLMC common stock	$ 29	$ —	$ 34	$ —
Certificates of deposit	—	—	1,249	—
Municipal securities	8,168	—	16,597	—
CMOs	11,261	—	13,064	—
U.S. Government agency mortgage-backed securities	108,471	—	109,604	—
U.S. Treasury and Government agency bonds	10,283	—	10,751	—
Total securities available-for-sale	138,212	—	151,299	—
Loan servicing rights	—	364	—	345
Total financial assets	$ 138,212	$ 364	$ 151,299	$ 345

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

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

(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 and six months ended December 31, 2022 and 2021:

	Fair Value Measurements (Level 3)			
	Three Months Ended		Six Months Ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
	Loan Servicing Rights	Loan Servicing Rights	Loan Servicing Rights	Loan Servicing Rights
Balance at beginning of period:	$ 347	$ 291	$ 345	$ 305
Unrealized net gains/(losses) included in net income	17	11	19	(3)
Balance at end of period:	$ 364	$ 302	$ 364	$ 302

The table below presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value at December 31, 2022 and June 30, 2022.

	Level 3 Quantitative Information				
	December 31, 2022 Fair Value	June 30, 2022 Fair Value	Valuation Technique	Unobservable Inputs	Range
Loan servicing rights	$ 364	$ 345	Discounted cash flows	Discount rate, estimated timing of cash flows	10.88% to 11.38%
Real estate owned net:					
Nonresidential	$ 106	$ —	Sales comparison approach	Adjustment for differences between the comparable sales	0% to 20%

Presented in the table below are assets measured at fair value on a nonrecurring basis using level 3 inputs at December 31, 2022 and June 30, 2022:

	Fair Value Measurements	
	December 31, 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 December 31, 2022 was $106. There were no valuation allowances associated with these properties at December 31, 2022. There was no real estate owned at June 30, 2022.

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

(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 December 31, 2022 and June 30, 2022 are summarized below:

	December 31, 2022				
	Carrying Amount	Fair Value			
		(Level 1)	(Level 2)	(Level 3)	Total
Financial assets					
Securities available-for-sale	$ 138,212	$ —	$ 138,212	$ —	$ 138,212
Loans, net (1)	377,555	—	—	366,895	366,895
Loan servicing rights	364	—	—	364	364
Restricted equity securities	2,424	N/A	N/A	N/A	N/A
Financial liabilities					
Deposits	$ 455,674	$ —	$ 449,316	$ —	$ 449,316
FHLB Advances	37,000	—	36,789	—	36,789

	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 December 31, 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.

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

(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 and six months ended December 31, 2022 was $1 and $3, respectively, and for the three and six months ended December 31, 2021 was $101 and $190, respectively. The ESOP loan was repaid in full in December 2022.

Shares held by the ESOP at December 31, 2022 and June 30, 2022 were as follows:

	December 31, 2022	June 30, 2022
Committed to be released to participants	10,709	5,355
Allocated to participants	163,220	163,220
Unearned	—	5,354
Total ESOP shares	173,929	173,929
Fair value of unearned shares	$ —	$ 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 six months ended December 31, 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 - December 31, 2022	43,900	$ 22.90	$ 92
Fully vested and exercisable at December 31, 2022	31,700	$ 22.29	$ 86
Expected to vest in future periods	12,200		
Fully vested and expected to vest - December 31, 2022	43,900	$ 22.90	$ 92

(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 $25.00 per share on December 31, 2022.

