



Annual Financial Statements
June 30, 2024

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, 2024 and 2023, 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, 2024 and 2023, 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses effective July 1, 2023 due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, *Financial Instruments – Credit Losses (ASC 326)*. The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

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 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.

In performing an audit in accordance with GAAS, 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.

Elliott Davis, LLC

Greenville, South Carolina
September 23, 2024

OCONEE FEDERAL FINANCIAL CORP.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2024 and 2023
(Amounts in thousands, except share and per share data)

	June 30,	June 30,
	2024	2023
ASSETS		
Cash and due from banks	\$ 12,235	\$ 4,655
Interest-earning deposits	5,828	2,509
Fed funds sold	9	130
Total cash and cash equivalents	18,072	7,294
Securities available-for-sale	129,867	133,248
Loans	473,004	413,024
Allowance for credit losses	(3,332)	(1,489)
Net loans	469,672	411,535
Premises and equipment, net	8,715	8,412
Accrued interest receivable		
Loans	1,642	1,192
Investments	399	410
Restricted equity securities, at cost	3,705	2,821
Bank owned life insurance	21,400	20,873
Goodwill	2,593	2,593
Core deposit intangible	59	22
Loan servicing rights	342	357
Deferred tax assets	8,001	5,997
Other assets	1,136	651
Total assets	\$ 665,603	\$ 595,405
LIABILITIES		
Deposits		
Noninterest - bearing	\$ 74,260	\$ 55,618
Interest - bearing	452,727	418,625
Total deposits	526,987	474,243
Federal Home Loan Bank advances	55,950	46,000
Accrued interest payable and other liabilities	3,895	3,373
Total liabilities	586,832	523,616
SHAREHOLDERS' EQUITY		
Common stock, \$0.01 par value, 100,000,000 shares authorized; 6,836,863 and 6,606,648 shares issued and outstanding, respectively	68	66
Treasury stock, at par, 998,453 and 997,396 shares, respectively	(10)	(10)
Additional paid-in capital	9,375	6,122
Retained earnings	87,046	83,897
Accumulated other comprehensive loss	(17,708)	(18,286)
Total shareholders' equity	78,771	71,789
Total liabilities and shareholders' equity	\$ 665,603	\$ 595,405

See accompanying notes to the consolidated financial statements

OCONEE FEDERAL FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME/(LOSS)
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023
(Amounts in thousands, except share and per share data)

	Years Ended	
	June 30, 2024	June 30, 2023
Interest and dividend income:		
Loans, including fees	\$ 20,507	\$ 15,896
Securities, taxable	3,059	3,040
Securities, tax-exempt	150	155
Other interest-earning assets	419	205
Total interest income	<u>24,135</u>	<u>19,296</u>
Interest expense:		
Deposits	9,091	3,469
Other borrowings	2,742	1,254
Total interest expense	<u>11,833</u>	<u>4,723</u>
Net interest income	12,302	14,573
Provision for credit losses	160	150
Net interest income after provision for credit losses	12,142	14,423
Noninterest income:		
Service charges on deposit accounts	434	427
Income on bank owned life insurance	527	475
Mortgage servicing income	72	86
Gain on sale of mortgage loans	30	24
ATM & debit card income	477	459
Change in fair value of equity securities, net	75	1
Loss on sale of securities, net	-	(84)
Gain on payoff of purchase credit deteriorated loans	-	240
Bargain purchase gain	4,897	-
Other	120	17
Total noninterest income	<u>6,632</u>	<u>1,645</u>
Noninterest expense:		
Salaries and employee benefits	6,653	6,571
Occupancy and equipment	1,754	1,900
Data processing	1,091	1,154
ATM & debit card expense	390	363
Professional and supervisory fees	449	470
Merger related expense	329	25
Office expense	195	202
Advertising	141	227
FDIC deposit insurance	280	202
Foreclosed assets, net	-	(36)
Change in loan servicing asset	40	(12)
Other	758	780
Total noninterest expense	<u>12,080</u>	<u>11,846</u>
Income before income taxes	6,694	4,222
Income tax expense	439	873
Net income	<u>\$ 6,255</u>	<u>\$ 3,349</u>
Other comprehensive income/(loss)		
Unrealized gains/(losses) on securities available-for-sale	\$ 732	\$ (6,030)
Tax effect	(154)	1,266
Reclassification adjustment for losses realized in net income	-	84
Tax effect	-	(18)
Total other comprehensive income/(loss)	<u>578</u>	<u>(4,698)</u>
Comprehensive income/(loss)	<u>\$ 6,833</u>	<u>\$ (1,349)</u>
Basic net income per share	\$ 1.10	\$ 0.60
Diluted net income per share	\$ 1.10	\$ 0.60
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, 2024 AND 2023
(Amounts in thousands, except share and per share data)

