Annual Financial Statements
June 30, 2023

Independent Auditor's Report

To the Shareholders and Board of Directors of
Oconee Federal Financial Corp. and Subsidiary

Opinion

We have audited the consolidated financial statements of Oconee Federal Financial Corp. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit for the year ended June 30, 2023 in accordance with auditing standards generally accepted in the United States of America (GAAS). We conducted our audit for the year ended June 30, 2022 in accordance with standards of the Public Company Accounting Oversight Board (United States) (PCAOB). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS or the standards of the PCAOB will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements, Continued

In performing an audit in accordance with GAAS and the standards of the PCAOB, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Greenville, South Carolina
September 20, 2023

OCONEE FEDERAL FINANCIAL CORP.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2023 and 2022
(Amounts in thousands, except share and per share data)

	June 30, 2023	June 30, 2022
ASSETS		
Cash and due from banks	$ 4,655	$ 2,327
Interest-earning deposits	2,509	7,406
Fed funds sold	130	-
Total cash and cash equivalents	7,294	9,733
Securities available-for-sale	133,248	151,299
Loans	413,024	345,112
Allowance for loan losses	(1,489)	(1,339)
Net loans	411,535	343,773
Loans held for sale, at fair value	-	152
Premises and equipment, net	8,412	8,579
Accrued interest receivable		
Loans	1,192	944
Investments	410	468
Restricted equity securities, at cost	2,821	1,189
Bank owned life insurance	20,873	20,398
Goodwill	2,593	2,593
Core deposit intangible	22	74
Loan servicing rights	357	345
Deferred tax assets	5,997	4,678
Other assets	651	567
Total assets	$ 595,405	$ 544,792
LIABILITIES		
Deposits		
Noninterest - bearing	$ 55,618	$ 60,697
Interest - bearing	418,625	398,985
Total deposits	474,243	459,682
Federal Home Loan Bank advances	46,000	9,000
Accrued interest payable and other liabilities	3,373	853
Total liabilities	523,616	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, 997,396 and 997,380 shares, respectively	(10)	(10)
Additional paid-in capital	6,122	6,055
Retained earnings	83,897	82,790
Accumulated other comprehensive loss	(18,286)	(13,588)
Unearned ESOP shares	-	(56)
Total shareholders' equity	71,789	75,257
Total liabilities and shareholders' equity	$ 595,405	$ 544,792

See accompanying notes to the consolidated financial statements

OCONEE FEDERAL FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022
(Amounts in thousands, except share and per share data)

	Years Ended June 30, 2023	Years Ended June 30, 2022
Interest and dividend income:		
Loans, including fees	$ 15,896	$ 14,019
Securities, taxable	3,040	2,011
Securities, tax-exempt	155	339
Other interest-earning assets	205	56
Total interest income	19,296	16,425
Interest expense:		
Deposits	3,469	1,002
Other borrowings	1,254	85
Total interest expense	4,723	1,087
Net interest income	14,573	15,338
Provision for loan losses	150	-
Net interest income after provision for loan losses	14,423	15,338
Noninterest income:		
Service charges on deposit accounts	427	402
Income on bank owned life insurance	475	461
Mortgage servicing income	86	113
Gain on sale of mortgage loans	24	203
ATM & debit card income	459	443
Change in fair value of equity securities, net	1	(83)
Loss on sale of securities, net	(84)	-
Gain on payoff of purchase credit impaired loans	240	70
Other	17	16
Total noninterest income	1,645	1,625
Noninterest expense:		
Salaries and employee benefits	6,571	6,775
Occupancy and equipment	1,900	1,929
Data processing	1,154	1,033
ATM & debit card expense	363	350
Professional and supervisory fees	470	478
Merger related expense	25	-
Office expense	202	171
Advertising	227	262
FDIC deposit insurance	202	141
Foreclosed assets, net	(36)	(1)
Change in loan servicing asset	(12)	(40)
Other	780	793
Total noninterest expense	11,846	11,891
Income before income taxes	4,222	5,072
Income tax expense	873	973
Net income	$ 3,349	$ 4,099
Other comprehensive loss		
Unrealized losses on securities available-for-sale	$ (6,030)	$ (18,392)
Tax effect	1,266	3,863
Reclassification adjustment for losses realized in net income	84	-
Tax effect	(18)	-
Total other comprehensive loss	(4,698)	(14,529)
Comprehensive loss	$ (1,349)	$ (10,430)
Basic net income per share: (Note 3)	$ 0.60	$ 0.73
Diluted net income per share: (Note 3)	$ 0.60	$ 0.73
Dividends declared per share:	$ 0.40	$ 0.40

See accompanying notes to the consolidated financial statements

OCONEE FEDERAL FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022
(Amounts in thousands, except share and per share data)

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Unearned ESOP Shares	Total
Balance a June 30, 2021	$ 66	$ (10)	$ 6,400	$ 80,915	$ 941	$ (212)	$ 88,100
Net income	-	-	-	4,099	-	-	4,099
Other comprehensive loss	-	-	-	-	(14,529)	-	(14,529)
Purchase of 27,106 shares of treasury stock [(1)]	-	-	(658)	-	-	-	(658)
Stock-based compensation expense	-	-	103	-	-	-	103
Dividends [(2)]	-	-	12	(2,224)	-	-	(2,212)
ESOP shares earned	-	-	198	-	-	156	354
Balance a June 30, 2022	$ 66	$ (10)	$ 6,055	$ 82,790	$ (13,588)	$ (56)	$ 75,257
Balance a June 30, 2022	$ 66	$ (10)	$ 6,055	$ 82,790	$ (13,588)	$ (56)	$ 75,257
Net income	-	-	-	3,349	-	-	3,349
Other comprehensive loss	-	-	-	-	(4,698)	-	(4,698)
Purchase of 16 shares of treasury stock [(3)]	-	-	0	-	-	-	0
Stock-based compensation expense	-	-	76	-	-	-	76
Dividends [(4)]	-	-	2	(2,242)	-	-	(2,240)
ESOP shares earned	-	-	(11)	-	-	56	45
Balance a June 30, 2023	$ 66	$ (10)	$ 6,122	$ 83,897	$ (18,286)	$ -	$ 71,789

Columns that show zero are below one thousand dollars.

(1) The weighted average cost of treasury shares purchased during the year was $23.35 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 6,900 additional shares. The portion of the dividend paid on allocated shares of approximately $63 and resulting release of approximately 5,800 shares, was treated as a dividend. The portion of the dividend paid on unallocated shares of approximately $12 and resulting release of approximately 1,100 shares, and was accounted for as additional compensation expense for the year ended June 30, 2022.

(3) The weighted average cost of treasury shares purchased during the year was $14.28 per share. Treasury stock repurchases were accounted for using the par value method.

(4) 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 year ended June 30, 2023.