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

(9) STOCK BASED COMPENSATION (continued)

The following table summarizes stock option activity for the six months ended December 31, 2021:

	Options	Weighted-Average Exercise Price/Share	Aggregate Intrinsic Value (1)
Outstanding - June 30, 2021	131,901	$ 15.70	
Granted	—	—	
Exercised	(15,552)	11.58	
Forfeited	—	—	
Outstanding - December 31, 2021	116,349	$ 16.25	$ 694
Fully vested and exercisable at December 31, 2021	98,449	$ 14.81	$ 730
Expected to vest in future periods	17,900		
Fully vested and expected to vest - December 31, 2021	116,349	$ 16.25	$ 694

(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 $22.22 per share on December 31, 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 2,319 and 2,873 options that were earned during the six months ended December 31, 2022 and 2021, respectively. Stock-based compensation expense for stock options for the three and six months ended December 31, 2022 was $4 and $9, respectively, and for the three and six months ended December 31, 2021 was $5 and $11, respectively. Total unrecognized compensation cost related to stock options was $41 at December 31, 2022 and is expected to be recognized over a weighted-average period of 2.8 years.

The following table summarizes non-vested restricted stock activity for the six months ended December 31, 2022 and December 31, 2021:

	December 31, 2022	December 31, 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 and six months ended December 31, 2022 was $16 and $32, respectively, and for the three and six months ended December 31, 2021 was $25 and $50, respectively. Unrecognized compensation expense for non-vested restricted stock awards was $186 at December 31, 2022 and is expected to be recognized over a weighted-average period of 3.3 years.

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

(10) LOAN SERVICING RIGHTS

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

The principal balances of those loans at December 31, 2022 and June 30, 2022 are as follows:

	December 31, 2022	June 30, 2022
Mortgage loan portfolio serviced for:		
FHLMC	$ 36,864	$ 39,476

Custodial escrow balances maintained in connection with serviced loans were $215 and $453 at December 31, 2022 and June 30, 2022.

Activity for loan servicing rights for the three and six months ended December 31, 2022 and 2021 is as follows:

	Three Months Ended		Six Months Ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Loan servicing rights:				
Beginning of period:	$ 347	$ 291	$ 345	$ 305
Change in fair value	17	11	19	(3)
End of period:	$ 364	$ 302	$ 364	$ 302

Fair value at December 31, 2022 was determined using a discount rate of 11.38%, prepayment speed assumptions ranging from 6.19% to 22.18% Conditional Prepayment Rate ("CPR") depending on the loans' coupon, term and seasoning, and a weighted average default rate of 3.0%. Fair value at December 31, 2021 was determined using a discount rate of 8.63%, prepayment speed assumptions ranging from 9.76% to 19.17% CPR depending on the loans' coupon, term and seasoning, and a weighted average default rate of 7.0%.

(11) SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the six months ended December 31, 2022 and 2021 is as follows:

	December 31, 2022	December 31, 2021
Cash paid during the period for:		
Interest paid	$ 932	$ 615
Income taxes paid	$ 940	$ 460
Supplemental noncash disclosures:		
Transfers from loans to real estate owned	$ 106	$ —
Change in unrealized gain/loss on securities available-for-sale	$ (6,434)	$ (1,844)

(12) SUBSEQUENT EVENTS

Dividend Declared

On January 26, 2023, the Board of Directors of Oconee Federal Financial Corp. declared a quarterly cash dividend of $0.10 per share of Oconee Federal Financial Corp.'s common stock. The dividend is payable to stockholders of record as of February 9, 2023, and will be paid on or about February 23, 2023.

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 December 31, 2022 and June 30, 2022

Our total assets increased by $20.4 million, or 3.8%, to $565.2 million at December 31, 2022 from $544.8 million at June 30, 2022.

Total cash and cash equivalents decreased $2.7 million, or 28.1%, to $7.0 million at December 31, 2022 from $9.7 million at June 30, 2022. The decrease in cash and cash equivalents was due to normal periodic fluctuations.

Our available-for-sale securities portfolio decreased by $13.1 million from $151.3 million at June 30, 2022 to $138.2 million at December 31, 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 $33.9 million, or 9.8%, to $379.0 million at December 31, 2022 from $345.1 million at June 30, 2022. This increase was primarily a result of loan originations generally outpacing loan repayments during the six months ended December 31, 2022.

Restricted equity securities increased by $1.2 million from $1.2 million at June 30, 2022 to $2.4 million at December 31, 2022. The increase was a result of an increase in FHLB stock associated with increased FHLB borrowings.