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unearned ESOP Shares	Total
Balance at 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 ⁽¹⁾	-	-	0	-	-	-	0
Stock-based compensation expense	-	-	76	-	-	-	76
Dividends ⁽²⁾	-	-	2	(2,242)	-	-	(2,240)
ESOP shares earned	-	-	(11)	-	-	56	45
Balance at June 30, 2023	<u>\$ 66</u>	<u>\$ (10)</u>	<u>\$ 6,122</u>	<u>\$ 83,897</u>	<u>\$ (18,286)</u>	<u>\$ -</u>	<u>\$ 71,789</u>
Balance at June 30, 2023	\$ 66	\$ (10)	\$ 6,122	\$ 83,897	\$ (18,286)	\$ -	\$ 71,789
Net income	-	-	-	6,255	-	-	6,255
Other comprehensive income	-	-	-	-	578	-	578
Purchase of 1,057 shares of treasury stock ⁽³⁾	-	-	(14)	-	-	-	(14)
Stock-based compensation expense	-	-	69	-	-	-	69
Common stock issued	2	-	3,198	-	-	-	3,200
Dividends	-	-	-	(2,290)	-	-	(2,290)
Adoption of new accounting standard, net of tax	-	-	-	(816)	-	-	(816)
Balance at June 30, 2024	<u>\$ 68</u>	<u>\$ (10)</u>	<u>\$ 9,375</u>	<u>\$ 87,046</u>	<u>\$ (17,708)</u>	<u>\$ -</u>	<u>\$ 78,771</u>

Columns that show zero are below one thousand dollars.

- (1) 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.
- (2) 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 was accounted for as additional compensation expense for the year ended June 30, 2023.
- (3) The weighted average cost of treasury shares purchased during the year was \$13.13 per share. Treasury stock repurchases were accounted for using the par value method.

See accompanying notes to the consolidated financial statements

OCONEE FEDERAL FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023
(Amounts in thousands, except share and per share data)

	Years Ended	
	June 30, 2024	June 30, 2023
Cash Flows From Operating Activities		
Net income	\$ 6,255	\$ 3,349
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	160	150
Depreciation and amortization, net	734	969
Net (accretion)/amortization of purchase accounting adjustments	(120)	97
Deferred income tax expense/(benefit)	224	(71)
Net gain on sale of real estate owned	-	(39)
Net gain on acquisition of Mutual Savings Bank	(4,897)	-
Net gain on sale of premises and equipment	(56)	-
Change in loan servicing asset	40	(12)
Net loss on sales of securities	-	84
Mortgage loans originated for sale	(1,681)	(1,545)
Mortgage loans sold	1,711	1,721
Gain on sales of mortgage loans	(30)	(24)
Change in fair value of equity securities	(75)	(1)
Increase in cash surrender value of bank owned life insurance	(527)	(475)
Gain on payoff of purchased credit impaired loans	-	(240)
ESOP shares earned	-	56
Stock based compensation expense	69	76
Net change in operating assets and liabilities:		
Accrued interest receivable and other assets	(704)	(285)
Accrued interest payable and other liabilities	(56)	2,520
Net cash provided by operating activities	1,047	6,330
Cash Flows From Investing Activities		
Net cash received from acquisition of Mutual Savings Bank	2,980	-
Purchases of premises and equipment	(91)	(375)
Disposal of premises and equipment	356	-
Purchases of securities available-for-sale	-	(11,150)
Proceeds from maturities, paydowns and calls of securities available-for-sale	11,038	11,832
Proceeds from sales of securities available-for-sale	-	10,965
Sales of restricted equity securities	960	1,531
Purchases of restricted equity securities	(1,489)	(3,163)
Proceeds from sale of real estate owned	44	145
Loan originations and repayments, net	(25,776)	(67,875)
Net cash used in investing activities	(11,978)	(58,090)
Cash Flows from Financing Activities		
Net change in deposits	20,716	14,561
Proceeds from notes payable to FHLB	24,997	86,500
Repayment of notes payable to FHLB	(21,700)	(49,500)
Dividends paid	(2,290)	(2,240)
Purchase of treasury stock	(14)	-
Net cash provided by financing activities	21,709	49,321
Change in cash and cash equivalents	10,778	(2,439)
Cash and cash equivalents, beginning of period	7,294	9,733
Cash and cash equivalents, end of period	\$ 18,072	\$ 7,294