See accompanying notes to the consolidated financial statements

OCONEE FEDERAL FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022
(Amounts in thousands, except share and per share data)

	Years Ended	
	June 30, 2023	June 30, 2022
Cash Flows From Operating Activities		
Net income	$ 3,349	$ 4,099
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	150	-
Depreciation and amortization, net	969	1,645
Net amortization/(accretion) of purchase accounting adjustments	97	(132)
Deferred income tax benefit	(71)	(29)
Net gain on sale of real estate owned	(39)	-
Change in loan servicing asset	(12)	(40)
Net loss on sales of securities	84	-
Mortgage loans originated for sale	(1,545)	(10,244)
Mortgage loans sold	1,721	10,459
Gain on sales of mortgage loans	(24)	(203)
Change in fair value of equity securities	(1)	83
Increase in cash surrender value of bank owned life insurance	(475)	(461)
Gain on payoff of purchased credit impaired loans	(240)	(70)
ESOP shares earned	56	354
Stock based compensation expense	76	103
Net change in operating assets and liabilities:		
Accrued interest receivable and other assets	(285)	(23)
Accrued interest payable and other liabilities	2,520	167
Net cash provided by operating activities	6,330	5,708
Cash Flows From Investing Activities		
Purchases of premises and equipment	(375)	(214)
Purchases of securities available-for-sale	(11,150)	(61,160)
Proceeds from maturities, paydowns and calls of securities available-for-sale	11,832	29,470
Proceeds from sales of securities available-for-sale	10,965	-
Sales of restricted equity securities	1,531	375
Purchases of restricted equity securities	(3,163)	(156)
Proceeds from sale of real estate owned	145	-
Loan originations and repayments, net	(67,875)	(5,821)
Net cash used in investing activities	(58,090)	(37,506)
Cash Flows from Financing Activities		
Net change in deposits	14,561	19,752
Proceeds from notes payable to FHLB	86,500	4,000
Repayment of notes payable to FHLB	(49,500)	(10,000)
Dividends paid	(2,240)	(2,212)
Purchase of treasury stock	-	(658)
Net cash provided by financing activities	49,321	10,882
Change in cash and cash equivalents	(2,439)	(20,916)
Cash and cash equivalents, beginning of period	9,733	30,649
Cash and cash equivalents, end of period	$ 7,294	$ 9,733

See accompanying notes to the consolidated financial statements

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principle of Consolidation: The consolidated financial statements of Oconee Federal Financial Corp. 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") and have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Intercompany accounts and transactions are eliminated during consolidation. The Company is majority owned (74.24%) by Oconee Federal, MHC. These consolidated financial statements do not include the transactions and balances of Oconee Federal, MHC. The Association is a federally chartered stock savings and loan association engaged in the business of accepting savings and demand deposits and providing mortgage, consumer and commercial loans. Primarily, the Association's business is in the Oconee County and Pickens County areas of northwestern South Carolina, and the northeast area of Georgia in Stephens County and Rabun County. The following is a description of the significant accounting policies the Company follows in preparing and presenting its consolidated financial statements.

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.

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

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank is required to meet regulatory reserve and clearing requirements. These balances do not earn interest.

Interest-Bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

Securities: Securities are classified as available-for-sale when they might be sold before maturity. Non-equity securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. The change in fair value of equity securities is recognized in the income statement.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

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

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

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method over the contractual lives of the loans without anticipating prepayments.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest income on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual.

Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component consists of the amount of impairment related to loans that have been evaluated on an individual basis, and the general component consists of the amount of impairment related to loans that have been evaluated on a collective basis. Loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts when due according to the contractual terms of the loan agreement. Loans over $250 that are considered impaired are individually evaluated to determine if a specific loss reserve is required. All other impaired loans are collectively evaluated. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (“TDRs”).

Loan Grading System: Management utilizes an internal loan grading system and assigns each loan a grade of pass, special mention, substandard, or doubtful, which are more fully explained in Note 4. Any nonresidential or residential non-owner occupied loans that meet certain size requirements and performance characteristics are individually evaluated for impairment. The amount of impairment, if any, is measured by a comparison of the loan's carrying value to the net present value of future cash flows using the loan's effective rate at inception or at the fair value of collateral if repayment is expected to come solely from the collateral. All loans graded pass, special mention, substandard and doubtful not specifically evaluated for impairment are collectively evaluated for impairment by portfolio segment. To develop and document a systematic methodology for determining the portion of the allowance for loan losses for loans evaluated collectively, the Company has divided the loan portfolio into segments, each with different risk characteristics and methodologies for assessing risk. Those portfolio segments are discussed below:

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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Home Equity: The Company offers home equity loans and lines of credit secured by first or second deeds of trust on primary residences in our market area. The Company's home equity loans and lines of credit are generally 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 to 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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Consumer and Other Loans: The Company offers installment loans for various consumer purposes, including the purchase of automobiles, boats, and for other legitimate personal purposes. The maximum terms of consumer loans is generally 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.

Concentration of Credit Risk and Other: The Company's business activity is principally with customers located in the northwest portion of South Carolina and northeast Georgia. The Company requires its customers to provide collateral, generally in the form of title to real estate, for substantially all loans. Certain consumer loans are made to customers without requiring collateral. Except for loans in the Company's market area, the Company has no other significant concentrations of credit risk.

The Company places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") provides deposit insurance for up to $250 for substantially all depository accounts. The Company from time to time may have amounts on deposit in excess of the insured limits, and management believes the risk of loss is not significant.

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and are shown as change in loan servicing asset on the consolidated statements of income and comprehensive income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Goodwill: Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Management reviews goodwill for impairment annually, or more frequently if deemed necessary, as goodwill is deemed to have an indefinite life. On the annual assessment date, May 31, management performs a qualitative assessment of whether it was more likely than not that the fair value exceeds carrying value. Based on the most recent assessment, management determined that it was more likely than not that the fair value exceeded its carrying value, resulting in no impairment to goodwill. There was no significant change between May 31, 2023 and June 30, 2023.

Core Deposit Intangible: Core deposit intangible represents the estimated value of long-term deposit core deposit relationships acquired in a business combination. This value is amortized over the weighted-average estimated useful lives of deposit accounts using a method that management believes reasonably approximates the anticipated benefit stream from this intangible. The estimated useful lives are periodically reviewed for reasonableness. The core deposit intangible acquired will be amortized over 10 years using the original projections of future benefit stream of cash flows, adjusted periodically, if needed for potential impairment of the remaining unamortized balance of the core deposit intangible.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from five to 39 years. Furniture, fixtures and equipment are depreciated using the straight-line method, with useful lives ranging from five to seven years. Maintenance and repairs are charged to operations in the year incurred. Gains and losses on dispositions are included in current year operations. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable.

Real Estate Owned: Real estate acquired through loan foreclosure is initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, real estate owned is recorded at the lower of carrying amount or fair value less estimated costs to sell. Any initial losses at the time of foreclosure are charged against the allowance for loan losses with any subsequent losses or write-downs included in the consolidated statements of income and comprehensive income as a component of noninterest expenses.