Deferred tax assets increased by $1.4 million from $4.7 million at June 30, 2022 to $6.1 million at December 31, 2022. The increase was primarily a result of the unrealized losses in the securities portfolio due to the rising interest rate environment.

Deposits decreased $4.0 million, or 0.9%, to $455.7 million at December 31, 2022 from $459.7 million at June 30, 2022. The decrease in deposits was due to normal periodic fluctuations. Oconee Federal, MHC's cash is held on deposit with the Association. We generally do not accept brokered deposits and no brokered deposits were accepted during the six months ended December 31, 2022.

FHLB advances increased $28.0 million, or 311.1%, to $37.0 million at December 31, 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 December 31, 2022, or approximately $137.8 million. We had no federal funds purchased as of December 31, 2022 or as of June 30, 2022.

Total shareholders' equity decreased $3.6 million, or 4.8%, to $71.6 million at December 31, 2022 compared to $75.3 million at June 30, 2022. The decrease was primarily the result of net income for the six months ended December 31, 2022 of $2.4 million being offset by $5.0 million in other comprehensive loss, and $1.1 million 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 December 31, 2022 and June 30, 2022.

Nonperforming Assets

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

	December 31, 2022	June 30, 2022
	(Dollars in thousands)	
Nonaccrual loans:		
Real estate loans:		
One-to-four family	$ 421	$ 1,401
Multi-family	—	208
Home equity	—	—
Nonresidential	537	478
Agricultural	—	—
Construction and land	—	—
Total real estate loans	958	2,087
Commercial and industrial	—	—
Consumer and other loans	—	—
Total nonaccrual loans	$ 958	$ 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	$ 958	$ 2,087
Real estate owned, net:		
One-to-four family	$ —	$ —
Nonresidential	106	—
Construction and land	—	—
Other nonperforming assets	—	—
Total nonperforming assets	$ 1,064	$ 2,087
Accruing troubled debt restructurings	$ —	$ —
Troubled debt restructurings and total nonperforming assets	$ 1,064	$ 2,087
Total nonperforming loans to total loans	0.25%	0.60%
Total nonperforming assets to total assets	0.19%	0.38%
Total nonperforming assets to loans and real estate owned	0.28%	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 decreased $1.0 million from $2.1 million as of June 30, 2022 to $1.1 million as of December 31, 2022. Nonaccrual loans decreased $1.1 million to $1.0 million as of December 31, 2022 and real estate owned increased $106 thousand to $106 thousand as of December 31, 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 0.19% and 0.28%, respectively, at December 31, 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					
	December 31, 2022			December 31, 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	$ 371,035	$ 3,785	4.08%	$ 337,869	$ 3,722	4.41%
Investment securities	156,750	770	1.96	142,827	441	1.24
Investment securities, tax-free	6,664	38	2.28	15,029	86	2.29
Interest bearing deposits in other banks	891	8	3.56	6,981	2	0.11
Federal funds sold	71	1	4.04	40	0	0.13
Other interest-earning assets	1,950	23	4.68	1,033	14	5.38
Total interest-earning assets	537,361	4,625	3.44	503,779	4,265	3.39
Noninterest-earning assets	17,755			37,401		
Total assets	$ 555,116			$ 541,180		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$ 90,785	$ 51	0.22%	$ 79,885	$ 26	0.13%
Money market deposits	93,436	90	0.38	85,365	31	0.14
Savings	50,244	7	0.06	47,030	9	0.08
Certificates of deposit	163,802	256	0.62	180,299	203	0.45
Total interest-bearing deposits	398,267	404	0.40	392,579	269	0.27
Federal funds purchased	473	4	3.76	—	—	—
Short term FHLB borrowings	25,478	232	3.61	—	—	—
Long term FHLB borrowings	2,510	10	1.58	5,000	19	1.52
Total interest-bearing liabilities	426,728	650	0.60	397,579	288	0.29
Noninterest bearing deposits	57,214			54,980		
Other noninterest-bearing liabilities	1,242			976		
Total liabilities	485,184			453,535		
Equity	69,932			87,645		
Total liabilities and equity	$ 555,116			$ 541,180		
Net interest income		$ 3,975			$ 3,977	
Interest rate spread			2.84%			3.10%
Net interest margin			2.97%			3.16%
Average interest-earning assets to average interest-bearing liabilities	1.26x			1.27x		