See accompanying notes to the consolidated financial statements

OCONEE FEDERAL FINANCIAL CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023
(Amounts in thousands, except share and per share data)

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 (75.27%) 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, Pickens County and Darlington County areas of South Carolina, and the Stephens County and Rabun County areas of Georgia. 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.

For available-for-sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security, or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value, and the entire loss is recorded in earnings.

Allowance for Credit Losses - Securities: If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available-for-sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At June 30, 2024, there was no allowance for credit loss related to the available-for-sale portfolio.

OCONEE FEDERAL FINANCIAL CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023
(Amounts in thousands, except share and per share data)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued interest receivable on available-for-sale debt securities totaled \$399 at June 30, 2024 and was excluded from the estimate of credit losses.

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 amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans totaled \$1,642 at June 30, 2024 and was reported in accrued interest receivable on the consolidated balance sheets. 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 methods that approximate a level yield without anticipating prepayments.

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured.

Purchased credit impaired and credit deteriorated loans: Upon adoption of ASC 326, loans that were designated as purchased credit impaired (“PCI”) loans under the previous accounting guidance were classified as purchased credit deteriorated (“PCD”) loans without reassessment. In future acquisitions, the Company may purchase loans, some of which have experienced more than insignificant credit deterioration since origination. In those cases, the Company will consider internal loan grades, delinquency status and other relevant factors in assessing whether purchased loans are PCD. PCD loans are recorded at the amount paid. An initial allowance for credit loss is determined using the same methodology as other loans held for investment, but with no impact to earnings. The initial allowance for credit loss determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit loss becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent to initial recognition, PCD loans are subject to the same interest income recognition and impairment model as non-PCD loans, with changes to the allowance for credit loss recorded through provision expense.

Loan Modifications to Borrowers Experiencing Financial Difficulty: An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

OCONEE FEDERAL FINANCIAL CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023
(Amounts in thousands, except share and per share data)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. In some cases, multiple types of modifications may be made on the same loan within the current reporting period.

Allowance for Credit Losses - Loans: The allowance for credit 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. 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.

Under the current expected credit loss model, the allowance for credit losses on loans is a valuation allowance estimated at each balance sheet date in accordance with GAAP that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans.

Management assesses the adequacy of the allowance on a quarterly basis. This assessment includes procedures to estimate the allowance and test the adequacy and appropriateness of the resulting balance. The level of the allowance is based upon management's evaluation of historical default and loss experience, current and projected economic conditions, asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay a loan, the estimated value of any underlying collateral, composition of the loan portfolio, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations. Management believes the level of the allowance for credit losses is adequate to absorb all expected future losses inherent in the loan portfolio at the balance sheet date. The allowance is increased through provision for credit losses and decreased by charge-offs, net of recoveries of amounts previously charged-off.

The allowance for credit losses is measured on a collective basis for pools of loans with similar risk characteristics. 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 5. Any nonresidential or residential non-owner occupied loans that meet certain size requirements and performance characteristics are individually evaluated for a specific reserve. The amount of specific reserve, 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 individually evaluated are collectively evaluated for reserve by portfolio segment. To develop and document a systematic methodology for determining the portion of the allowance for credit losses for loans evaluated collectively, the Company has divided the loan portfolio into segments, each with different risk characteristics and methodologies for assessing risk.