Restricted Equity Securities: Restricted equity securities consist of Federal Home Loan Bank of Atlanta (“FHLB”) stock and First National Bankers Bancshares, Inc. (“FNBB”) stock. The Company is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. There is a very limited market for FNBB stock. Based on the redemptive provisions of the FHLB and FNBB, the stock is carried at cost, as restricted securities, and is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Income Taxes: The provision for income taxes is based on amounts reported in the consolidated statements of income and comprehensive income (after exclusion of non-taxable income such as interest on state and municipal securities) and includes changes in deferred taxes. Deferred taxes are computed using the asset and liability approach. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company follows guidance issued by the Financial Accounting Standards Board (“FASB”) with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not" test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in other noninterest expense.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income/(loss). Other comprehensive income for the Company consists solely of unrealized gains and losses on securities available-for-sale, net of tax.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the consolidated financial statements.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information. Changes in market conditions could significantly affect the estimates. For financial instruments where there is little or no relevant market information due to limited or no market activity, the Company estimates the fair value of these instruments through the use of a discounted present value of estimated cash flows technique, which includes the Company's own assumptions as to the amounts and timing of cash flows, adjusted for risk factors related to nonperformance and liquidity. The Company's assumptions are based on an exit price strategy and take into consideration the assumptions that a willing market participant would use about nonperformance and liquidity risk.

Employee Stock Ownership Plan (“ESOP”): The cost of shares issued to the ESOP, but not yet allocated to participants, is shown as a reduction of shareholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends, when paid, on allocated ESOP shares reduce retained earnings. Dividends, when paid, on unearned ESOP shares reduce debt and accrued interest.

Retirement Plans: Profit sharing plan expense is the amount of the Company's contribution to participants of the plan. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Bank Owned Life Insurance: The Company has purchased life insurance policies on certain directors and employees. Accounting guidance requires bank owned life insurance to be recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Reclassifications: Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation and had no effect on net income or shareholders’ equity.

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.

Segment Reporting: While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Operating results are not reviewed by senior management to make resource allocation or performance decisions. Management has determined that the Company has a single operating segment, which is to provide consumer and commercial banking services to individuals and businesses located in Oconee and Pickens Counties, South Carolina and to Stephens and Rabun Counties, Georgia and their surrounding counties and townships. The Company's various products and services are those generally offered by community banks, and the allocation of resources is based on the overall performance of the Company versus individual regions, branches, products and services.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Standards:

Accounting Standards Update ("ASU") 2023-01, "Leases (Topic 842): Common Control Arrangements". Issued in March 2023, the FASB amended the Leases topic in the Accounting Standards Codification ("ASC") to provide a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine whether a lease exists and, if so, the classification of and accounting for that lease. The amendments also change the guidance for public and private companies to require that leasehold improvements be amortized over the useful life of those improvements to the common control group regardless of the lease term. The amendments are effective for fiscal years 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 2022-06, "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 ASC Topic 848 from December 31, 2022, to December 31, 2024, to address the fact that all London Interbank Offered Rate tenors were not discontinued as of December 31, 2021, and some tenors were published until June 2023. The amendments were 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. This pronouncement did not have a material effect on the 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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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 other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies 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.

NOTE 2 - EARNINGS PER SHARE ("EPS")

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

	Years Ended	
	June 30, 2023	**June 30, 2022**
Earnings per share		
Net income	$ 3,349	$ 4,099
Less: distributed earnings allocated to participating securities	(3)	(4)
Less: (undistributed income) dividends in excess of earnings allocated to participating securities	(1)	(3)
Net earnings available to common shareholders	$ 3,345	$ 4,092
Weighted average common shares outstanding including participating securities	5,609,032	5,595,451
Less: participating securities	(6,900)	(9,700)
Less: average unearned ESOP shares	(2,677)	(7,565)
Weighted average common shares outstanding	5,599,455	5,578,186
Basic earnings per share	$ 0.60	$ 0.73
Weighted average common shares outstanding	5,599,455	5,578,186
Add: dilutive effects of assumed exercises of stock options	2,486	4,745
Average shares and dilutive potential common shares	5,601,941	5,582,931
Diluted earnings per share	$ 0.60	$ 0.73

During the years ended June 30, 2023 and 2022, there were 21,200 shares that were considered anti-dilutive as the weighted average exercise prices of outstanding stock options were in excess of the weighted average market value for the periods presented.

NOTE 3 - 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 June 30, 2023 and 2022 are as follows:

June 30, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Change in Fair Value Equity Securities	Fair Value
Available-for-sale:					
FHLMC common stock	$ 20	$ -	$ -	$ 15	$ 35
Municipal securities	8,657	-	(469)	-	8,188
CMOs	12,496	-	(1,913)	-	10,583
U.S. Government agency mortgage-backed securities	122,834	-	(18,712)	-	104,122
U.S. Treasury and Government agency bonds	12,373	-	(2,053)	-	10,320
Total available-for-sale	$ 156,380	$ -	$ (23,147)	$ 15	$ 133,248

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 June 30, 2023 and 2022 had fair values of $60,374 and $19,322, respectively. These securities were pledged to secure public deposits and Federal Home Loan Bank ("FHLB") advances.

At June 30, 2023 and 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.

NOTE 3 - 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 12 months and for 12 months or more at June 30, 2023 and 2022. The tables also show the number of securities in an unrealized loss position for each category of investment security as of the respective dates.

	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Loss	Number in Unrealized Loss [(1)]	Fair Value	Unrealized Loss	Number in Unrealized Loss [(1)]	Fair Value	Unrealized Loss	Number in Unrealized Loss [(1)]
June 30, 2023									
Available-for-sale:									
Municipal securities	$ 2,820	$ (82)	6	$ 5,368	$ (387)	15	$ 8,188	$ (469)	21
CMOs	-	-	-	10,583	(1,913)	15	10,583	(1,913)	15
U.S. Government agency mortgage-backed securities	12,211	(698)	8	91,911	(18,014)	81	104,122	(18,712)	89
U.S. Treasury and Government agency bonds	-	-	-	10,320	(2,053)	7	10,320	(2,053)	7
	$ 15,031	$ (780)	14	$ 118,182	$ (22,367)	118	$ 133,213	$ (23,147)	132

	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Loss	Number in Unrealized Loss [(1)]	Fair Value	Unrealized Loss	Number in Unrealized Loss [(1)]	Fair Value	Unrealized Loss	Number in Unrealized Loss [(1)]
June 30, 2022									
Available-for-sale:									
Municipal securities	$ 15,027	$ (397)	41	$ -	$ -	-	$ 15,027	$ (397)	41
CMOs	12,174	(972)	17	889	(109)	1	13,063	(1,081)	18
U.S. Government agency mortgage-backed securities	80,288	(9,197)	69	29,188	(4,851)	22	109,476	(14,048)	91
U.S. Treasury and Government agency bonds	3,822	(403)	2	6,930	(1,277)	5	10,752	(1,680)	7
	$ 111,311	$ (10,969)	129	$ 37,007	$ (6,237)	28	$ 148,318	$ (17,206)	157

(1) Actual amounts.