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

	For the Six Months Ended					
	December 31, 2022			December 31, 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	$ 361,941	$ 7,452	4.12%	$ 337,748	$ 7,168	4.24%
Investment securities	157,898	1,527	1.93	136,556	793	1.16
Investment securities, tax-free	6,901	79	2.29	15,043	172	2.29
Interest bearing deposits in other banks	1,813	23	2.52	13,934	12	0.17
Federal funds sold	62	1	3.45	62	0	0.12
Other interest-earning assets	1,620	28	3.43	1,205	19	3.13
Total interest-earning assets	530,235	9,110	3.44	504,548	8,164	3.24
Noninterest-earning assets	21,652			38,367		
Total assets	$ 551,887			$ 542,915		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$ 92,759	$ 84	0.18%	$ 78,475	$ 53	0.13%
Money market deposits	92,963	132	0.28	83,862	63	0.15
Savings	50,978	15	0.06	45,743	19	0.08
Certificates of deposit	162,582	390	0.48	182,338	440	0.48
Total interest-bearing deposits	399,282	621	0.31	390,418	575	0.29
Federal funds purchased	559	9	3.08	—	—	—
Short term FHLB borrowings	17,293	284	3.26	4,583	4	0.16
Long term FHLB borrowings	2,500	20	1.59	5,000	38	1.52
Total interest-bearing liabilities	419,634	934	0.44	400,001	617	0.31
Noninterest bearing deposits	57,782			53,886		
Other noninterest-bearing liabilities	1,087			909		
Total liabilities	478,503			454,796		
Equity	73,384			88,119		
Total liabilities and equity	$ 551,887			$ 542,915		
Net interest income		$ 8,176			$ 7,547	
Interest rate spread			3.00%			2.93%
Net interest margin			3.09%			2.99%
Average interest-earning assets to average interest-bearing liabilities	1.26x			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 December 31, 2022 Compared to 2021			Six Months Ended December 31, 2022 Compared to 2021		
	Volume	Rate	Net	Volume	Rate	Net
	(Dollars in thousands)			(Dollars in thousands)		
Interest income:						
Loans	$ 256	$ (193)	$ 63	$ 487	$ (203)	$ 284
Investment securities	19	262	281	90	551	641
Interest bearing deposits in other banks	—	6	6	(1)	12	11
Federal funds sold	—	1	1	—	1	1
Other interest-earning assets	11	(2)	9	7	2	9
Total	286	74	360	583	363	946
Interest expense:						
Deposits	4	131	135	13	33	46
Federal Funds Purchased	4	—	4	9	—	9
Short term FHLB borrowings	232	—	232	35	245	280
Long term FHLB borrowings	(10)	1	(9)	(20)	2	(18)
Total	230	132	362	37	280	317
Increase/(Decereas) in net interest income	$ 56	$ (58)	$ (2)	$ 546	$ 83	$ 629

Contractual Maturities and Interest Rate Sensitivity

The following table summarizes the scheduled repayments of our loan portfolio at December 31, 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	$ 1,857	$ —	$ 59	$ 570	$ —	$ 3,805	$ 292	$ 566	$ 7,149
More than one to five years	9,038	—	396	15,706	2,037	14,252	2,435	518	44,382
More than five to fifteen years	41,738	149	6,241	7,134	478	2,571	89	27	58,427
More than fifteen years	246,325	199	281	94	—	22,075	—	62	269,036
Total	$ 298,958	$ 348	$ 6,977	$ 23,504	$ 2,515	$ 42,703	$ 2,816	$ 1,173	$ 378,994

Variable rate loans with greater than one year maturity	$ 73,319
Fixed rate loans with greater than one year maturity	298,526
	$ 371,845