The Company has identified the following pools of financial assets with similar risk characteristics for measuring expected credit losses:

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%.

OCONEE FEDERAL FINANCIAL CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023
(Amounts in thousands, except share and per share data)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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.

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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.

For all loan pools, the Company calculates lifetime probability of default and loss given default rates based on historical loss experience, which is used to calculate expected losses based on the pool's loss rate. Management believes that the Company's historical loss experience provides the best basis for its assessment of expected credit losses to determine the allowance for credit losses. The Company uses its own internal data to measure historical credit loss experience within the pools with similar risk characteristics over an economic cycle. The probability of default and loss given default method also includes assumptions of observed migration over the lifetime of the underlying loan data.

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management also considers further adjustments to historical loss information for current conditions and reasonable and supportable forecasts that differ from the conditions that exist for the period over which historical information is evaluated as well as other changes in qualitative factors not inherently considered in the quantitative analyses. The Company generally utilizes an eight-quarter forecast period in evaluating the appropriateness of the reasonable and supportable forecast scenarios which are incorporated through qualitative adjustments. The qualitative categories and the measurements used to quantify the risks within each of these categories are subjectively selected by management but measured by objective measurements period over period. The data for each measurement may be obtained from internal or external sources. The current period measurements are evaluated and assigned a factor commensurate with the current level of risk relative to past measurements over time. The resulting qualitative adjustments are applied to the relevant collectively evaluated loan pools. These adjustments are based upon quarterly trend assessments in certain economic factors such as labor, inflation and consumer sentiment, as well as associate retention and turnover, portfolio underwriting characteristics and the regulatory and legal environments. The qualitative analysis increases or decreases the allowance allocation for each loan pool based on the assessment of factors described above.

Loans that do not share similar risk characteristics with the collectively evaluated pools are evaluated on an individual basis and are excluded from the collectively evaluated loan pools. Individual loan evaluations are generally performed for loans that are over \$250 and management considers it probable that the Company will be unable to collect all amounts when due according to the contractual terms of the loan agreement. Such loans are evaluated for credit losses based on either discounted cash flows or the fair value of collateral. The Company has elected the practical expedient under ASC 326 to estimate expected credit losses based on the fair value of collateral, which considers selling costs in the event sale of the collateral is expected.

While the Company's policies and procedures used to estimate the allowance for credit losses, as well as the resulting provision for credit losses charged to income, are considered adequate by management and are reviewed periodically by regulators and internal audit, they are necessarily approximate and imprecise. There are factors beyond the Company's control, such as changes in projected economic conditions, real estate markets or particular industry conditions which may materially impact asset quality and the adequacy of the allowance for credit losses and thus the resulting provision for credit losses.

Allowance for Credit Losses – Unfunded Commitments: 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 Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company maintains an allowance for off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable (i.e., the commitment cannot be canceled at any time). The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on 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.

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2024 and June 30, 2024.

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.

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, Pickens and Darlington 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.

New Accounting Standards:

Accounting Standards Update (“ASU”) 2024-02, “Codification Improvements – Amendments to Remove References to the Concepts Statements”. Issued in March 2024, the FASB issued amendments to the Codification that remove references to various FASB Concepts Statements. The amendments are effective for fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company will apply the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures”. Issued in December 2023, the FASB amended the Income Taxes topic in the Accounting Standards Codification (“ASC”) to improve the transparency of income tax disclosures. The amendments are effective for annual periods beginning after December 15, 2024 for the Company. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2023-01, “Leases (Topic 842): Common Control Arrangements”. Issued in March 2023, the FASB amended the Leases topic in the 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. This pronouncement did not have a material effect on the financial statements.

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. This pronouncement did not have a material effect on the financial statements.

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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. This pronouncement did not have a material effect on the financial statements.

ASU 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASC 326”). On July 1, 2023, the Company adopted ASC 326. This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit deteriorated (“PCD”) loans will receive an initial allowance at the acquisition date that represents an adjustment to the amortized cost basis of the loan, with no impact to earnings.