None of the unrealized losses at June 30, 2023 were recognized into net income for the year ended June 30, 2023 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.

NOTE 3 - SECURITIES AVAILABLE-FOR-SALE (continued)

The amortized cost and fair value of debt securities classified as available-for-sale at June 30, 2023 and 2022 by contractual maturity are summarized in the following table. Mortgage-backed securities are not scheduled since expected maturities will differ from contractual maturities because borrowers have the right to prepay the obligations. FHLMC common stock is not scheduled because it has no contractual maturity date.

	June 30, 2023		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	3,920	3,602	4,756	4,727
Due after five years to ten years	16,406	14,333	22,244	20,391
Due after ten years	704	573	2,422	2,230
Mortgage-backed securities, CMOs and FHLMC stock	135,350	114,740	137,817	122,702
Total available for sale	$ 156,380	$ 133,248	$ 168,486	$ 151,299

The following table presents the gross proceeds from sales of securities available-for-sale and gains or losses recognized for the year ended June 30, 2023 and 2022:

	Year Ended	
Available-for-sale:	**June 30, 2023**	**June 30, 2022**
Proceeds	$ 10,965	$ -
Gross gains	-	-
Gross losses	(84)	-

The tax benefit related to the net realized loss for the year ended June 30, 2023 was $18.

NOTE 4 - LOANS

The components of loans at June 30, 2023 and 2022 were as follows:

	June 30, 2023	June 30, 2022
Real estate loans:		
One-to-four family	$ 318,174	$ 276,410
Multi-family	334	368
Home equity	8,617	4,803
Nonresidential	32,912	24,629
Agricultural	2,457	2,573
Construction and land	46,026	32,836
Total real estate loans	408,520	341,619
Commercial and industrial	3,315	2,313
Consumer and other loans	1,189	1,180
Total loans	$ 413,024	$ 345,112

The table above includes net deferred loan fees of $2,333 and $2,157 at June 30, 2023 and June 30, 2022, respectively.

NOTE 4 - LOANS (continued)

The following table presents the activity in the allowance for loan losses for the year ended June 30, 2023 by portfolio segment:

Year ended June 30, 2023	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$ 965	$ 11	$ -	$ -	$ 976
Multi-family	9	(6)	-	-	3
Home equity	34	24	-	-	58
Nonresidential	158	52	-	-	210
Agricultural	15	(1)	-	-	14
Construction and land	132	41	-	-	173
Total real estate loans	1,313	121	-	-	1,434
Commercial and industrial	24	29	-	-	53
Consumer and other loans	2	-	-	-	2
Total loans	$ 1,339	$ 150	$ -	$ -	$ 1,489

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at June 30, 2023:

	Ending Allowance on Loans:		Loans:	
At June 30, 2023	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate loans:				
One-to-four family	$ -	$ 976	$ -	$ 318,174
Multi-family	-	3	-	334
Home equity	-	58	-	8,617
Nonresidential	-	210	433	32,479
Agricultural	-	14	-	2,457
Construction and land	-	173	-	46,026
Total real estate loans	-	1,434	433	408,087
Commercial and industrial	-	53	-	3,315
Consumer and other loans	-	2	-	1,189
Total loans	$ -	$ 1,489	$ 433	$ 412,591

NOTE 4 - LOANS (continued)

The following table presents the activity in the allowance for loan losses for the year ended June 30, 2022 by portfolio segment:

Year ended June 30, 2022	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
One-to-four family	$ 992	$ (27)	$ -	$ -	$ 965
Multi-family	4	5	-	-	9
Home equity	41	(7)	-	-	34
Nonresidential	133	25	-	-	158
Agricultural	15	-	-	-	15
Construction and land	103	29	-	-	132
Total real estate loans	1,288	25	-	-	1,313
Commercial and industrial	22	2	-	-	24
Consumer and other loans	29	(27)	-	-	2
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

NOTE 4 - LOANS (continued)

The tables below present loans that were individually evaluated for impairment by portfolio segment at June 30, 2023 and 2022, including the average recorded investment balance and interest earned for the years ended June 30, 2023 and 2022:

	June 30, 2023				
	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	$ 8
Multi-family	-	-	-	-	-
Home equity	-	-	-	-	-
Nonresidential	460	433	-	456	-
Agricultural	-	-	-	-	-
Construction and land	-	-	-	-	-
Total real estate loans	460	433	-	930	8
Commercial and industrial	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
Total	$ 460	$ 433	$ -	$ 930	$ 8
With recorded allowance:					
Real estate loans:					
One-to-four family	$ -	$ -	$ -	$ -	$ -
Multi-family	-	-	-	-	-
Home equity	-	-	-	-	-
Nonresidential	-	-	-	-	-
Agricultural	-	-	-	-	-
Construction and land	-	-	-	-	-
Total real estate loans	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -
Totals:					
Real estate loans	$ 460	$ 433	$ -	$ 930	$ 8
Consumer and other loans	-	-	-	-	-
Total	$ 460	$ 433	$ -	$ 930	$ 8

NOTE 4 - 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	$ -	$ 1,330	$ 38
Multi-family	-	-	-	-	-
Home equity	-	-	-	-	-
Nonresidential	507	478	-	239	-
Agricultural	-	-	-	-	-
Construction and land	-	-	-	-	-
Total real estate loans	1,459	1,426	-	1,569	38
Commercial and industrial	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
Total	$ 1,459	$ 1,426	$ -	$ 1,569	$ 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	$ -	$ 1,569	$ 38
Consumer and other loans	-	-	-	-	-
Total	$ 1,459	$ 1,426	$ -	$ 1,569	$ 38

NOTE 4 - 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 June 30, 2023:

	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	$ 2,233	$ 643	$ 100	$ 2,976	$315,198	$318,174	$ 691	$ -
Multi-family	196	-	-	196	138	334	-	-
Home equity	144	-	-	144	8,473	8,617	-	-
Nonresidential	141	173	-	314	32,598	32,912	433	-
Agricultural	-	-	-	-	2,457	2,457	-	-
Construction and land	-	-	-	-	46,026	46,026	-	-
Total real estate loans	2,714	816	100	3,630	404,890	408,520	1,124	-
Commercial and industrial	-	-	-	-	3,315	3,315	-	-
Consumer and other loans	-	-	-	-	1,189	1,189	-	-
Total	$ 2,714	$ 816	$ 100	$ 3,630	$409,394	$413,024	$ 1,124	$ -

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	$ -

NOTE 4 - LOANS (continued)

Troubled Debt Restructurings:

At June 30, 2023 and 2022, total loans that have been modified as troubled debt restructurings were $459 and $869, respectively, which consisted of one non-residential real estate loan and one one-to-four family first lien loan at June 30, 2023 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 12 months ended June 30, 2023 or the 12 months ended June 30, 2022. No loans modified as troubled debt restructurings have defaulted since restructuring. All of these loans are on nonaccrual at June 30, 2023 and June 30, 2022. At June 30, 2023 and June 30, 2022, $433 and $839, respectively, were individually evaluated for impairment.

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.