Comparison of Operating Results for the Three Months Ended December 31, 2022 and December 31, 2021

General. We reported net income of $1.1 million for the three months ended December 31, 2022 as compared to net income of $1.2 million for the three months ended December 31, 2021. Interest income increased $360 thousand for the three months ended December 31, 2022 compared to the three months ended December 31, 2021 and interest expense increased $362 thousand, resulting in a net decrease to net interest income of $2 thousand. Noninterest income decreased $53 thousand for the three months ended December 31, 2022 compared to the three months ended December 31, 2021. Total noninterest expense decreased $62 thousand. Tax expense increased $97 thousand.

Interest Income. Interest income increased by $360 thousand to $4.6 million for the three months ended December 31, 2022. The yield on interest-earning assets increased five basis points from 3.39% for the three months ended December 31, 2021 to 3.44% for the three months ended December 31, 2022. Total average interest-earning assets increased by $33.6 million to $537.4 million for the three months ended December 31, 2022 from $503.8 million for the three months ended December 31, 2021.

Interest income on loans increased by $63 thousand to $3.8 million from $3.7 million for the three months ended December 31, 2022 and December 31, 2021, respectively. The yield on loans decreased 33 basis points from 4.41% for the three months ended December 31, 2021 to 4.08% for the three months ended December 31, 2022. The decrease in yield is primarily due to lower deferred fees recognized in the three months ended December 31, 2022 compared to the three months ended December 31, 2021. The average balance of loans increased by $33.2 million, or 9.8%, to $371.0 million for the three months ended December 31, 2022 from $337.9 million for the three months ended December 31, 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 $281 thousand, or 53.3%, to $808 thousand for the three months ended December 31, 2022 from $527 thousand for the three months ended December 31, 2021. This was the result of an increase of $5.6 million, or 3.5%, in the average balances of securities to $163.4 million from $157.9 million for the three months ended December 31, 2022 and 2021, respectively, combined with an increase in the total average yield of our investment securities of 64 basis points to 1.98% from 1.34%. 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 $16 thousand, or 98.3%, to $32 thousand for the three months ended December 31, 2022 from $16 thousand for the three months ended December 31, 2021. The average balance of other interest-earning assets decreased $5.1 million to $2.9 million for the three months ended December 31, 2022 from $8.1 million for the three months ended December 31, 2021 and the yield increased 357 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 December 31, 2022. Federal Funds rates increased due to an overall increase in market rates.

Interest Expense. Interest expense increased $362 thousand, or 125.7%, to $650 thousand for the three months ended December 31, 2022 from $288 thousand for the three months ended December 31, 2021. The average rate paid on interest bearing liabilities increased 31 basis points from 0.29% for the three months ended December 31, 2021 to 0.60% for the three months ended December 31, 2022.

Interest expense on deposits increased $135 thousand, or 50.2%, to $404 thousand for the three months ended December 31, 2022 from $269 thousand for the three months ended December 31, 2021. The average rate paid on interest bearing deposits increased 13 basis points from 0.27% for the three months ended December 31, 2021 to 0.40% for the three months ended December 31, 2022. The average balance of interest bearing deposits increased $5.7 million, or 1.5%, to $398.3 million for the three months ended December 31, 2022 from $392.6 million for the three months ended December 31, 2021.

Interest expense on certificates of deposit increased by $53 thousand, or 26.1%, to $256 thousand for the three months ended December 31, 2022 from $203 thousand for the three months ended December 31, 2021. The increase in interest expense on these deposits was attributable to an increase in the average cost on these deposits to 0.62% from 0.45%, offset by a $16.5 million decrease in average balances. The increase in interest cost on these deposits is due to an overall increase in market 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 $23 thousand to $58 thousand for the three months ended December 31, 2022 from $35 thousand for the three months ended December 31, 2021. The increase in interest expense on these deposits was attributable to a $14.1 million increase in average balances, combined with an increase in the average cost on these deposits to 0.16% from 0.11%. The increase in interest cost on these deposits is due to an overall increase in market rates. The increase in the average balance of these deposits is reflective of normal deposit fluctuation.