NOTE 4 - LOANS (continued)

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 June 30, 2023:

	Pass	Pass-Watch	Special Mention	Substandard	Doubtful	Total
Real estate loans:						
One-to-four family	$ 315,174	$ 1,500	$ 744	$ 756	$ -	$ 318,174
Multi-family	334	-	-	-	-	334
Home equity	8,557	60	-	-	-	8,617
Nonresidential	32,356	-	-	556	-	32,912
Agricultural	2,457	-	-	-	-	2,457
Construction and land	45,874	123	29	-	-	46,026
Total real estate loans	404,752	1,683	773	1,312	-	408,520
Commercial and industrial	3,315	-	-	-	-	3,315
Consumer and other loans	1,189	-	-	-	-	1,189
Total	$ 409,256	$ 1,683	$ 773	$ 1,312	$ -	$ 413,024

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

At June 30, 2023 there were no loans in foreclosure. At June 30, 2022, consumer mortgage loans secured by residential real estate properties totaling $137 were in formal foreclosure proceedings and were included in one-to-four family loans.

Loans to principal officers, directors, and their affiliates during the years ended June 30, 2023 and 2022 were as follows:

	June 30, 2023	June 30, 2022
Beginning balance	$ 368	$ 376
New loans	-	-
Sales and repayments	(8)	(8)
Ending balance	$ 360	$ 368

Directors and officers of the Company are customers of the institution in the ordinary course of business. In the opinion of management, these loans do not involve more than normal risk of collectability nor do they present other unfavorable features.

NOTE 5—PREMISES AND EQUIPMENT

Premises and equipment at June 30, 2023 and 2022 were as follows:

	June 30, 2023	June 30, 2022
Land	$ 2,438	$ 2,438
Buildings and improvements	10,027	9,982
Furniture, fixtures and equipment [(1)]	2,497	2,282
Computer software	236	227
	15,198	14,929
Less: accumulated depreciation	(6,786)	(6,350)
	$ 8,412	$ 8,579

(1) A right of use equipment lease of $210 is included in this balance as of June 30, 2023.

Depreciation expense was $542 and $607 for the years ended June 30, 2023 and 2022, respectively.

NOTE 6—GOODWILL AND INTANGIBLE ASSETS

The carrying value of goodwill was $2,593 at June 30, 2023 and 2022, respectively. The carrying value of the core deposit intangible was $22 and $74 at June 30, 2023 and 2022, respectively.

	June 30, 2023	June 30, 2022
Core deposit intangible gross	$ 959	$ 959
Accumulated amortization	(937)	(885)
Core deposit intangible, net	$ 22	$ 74

Amortization expense for the core deposit intangible for the years ended June 30, 2023 and 2022 was $52 and $60, respectively.

Estimated amortization expense for each of the next five years is as follows:

2024	22
2025	-
2026	-
2027	-
2028	-
Total	$ 22

NOTE 7—DEPOSITS

At June 30, 2023 and 2022, certificate of deposit accounts with balances over $250 totaled approximately $36,565 and $15,234, respectively. Scheduled maturities of certificates of deposit at June 30, 2023 are as follows for each fiscal year:

2024	$ 192,096
2025	14,719
2026	3,253
2027	1,866
2028	27
	$ 211,961

There are no certificates of deposit scheduled to mature after 2028.

Deposits from outside the Company's market area obtained through a broker amounted to $5,000, or approximately 1.05% of deposits at June 30, 2023. There were no brokered deposits at June 30, 2022.

Directors and executive officers were customers of, and had transactions with, the Company in the ordinary course of business. Included in such transactions are deposit accounts, all of which were made under normal terms. The aggregate amount of these deposit accounts was $2,809 and $2,872 at June 30, 2023 and 2022, respectively.

NOTE 8 - BORROWINGS

At June 30, 2023 and 2022, advances from the FHLB were as follows:

	June 30, 2023	
	Balance	Stated Interest Rate
FHLB advances due July 2023 through January 2025	$ 46,000	1.59% - 5.42%
Total	$ 46,000	

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

Payments over the next five fiscal years are as follows:

2024	$43,500
2025	$ 2,500

The weighted average interest rate of all outstanding FHLB advances was 5.04% and 1.74% on June 30, 2023 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 $56,014 and $14,779 of investment securities at June 30, 2023 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 $147,332 at June 30, 2023.

There were no overnight borrowings at June 30, 2023 or June 30, 2022.

NOTE 9—INCOME TAXES

Income tax expense for the years ended June 30, 2023 and 2022 was as follows:

	June 30, 2023	June 30, 2022
Current federal expense	$ 591	$ 723
Current state expense	212	222
Deferred federal expense	53	21
Deferred state expense	17	7
Total	$ 873	$ 973

Temporary differences between tax and financial reporting that result in net deferred tax assets are as follows at June 30, 2023 and 2022:

	June 30, 2023	June 30, 2022
Deferred tax assets:		
Fair value adjustments from acquisition	$ 26	$ 47
Allowance for loan losses	383	345
Deferred loan fees, net	583	533
Deferred compensation	59	76
Acquired net operating loss ("NOL")	48	52
Equity compensation plans	29	33
Prepaid expenses	55	54
Accrued compensation	91	79
Securities available-for-sale	4,857	3,613
Other	2	3
Total deferred tax assets	6,133	4,835
Deferred tax liabilities:		
Securities available-for-sale	-	-
Fixed assets	(88)	(109)
FHLB stock dividends	(48)	(48)
Other	-	-
Total deferred tax liabilities	(136)	(157)
Net deferred tax asset	$ 5,997	$ 4,678

NOTE 9—INCOME TAXES (Continued)

A net operating loss ("NOL") of $403 was acquired in the Stephens Federal Bank acquisition in 2014. At June 30, 2023 and 2022, the NOL remaining totaled $225 and $246, respectively, with a deferred tax asset of $47 and $52, respectively. The NOL will expire on June 30, 2034. The realization of the deferred tax asset resulting from the NOL is dependent upon generating sufficient taxable income prior to the NOL's expiration. In assessing the realizability of the deferred tax asset, management considered whether it is more likely than not that some portion or all of the deferred tax asset would not be realized. Based on the Company's current and expected future financial performance as well as strong asset quality, management determined that no valuation allowance was necessary at June 30, 2023.

Retained earnings as of June 30, 2023 and 2022 includes approximately $5,284 representing reserve method bad debt reserves originating prior to December 31, 1987 for which no deferred income taxes are required to be provided. These reserves may be included in taxable income if the Company pays dividends in excess of its accumulated earnings and profits (as defined by the Internal Revenue Code) or in the event of a distribution in partial or complete liquidation of the Company.