Interest expense on money market deposits increased by $59 thousand, or 190.3%, to $90 thousand for the three months ended December 31, 2022 from $31 thousand for the three months ended December 31, 2021. The increase in interest expense on these deposits was attributable to an increase in the average cost on these deposits to 0.38% from 0.14% combined with a $8.1 million increase in average balances. The increase in interest cost 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 $227 thousand, or 1,186.8%, to $246 thousand for the three months ended December 31, 2022 from $19 thousand for the three months ended December 31, 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 3.43% from 1.52% combined with a $23.5 million increase in average balances. The increase in the cost of these borrowings is reflective of an overall increase in market rates. The increase in the average balance of these borrowings is reflective of funding needs for loan growth.

Net Interest Income. Net interest income before the provision for loan losses decreased by $2 thousand, or 0.05%, to $4.0 million for the three months ended December 31, 2022. Our interest rate spread and net interest margin decreased to 2.84% and 2.96%, from 3.10% and 3.16%, for the three months ended December 31, 2022 and December 31, 2021, respectively. The increase in income on earning assets was less than the increase in cost of interest bearing liabilities, resulting in the decrease in net interest margin for the three months ended December 31, 2022.

Provision for Loan Losses. We recorded a $50 thousand provision for loan losses for the three months ended December 31, 2022 and no provision for the three months ended December 31, 2021. There were no charge-offs for the three months ended December 31, 2022 or for the three months ended December 31, 2021. The provision for the three months ended December 31, 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 December 31, 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 December 31, 2022 or June 30, 2022. Total loans individually evaluated for impairment decreased $970 thousand, or 68.0%, to $456 thousand at December 31, 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 December 31, 2022 and 2021. There have been no changes to our allowance for loan loss methodology during three months ended December 31, 2022.

Noninterest Income. Noninterest income decreased $53 thousand, or 13.2%, to $350 thousand for the three months ended December 31, 2022 from $403 thousand for the three months ended December 31, 2021. The net gain on sale of mortgage loans reflected a $2 thousand loss for the three months ended December 31, 2022 and a $42 thousand gain for the three months ended December 31, 2021. Loan sales declined due to a decrease in demand brought on by the increased rate environment. Changes in all other noninterest income items were due to normal periodic fluctuations.

Noninterest Expense. Noninterest expense for the three months ended December 31, 2022 decreased by $62 thousand, or 2.1%, to $2.9 million for three months ended December 31, 2022 from $3.0 million for the three months ended December 31, 2021. Salaries and employee benefits decreased $64 thousand due to reduced ESOP costs, as the ESOP loan was fully repaid in December 2022, and higher deferred loan costs. Data processing increased $20 thousand due to routine upgrades and volume increases in the current period. Professional and supervisory fees decreased $23 thousand due to normal periodic fluctuations. For the three months ended December 31, 2022, we recognized a gain in the value of the loan servicing asset of $17 thousand compared to a $11 thousand gain for the three months ended December 31, 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 $97 thousand, or 66.0%, to $244 thousand for the three months ended December 31, 2022 from $147 thousand for the three months ended December 31, 2021. This was primarily due to a smaller permanent tax benefit being recognized during the three months ended December 31, 2022 as compared to the three months ended December 31, 2021, which was a result of fewer nonqualified stock options being exercised during the three months ended December 31, 2022 as compared to the three months ended December 31, 2021. Our effective income tax rate was 18.2% and 10.6% for the three months ended December 31, 2022 and 2021, respectively.

Comparison of Operating Results for the Six Months Ended December 31, 2022 and December 31, 2021

General. We reported net income of $2.4 million for the six months ended December 31, 2022 as compared to net income of $2.0 million for the six months ended December 31, 2021. Interest income increased $946 thousand for the six months ended December 31, 2022 compared to the six months ended December 31, 2021 and interest expense increased $317 thousand, resulting in a net increase to net interest income of $629 thousand. Noninterest income increased $26 thousand for the six months ended December 31, 2022 compared to the six months ended December 31, 2021. Total noninterest expense decreased $149 thousand. Tax expense increased $276 thousand.

Interest Income. Interest income increased by $946 thousand to $9.1 million for the six months ended December 31, 2022. The yield on interest-earning assets increased 20 basis points from 3.24% for the six months ended December 31, 2021 to 3.44% for the six months ended December 31, 2022. Total average interest-earning assets increased by $25.7 million to $530.2 million for the six months ended December 31, 2022 from $504.5 million for the six months ended December 31, 2021.

Interest income on loans increased by $284 thousand to $7.5 million from $7.2 million for the six months ended December 31, 2022 and December 31, 2021, respectively. The yield on loans decreased 12 basis points from 4.24% for the six months ended December 31, 2021 to 4.12% for the six months ended December 31, 2022. The decrease in yield is primarily due to lower deferred fees recognized in the six months ended December 31, 2022 compared to the six months ended December 31, 2021. The average balance of loans increased by $24.2 million, or 7.2%, to $361.9 million for the six months ended December 31, 2022 from $337.7 million for the six months ended December 31, 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 $641 thousand, or 66.4%, to $1.6 million for the six months ended December 31, 2022 from $965 thousand for the six months ended December 31, 2021. This was the result of an increase of $13.2 million, or 8.7%, in the average balances of securities to $164.8 million from $151.6 million for the six months ended December 31, 2022 and 2021, respectively, combined with an increase in the total average yield of our investment securities of 68 basis points to 1.95% from 1.27%. 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 $21 thousand, or 68.0%, to $52 thousand for the six months ended December 31, 2022 from $31 thousand for the six months ended December 31, 2021. The average balance of other interest-earning assets decreased $11.7 million to $3.5 million for the six months ended December 31, 2022 from $15.2 million for the six months ended December 31, 2021 and the yield increased 257 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 six months ended December 31, 2022. Federal Funds rates increased due to an overall increase in market rates.

Interest Expense. Interest expense increased $317 thousand, or 51.4%, to $934 thousand for the six months ended December 31, 2022 from $617 thousand for the six months ended December 31, 2021. The average rate paid on interest bearing liabilities increased 13 basis points from 0.31% for the six months ended December 31, 2021 to 0.44% for the six months ended December 31, 2022.

Interest expense on deposits increased $46 thousand, or 8.0%, to $621 thousand for the six months ended December 31, 2022 from $575 thousand for the six months ended December 31, 2021. The average rate paid on interest bearing deposits increased two basis points from 0.29% for the six months ended December 31, 2021 to 0.31% for the six months ended December 31, 2022. The average balance of interest bearing deposits increased $8.9 million, or 2.3%, to $399.3 million for the six months ended December 31, 2022 from $390.4 million for the six months ended December 31, 2021.

Interest expense on certificates of deposit decreased by $50 thousand, or 11.4%, to $390 thousand for the six months ended December 31, 2022 from $440 thousand for the six months ended December 31, 2021. The decrease in interest expense on these deposits was attributable to a stable average cost on these deposits of 0.48% for the six months ended December 31, 2022 and December 31, 2021, combined with a $19.8 million decrease in average balances. 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 $27 thousand to $99 thousand for the six months ended December 31, 2022 from $72 thousand for the six months ended December 31, 2021. The increase in interest expense on these deposits was attributable to a $19.5 million increase in average balances, combined with an increase in the average cost on these deposits to 0.14% from 0.11%. The increase in interest cost on these deposits is due to an overall increase in market rates. The increase in the average balance of these deposits is reflective of normal deposit fluctuation.