A reconciliation of the amount computed by applying the federal statutory rate to pretax income with income tax expense for the years ended June 30, 2023 and 2022 is as follows:

	June 30, 2023		June 30, 2022	
	Amount	%	Amount	%
Tax at statutory federal income tax rate	$ 887	21.00 %	$ 1,065	21.00 %
Increase (decrease) resulting from:				
State income tax expense	212	5.02	222	4.37
Life insurance benefits	(100)	(2.37)	(97)	(1.91)
Tax exempt interest income	(33)	(0.78)	(71)	(1.40)
Other—net	(93)	(2.20)	(146)	(2.88)
Total	$ 873	20.68 %	$ 973	19.18 %

The Company has no current uncertain tax positions in place. No amounts were accrued for penalties or interest as of June 30, 2023 and 2022. The Company is subject to U.S. federal income tax as well as income tax of the states of South Carolina and Georgia. The Company is no longer subject to examination by taxing authorities for tax years ending before 2020.

NOTE 10—COMMITMENTS

Loan commitments and related activities: Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

NOTE 10—COMMITMENTS (Continued)

The contractual amount of financial instruments with off-balance-sheet risk at June 30, 2023 and 2022 was as follows:

	June 30, 2023		June 30, 2022	
	Fixed	Variable	Fixed	Variable
Loan commitments	$ 960	$ 3,790	$ 8,861	$ 1,168
Unused lines of credit	$ 24,289	$ 35,258	$ 46,169	$ 33,937

Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan commitments are primarily for the purpose of financing the purchase, the refinance, or the construction of residential real estate. At June 30, 2023, these commitments have interest rates ranging from 2.05% to 18.00% and maturities ranging from one to 30 years.

Financial instruments with off-balance-sheet risk: The Company has no additional financial instruments with off-balance-sheet risk.

NOTE 11—REGULATORY CAPITAL REQUIREMENTS

Savings and loan associations are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes that as of June 30, 2023, the Association met all capital adequacy requirements to which it is subject. The Company is not subject to capital requirements because of its size.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At June 30, 2023 and 2022, the Association was categorized as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Association's category.

Quantitative measures established by regulation to ensure capital adequacy require the Association to maintain minimum amounts and ratios of total, Tier 1 capital and Common Equity Tier 1 capital, as defined by the regulations, to risk-weighted assets, as defined, and of Tier 1 capital to average assets, as defined. The Association must hold a capital conservation buffer of 2.50% above the adequately capitalized risk-based capital ratios. The net realized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes that, as of June 30, 2023 and 2022, the Association met all capital adequacy requirements to which it was subject.

NOTE 11—REGULATORY CAPITAL REQUIREMENTS (Continued)

The Association's actual and minimum capital requirements to be well-capitalized under prompt corrective action provisions are as follows:

June 30, 2023	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk weighted assets	$ 85,713	26.32 %	$ 34,196	10.50 %	$ 32,568	10.00 %
Common equity tier 1 capital to risk weighted assets	84,224	25.86	22,798	7.00	21,169	6.50
Tier 1 (core) capital to risk weighted assets	84,224	25.86	27,683	8.50	26,054	8.00
Tier 1 (core) capital to average assets	84,224	13.80	24,413	4.00	30,516	5.00

June 30, 2022	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk weighted assets	$ 86,705	30.95 %	$ 29,418	10.50 %	$ 28,017	10.00 %
Common equity tier 1 capital to risk weighted assets	85,366	30.47	19,612	7.00	18,211	6.50
Tier 1 (core) capital to risk weighted assets	85,366	30.47	23,815	8.50	22,414	8.00
Tier 1 (core) capital to average assets	85,366	15.40	22,178	4.00	27,723	5.00

The June 30, 2023 and 2022 Total Risk Weighted Assets Capital Ratios, Common Equity Tier 1 Ratios, and the Tier 1 to Risk Weighted Assets Capital Ratios displayed above under the heading “For Capital Adequacy Purposes” include conservation buffers of 2.50%.

The Qualified Thrift Lender test requires that at least 65% of assets be maintained in housing-related finance and other specified areas. If this test is not met, limits are placed on growth, branching, new investments, FHLB advances and dividends, or the Association must convert to a commercial bank charter. Management believes this test is met.

Dividend Restrictions—The Company's principal source of funds for dividend payments is dividends received from the Association. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year without prior approval is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. The Association has paid $3,360 dividends during calendar year 2023 and, as of June 30, 2023 could, without prior approval, but with regulatory notice, declare dividends of approximately $1,018 (based on calendar year net income through June 30, 2023).

NOTE 12—FAIR VALUE MEASUREMENTS

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

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

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

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

Investment Securities:

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Loans:

The fair values of loans, excluding loans held for sale and impaired loans, are estimated based on the loan's interest rate structure. Fair values for variable rate loans that reprice frequently and with no significant change in credit risk are based on the carrying values resulting in a Level 3 classification. Fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality along with an exit price notion resulting in a Level 3 classification.

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 June 30, 2023 or 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.

NOTE 12—FAIR VALUE MEASUREMENTS (Continued)

Loan Servicing Rights:

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

Real estate owned:

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.

NOTE 12—FAIR VALUE MEASUREMENTS (Continued)

Assets and liabilities measured at fair value on a recurring basis at June 30, 2023 and 2022 are summarized below:

	Fair Value Measurements			
	June 30, 2023		June 30, 2022	
	(Level 2)	(Level 3)	(Level 2)	(Level 3)
Financial assets:				
Securities available-for-sale:				
FHLMC common stock	$ 35	$ -	$ 34	$ -
Certificates of deposit	-	-	1,249	-
Municipal securities	8,188	-	16,597	-
CMOs	10,583	-	13,064	-
U.S. Government agency mortgage-backed securities	104,122	-	109,604	-
U.S. Treasury and Government agency bonds	10,320	-	10,751	-
Total securities available-for-sale	133,248	-	151,299	-
Loan servicing rights	-	357	-	345
Total financial assets	$ 133,248	$ 357	$ 151,299	$ 345

There were no liabilities measured at fair value on a recurring basis at June 30, 2023 or 2022.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs Level 3 for the years ended June 30, 2023 and 2022:

	Fair Value Measurements (Level 3)	
	Year Ended	
	June 30, 2023	June 30, 2022
	Loan Servicing Rights	Loan Servicing Rights
Balance at beginning of period:	$ 345	$ 305
Unrealized net gains included in net income	12	40
Balance at end of period:	$ 357	$ 345

The table below presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value at June 30, 2023 and 2022:

	Level 3 Quantitative Information				
	June 30, 2023 Fair Value	June 30, 2022 Fair Value	Valuation Technique	Unobservable Inputs	Range
Loan servicing rights	$ 357	$ 345	Discounted cash flows	Discount rate, estimated timing of cash flows	10.88% to 11.63%

There were no assets measured at fair value on a non-recurring basis at June 30, 2023 and 2022.

NOTE 13—EMPLOYEE BENEFIT PLANS

The Company has deferred compensation agreements with certain of its directors whereby director fees are withheld to fund insurance contracts from which the funds will ultimately be disbursed. These agreements require the Company to make payments to such directors beginning at the age set forth in the agreement or upon death of the director if prior to the minimum age requirement. The directors vest ratably over periods established in the agreements. Interest on the liabilities is charged to earnings based on imputed interest rates established at the beginning of each agreement, which range from 6.69% to 8.50% at both June 30, 2023 and 2022, respectively. The total expense incurred under these plans for the years ended June 30, 2023 and 2022 was $30 and $34, respectively. The recorded liability for these agreements was $230 and $294 at June 30, 2023 and 2022, respectively, and is included in other accrued liabilities in the consolidated balance sheet.