Interest expense on money market deposits increased by $69 thousand, or 109.5%, to $132 thousand for the six months ended December 31, 2022 from $63 thousand for the six months ended December 31, 2021. The increase in interest expense on these deposits was attributable to an increase in the average cost on these deposits to 0.28% from 0.15% combined with a $9.1 million increase in average balances. The increase in interest cost 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 $271 thousand, or 644.5%, to $313 thousand for the six months ended December 31, 2022 from $42 thousand for the six months ended December 31, 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 3.05% from 0.87% combined with a $10.8 million increase in average balances. The increase in the cost of these borrowings is reflective of an overall increase in market rates. The increase in the average balance of these borrowings is reflective of funding needs for loan growth.

Net Interest Income. Net interest income before the provision for loan losses increased by $629 thousand, or 8.3%, to $8.2 million for the six months ended December 31, 2022. Our interest rate spread and net interest margin increased to 2.99% and 3.09%, from 2.93% and 2.99%, for the six months ended December 31, 2022 and December 31, 2021, respectively. The increase in income on earning assets was more than the increase in cost of interest bearing liabilities, resulting in the increase in net interest margin for the six months ended December 31, 2022.

Provision for Loan Losses. We recorded a $100 thousand provision for loan losses for the six months ended December 31, 2022 and no provision for the six months ended December 31, 2021. There were no charge-offs for the six months ended December 31, 2022 or for the six months ended December 31, 2021. The provision for the six months ended December 31, 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 December 31, 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 December 31, 2022 or June 30, 2022. Total loans individually evaluated for impairment decreased $970 thousand, or 68.0%, to $456 thousand at December 31, 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 six months ended December 31, 2022 and 2021. There have been no changes to our allowance for loan loss methodology during six months ended December 31, 2022.

Noninterest Income. Noninterest income increased $26 thousand, or 3.2%, to $841 thousand for the six months ended December 31, 2022 from $815 thousand for the six months ended December 31, 2021. The net gain on sale of mortgage loans reflected a $6 thousand gain for the six months ended December 31, 2022 and a $149 thousand gain for the six months ended December 31, 2021. 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 loss of $5 thousand for the six months ended December 31, 2022 compared to a loss of $49 thousand for the six months ended December 31, 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 six months ended December 31, 2022, and no sale of securities for the six months ended December 31, 2021. Securities were sold during the six months ended December 31, 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 six months ended December 31, 2022 due to the liquidation of one loan. Changes in all other noninterest income items were due to normal periodic fluctuations.

Noninterest Expense. Noninterest expense for the six months ended December 31, 2022 decreased by $149 thousand, or 2.5%, to $5.8 million for six months ended December 31, 2022 from $6.0 million for the six months ended December 31, 2021. Salaries and employee benefits decreased $161 thousand due to reduced ESOP costs, as the ESOP loan was fully repaid in December 2022, and higher deferred loan costs. Data processing increased $38 thousand due to routine upgrades and volume increases in the current period. Professional and supervisory fees decreased $3 thousand due to normal periodic fluctuations. For the six months ended December 31, 2022, we recognized a gain in the value of the loan servicing asset of $19 thousand compared to a $3 thousand loss for the six months ended December 31, 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 $276 thousand, or 75.8%, to $640 thousand for the six months ended December 31, 2022 from $364 thousand for the six months ended December 31, 2021. This was primarily due to a smaller permanent tax benefit being recognized during the six months ended December 31, 2022 as compared to the six months ended December 31, 2021, which was a result of fewer nonqualified stock options being exercised during the six months ended December 31, 2022 as compared to the six months ended December 31, 2021. Our effective income tax rate was 20.8% and 15.4% for the six months ended December 31, 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 December 31, 2022, or approximately $137.8 million as of that date, with a remaining availability of $100.8 million as of December 31, 2022.

Common Stock Dividends. On August 25, 2022 and November 23, 2022, the Company paid a $0.10 per share cash dividend on its common stock for a total of $1.1 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 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 second quarter of fiscal 2023. The Company currently does not have a repurchase plan in place.

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 December 31, 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: February 13, 2023

/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: February 13, 2023

/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: February 13, 2023

/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 December 31, 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: February 13, 2023
Curtis T. Evatt
President and Chief Executive Officer

/s/ John W. Hobbs — Date: February 13, 2023
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.