To provide funds for the payments under these deferred compensation agreements, the Company has purchased insurance policies on the lives of the directors covered by these plans.

The Company has the option of making an annual contribution to a profit-sharing plan for all full-time employees over the age of 21 having completed one year of service. The Company has exercised this option in 2023 and 2022, and as such, total expense under the profit sharing plan for each of the years ended June 30, 2023 and 2022 was $171 and $168, respectively.

NOTE 14—EMPLOYEE STOCK OWNERSHIP PLAN

Employees participate in an Employee Stock Ownership Plan. The ESOP borrowed from the Company to purchase 248,842 shares of the Company's common stock at $10 per share during 2011. The Company makes discretionary contributions to the ESOP, and pays dividends on unallocated shares to the ESOP, and the ESOP uses funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation and expense is recorded. Dividends on allocated shares increase participant accounts.

Participants receive the shares at the end of employment. Each participant vests at a rate of 20% per year. The Company makes contributions to the ESOP each December. There were no discretionary contributions made to the ESOP for debt retirement in 2023 or 2022. ESOP compensation expense recognized for the years ended June 30, 2023 and 2022 was $3 and $316, respectively. The ESOP loan was repaid in full in December 2022.

Shares held by the ESOP at June 30, 2023 and 2022 were as follows:

	June 30, 2023	June 30, 2022
Committed to be released to participants	-	5,355
Allocated to participants	168,630	165,060
Unearned	-	3,514
Total ESOP shares	168,630	173,929
Fair value of unearned shares	$ -	$ 76

NOTE 15—STOCK BASED COMPENSATION

On April 5, 2012, the shareholders of the Company approved the Oconee Federal Financial Corp. 2012 Equity Incentive Plan (the "Plan") for employees and directors of the Company. The Plan authorizes the issuance of up to 435,472 shares of the Company's common stock, with no more than 124,420 of shares as restricted stock awards and 311,052 as stock options, either incentive stock options or non-qualified stock options. The exercise price of options granted under the Plan may not be less than the fair market value on the date the stock option is granted. The compensation committee of the board of directors has sole discretion to determine the amount and to whom equity incentive awards are granted. The Plan shall remain 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.

NOTE 15—STOCK BASED COMPENSATION (Continued)

There have been no stock options or restricted stock issued in fiscal 2023 or 2022.

The following table summarizes stock option activity for the year ended June 30, 2023:

	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 - June 30, 2023	43,900	$ 22.90	$ -
Fully vested and exercisable at June 30, 2023	34,700	$ 22.26	$ -
Expected to vest in future periods	9,200		
Fully vested and expected to vest - June 30, 2023	43,900	$ 22.90	$ -

(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 $14.16 per share on June 30, 2023.

The following table summarizes stock option activity for the year ended June 30, 2022:

	Options	Weighted-Average Exercise Price/Share	Aggregate Intrinsic Value [1]
Outstanding - June 30, 2021	131,901	$ 15.70	
Granted	-	-	
Exercised	(82,001)	11.58	
Forfeited	-	-	
Outstanding - June 30, 2022	49,900	$ 22.48	$ -
Fully vested and exercisable at June 30, 2022	36,100	$ 21.50	$ 6
Expected to vest in future periods	13,800		
Fully vested and expected to vest - June 30, 2022	49,900	$ 22.48	$ -

(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 $21.66 per share on June 30, 2022.

NOTE 15—STOCK BASED COMPENSATION (Continued)

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 4,600 and 5,218 options that were earned during the years ended June 30, 2023 and 2022, respectively. Stock-based compensation expense for stock options for the years ended June 30, 2023 and 2022 was $17 and $20, respectively. Total unrecognized compensation cost related to stock options was $33 at June 30, 2023 and is expected to be recognized over a weighted-average period of 2.5 years.

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

The following table summarizes non-vested restricted stock activity for the years ended June 30, 2023 and June 30, 2022:

	June 30, 2023	June 30, 2022
Balance - beginning of year	9,700	14,300
Granted	-	-
Forfeited	-	-
Vested	(2,800)	(4,600)
Balance - end of period	6,900	9,700
Weighted average grant date fair value	$ 23.16	$ 22.97

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. There was no restricted stock granted during fiscal 2023 or 2022. Total shares of restricted stock granted under the Plan is 131,044 of which 6,900 remain unvested at June 30, 2023. The weighted-average grant date fair value of all shares granted is $14.09 per share. Stock-based compensation expense for restricted stock included in noninterest expense for the years ended June 30, 2023 and 2022 was $59 and $83, respectively. Unrecognized compensation expense for non-vested restricted stock awards was $158 and is expected to be recognized over a weighted-average period of 3.0 years.

NOTE 16—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 were $34,543 and $39,476 at June 30, 2023 and 2022, respectively.

Custodial escrow balances maintained in connection with serviced loans were $422 and $453 at June 30, 2023 and 2022, respectively.

Activity for loan servicing rights for the years ended June 30, 2023 and 2022 is as follows:

	Year Ended	
	June 30, 2023	June 30, 2022
Loan servicing rights:		
Beginning of period:	$ 345	$ 305
Change in fair value	12	40
End of period:	$ 357	$ 345

Fair value at June 30, 2023 was determined using a discount rate of 11.63%, prepayment speed assumptions ranging from 6.41% to 14.65% Conditional Prepayment Rate ("CPR") depending on the loans coupon, term and seasoning, and a weighted average default rate of 3.0%. Fair value at June 30, 2022 was determined using a discount rate of 10.88%, prepayment speed assumptions ranging from 6.14% to 59.05% CPR depending on the loans coupon, term and seasoning, and a weighted average default rate of 3.0%.

NOTE 17—SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the years ended June 30, 2023 and 2022 is as follows:

	June 30, 2023	June 30, 2022
Cash paid during the period for:		
Interest paid	$ 4,721	$ 1,085
Income taxes paid	$ 1,190	$ 885
Supplemental noncash disclosures:		
Transfers from loans to real estate owned	$ 106	$ -
Change in unrealized gain/loss on securities available-for-sale	$ (6,030)	$ (18,392)

NOTE 18—PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

CONDENSED BALANCE SHEETS
JUNE 30, 2023 AND 2022

	June 30, 2023	June 30, 2022
ASSETS		
Cash and cash equivalents	$ 3,152	$ 620
ESOP loan receivable	-	115
Other	64	25
Investment in banking subsidiary	68,601	74,497
Total assets	$ 71,817	$ 75,257
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and other liabilities	$ 28	$ -
Shareholders' equity	71,789	75,257
Total liabilities and shareholders' equity	$ 71,817	$ 75,257

CONDENSED STATEMENTS OF INCOME
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	June 30, 2023	June 30, 2022
Interest income	$ 2	$ 7
Dividend from banking subsidiary	4,867	-
Other expenses	(245)	(228)
Income/(loss) before equity in undistributed income of subsidiary	4,624	(221)
Equity in undistributed income of subsidiary	(1,324)	4,274
Income before income taxes	3,300	4,053
Income tax benefit	(49)	(46)
Net income	$ 3,349	$ 4,099

NOTE 18—PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

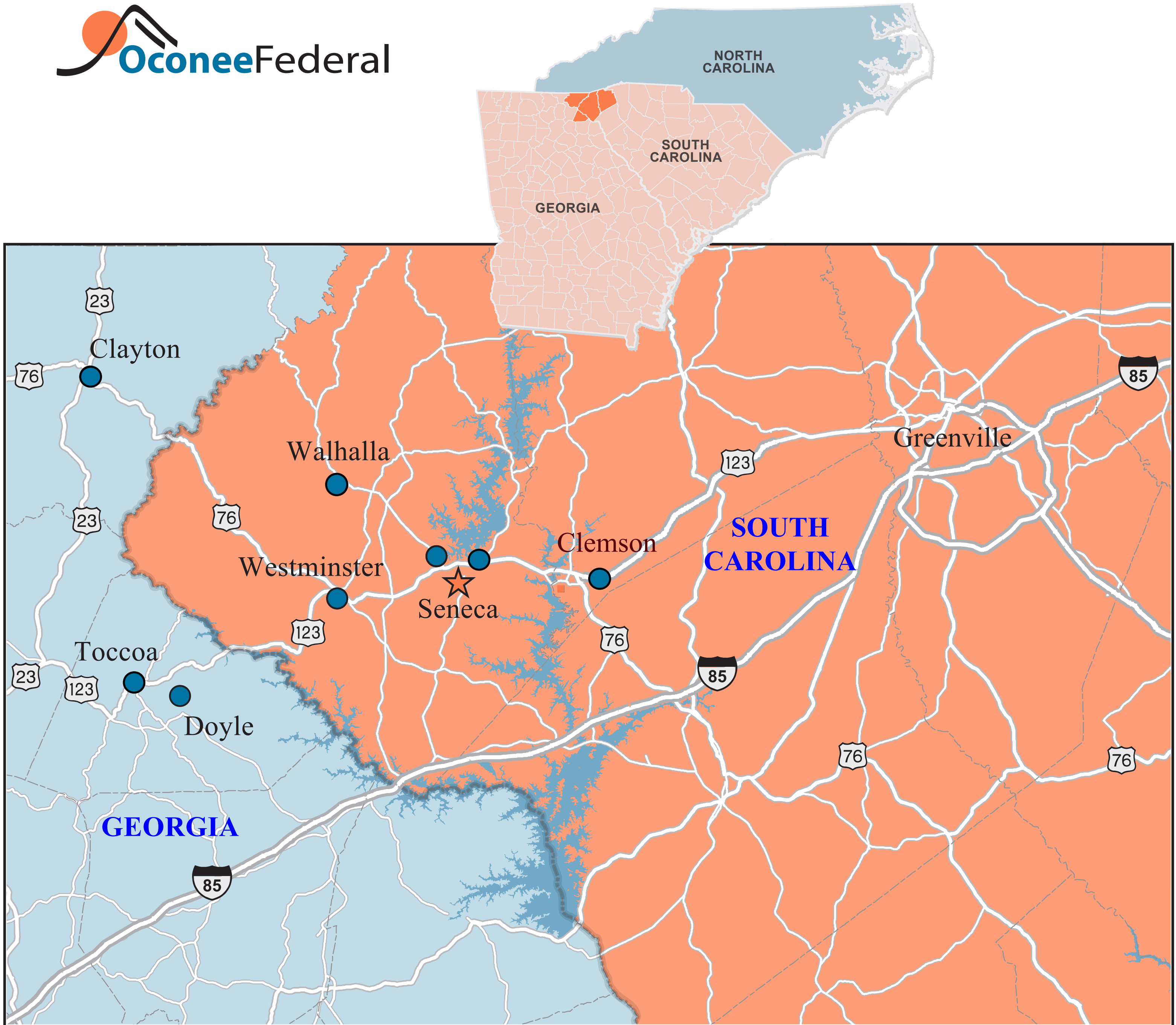
	June 30, 2023	June 30, 2022
Cash Flows From Operating Activities		
Net income	$ 3,349	$ 4,099
Adjustments to reconcile net income to net cash provided by provided by operating activities:		
Change in other assets	(39)	3
Change in accounts payable and other liabilities	28	(20)
Change in undistributed income of subsidiary	1,324	(4,274)
Net cash provided/(used) by operations	4,662	(192)
Cash Flows From Investing Activities		
Payments received on ESOP loans	110	190
Net cash provided by investing activities	110	190
Cash Flows from Financing Activities		
Purchases of treasury shares	-	(658)
Proceeds from sale of common stock	-	-
Dividends paid	(2,240)	(2,212)
Net cash used in financing activities	(2,240)	(2,870)
Change in cash and cash equivalents	2,532	(2,872)
Cash and cash equivalents, beginning of year	620	3,492
Cash and cash equivalents, end of year	$ 3,152	$ 620

NOTE 19—SUBSEQUENT EVENTS

On August 8, 2023, the Board of Directors of the Company declared a quarterly cash dividend of $0.10 per share of the Company's common stock payable to stockholders of record as of August 18, 2023, which was paid on August 25, 2023.

On July 20, 2023, the Company announced the execution of an agreement pursuant to which Mutual Savings Bank, headquartered in Hartsville, South Carolina, will merge with and into Oconee Federal Savings and Loan with Oconee Federal Savings and Loan as the surviving entity. The merger is expected to increase the Company's consolidated assets from $595 million at June 30, 2023 to $640 million based on Mutual Savings Bank's assets as of June 30, 2023. The merger, which is subject to regulatory approval, the approval of Mutual Savings Bank depositors, and other customary conditions, is expected to close in the fourth quarter of 2023 or the first quarter of 2024.

Management has reviewed events occurring through September 20, 2023, the date the financial statements were available to be issued and has identified no subsequent events that have occurred requiring disclosure other than the dividend discussed above.



★ **EXECUTIVE OFFICES** ● **BRANCHES AND OFFICES**

Executive Offices
201 E. North Second Street
Seneca, SC 29678

Main Office
115 E. North Second Street
Seneca, SC 29678

Toccoa Branch
2859 Highway 17 Alternate
Toccoa, GA 30577

Doyle Street Branch
12 East Doyle Street
Toccoa, GA 30577

Seneca Branch
813 - 123 By-Pass
Seneca, SC 29678

Clayton Branch
221 Highway 76 East
Clayton, GA 30525

Clemson Branch
357 Old Greenville Hwy.
Clemson, SC 29631

Walhalla Branch
204 W. North Broad Street
Walhalla, SC 29691

Westminster Branch
111 W. Windsor Street
Westminster, SC 29693