In addition, CECL made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell and does not believe that it is more likely than not they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments thereto effective July 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of \$905, which is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of \$299, which is recorded within Other Liabilities. The Company recorded a net decrease to retained earnings of \$816 as of July 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after July 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards (“Incurred Loss”).

The Company adopted ASC 326 using the prospective transition approach for PCD assets that were previously classified as PCI under ASC 310-30. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. On July 1, 2023, the amortized cost basis of PCD assets were adjusted to reflect the addition of \$104 to establish the allowance for credit losses. The remaining interest-related discount was insignificant.

Regarding PCD assets, the Company elected to disaggregate the former PCI pools and no longer considers these pools to be the unit of account; contractually delinquent PCD loans will be reported as nonaccrual loans using the same criteria as other loans.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to July 1, 2023. As of June 30, 2023, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not deemed material.

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.

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NOTE 2 - ACQUISITION

On January 1, 2024, the Company and its parent company, Oconee Federal, MHC, completed the acquisition of Mutual Savings Bank. The acquisition was consummated in accordance with the Agreement and Plan of Merger by and among the Company, Oconee MHC, the Association and Mutual Savings Bank dated July 19, 2023, pursuant to which Mutual Savings Bank merged with and into the Association, with the Association as the surviving institution. The Company has determined the acquisition constitutes a business combination as defined by generally accepted accounting principles. As such, the Company has recorded the assets purchased and liabilities assumed at their estimated fair values.

Upon completion of the acquisition, the Company issued 230,215 shares of Company common stock to Oconee MHC, which is equal to the quotient of (i) the valuation of Mutual Savings Bank, which was \$3,200 as determined by an independent third party, divided by (ii) the closing price of the Company's common stock as reported on the OTCQX on January 31, 2024, or approximately \$13.90 per share. In connection with the acquisition, the Company recorded a bargain purchase gain of \$4,897, which is included in non-interest income. The bargain purchase gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed and is influenced significantly by the value determined by the third-party appraisal. The assets acquired and liabilities assumed and consideration paid in the acquisition were initially recorded at their estimated fair values based on management's best estimates using information available at the date of the acquisition, and are subject to adjustment for up to one year after the closing date of the acquisition. The most significant fair value mark was the loan portfolio at \$3,400. The acquisition also contributed to an increase in the allowance for credit loss of \$454 as of the date of acquisition.

	As Recorded by Mutual Savings Bank	Fair Value and Other Adjustments	As Recorded by the Company
Consideration			
Common stock at \$13.90 per share, 230,215 shares			<u>\$ 3,200</u>
Assets			
Cash and cash equivalents	\$ 2,973	\$ 7	(1) \$ 2,980
Securities available-for-sale	7,653	(621)	(2) 7,032
Loans, net	37,028	(3,808)	(3) 33,220
Premises and equipment, net	1,537	(510)	(4) 1,027
Real estate owned, net	58	(14)	(5) 44
Accrued interest receivable	135	-	135
Restricted equity securities	355	-	355
Core deposit intangible	-	75	(6) 75
Loan servicing rights	25	-	25
Other assets	<u>67</u>	<u>2,116</u>	(7) <u>2,183</u>
Total assets acquired	<u>\$ 49,831</u>	<u>\$ (2,755)</u>	<u>47,076</u>
Liabilities			
Deposits	\$ 32,039	\$ (11)	(8) \$ 32,028
FHLB Advances	6,750	(97)	(9) 6,653
Other liabilities	<u>211</u>	<u>87</u>	(10) <u>298</u>
Total liabilities assumed	<u>\$ 39,000</u>	<u>\$ (21)</u>	<u>\$ 38,979</u>
Net assets acquired			<u>8,097</u>
Bargain Purchase Gain			<u>\$ 4,897</u>

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NOTE 2 – ACQUISITION (Continued)

Explanation of fair value and other adjustments:

- (1) The adjustments are miscellaneous amounts to reflect the proper bank balances. No fair value adjustments are included.
- (2) The adjustments are for converting all securities to fair value as available-for-sale category as of January 31, 2024.
- (3) The adjustments include miscellaneous amounts to reflect the proper loan balances for payments received as of January 31, 2024 as well fair value and loan allowance adjustments. The net fair value adjustment of \$3,365, comprised of a \$3,541 fair value adjustment to the gross loan portfolio acquired and the elimination of related existing deferred fees of \$176, will be accreted to income on a level-yield basis over each loan's contractual life. The total allowance for credit loss adjustment of \$454 is comprised of a general allocation adjustment of \$115 plus an additional allowance for individually evaluated of \$339.
- (4) Premises and equipment are adjusted to reflect recently appraised values of the land and buildings and the Company's estimates of the fair value of furniture, fixtures and equipment.
- (5) The net adjustment reflects the fair value of real estate properties, less estimated costs to sell.
- (6) The adjustment reflects the value for the core deposit intangible at January 1, 2024.
- (7) The adjustments reflect the net deferred tax assets resulting from the fair value adjustments related to the acquired assets and liabilities, identifiable intangibles and other deferred tax items. The fair value adjustment of the net deferred tax asset assumes an effective tax rate of approximately 21%.
- (8) The adjustment reflects the difference in the contractual interest rates on the time deposits and those currently offered for similar terms. The premium was amortized into interest expense over a five month life using the straight line method.
- (9) The adjustment reflects the difference in the contractual interest rates on the FHLB advances and those currently available for similar terms. The premium will be amortized into interest expense over a four year life using the straight line method.
- (10) The adjustments are miscellaneous amounts to reflect the proper account balances for unaccrued liabilities. No fair value adjustments are included.

The Company incurred transaction-related costs of \$354 thousand, of which \$329 were incurred in the year ended June 30, 2024. Transaction-related costs are expensed as incurred as a component of noninterest expense. Transaction-related costs primarily include professional services and data processing fees.

With this acquisition, the Company expanded its presence in South Carolina to include Darlington County, which enhances our ability to grow.

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NOTE 3 - 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, 2024	June 30, 2023
Earnings per share		
Net income	\$ 6,255	\$ 3,349
Less: distributed earnings allocated to participating securities	(2)	(3)
Less: (undistributed income) dividends in excess of earnings allocated to participating securities	(3)	(1)
Net earnings available to common shareholders	\$ 6,250	\$ 3,345
Weighted average common shares outstanding including participating securities	5,703,373	5,609,032
Less: participating securities	(4,600)	(6,900)
Less: average unearned ESOP shares	-	(2,677)
Weighted average common shares outstanding	5,698,773	5,599,455
Basic earnings per share	\$ 1.10	\$ 0.60
Weighted average common shares outstanding	5,698,773	5,599,455
Add: dilutive effects of assumed exercises of stock options	0	2,486
Average shares and dilutive potential common shares	5,698,773	5,601,941
Diluted earnings per share	\$ 1.10	\$ 0.60

During the years ended June 30, 2024 and 2023, there were 43,900 and 21,200 shares, respectively 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.

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NOTE 4 - SECURITIES AVAILABLE-FOR-SALE

Debt, mortgage-backed and equity securities have been classified in the consolidated balance sheets according to management's intent. U.S. Government agency mortgage-backed securities consists of securities issued by U.S. Government agencies and U.S. Government sponsored enterprises. Investment securities at June 30, 2024 and 2023 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Change in Fair Value Equity Securities	Fair Value
June 30, 2024					
Available-for-sale:					
FHLMC common stock	\$ 20	\$ -	\$ -	\$ 90	\$ 110
Municipal securities	8,356	-	(505)	-	7,851
CMOs	14,572	1	(1,736)	-	12,837
U.S. Government agency mortgage-backed securities	116,930	-	(18,250)	-	98,680
U.S. Treasury and Government agency bonds	12,314	-	(1,925)	-	10,389
Total available-for-sale	<u>\$ 152,192</u>	<u>\$ 1</u>	<u>\$ (22,416)</u>	<u>\$ 90</u>	<u>\$ 129,867</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Change in Fair Value Equity Securities	Fair Value
June 30, 2023					
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	<u>\$ 156,380</u>	<u>\$ -</u>	<u>\$ (23,147)</u>	<u>\$ 15</u>	<u>\$ 133,248</u>

There was no allowance for credit loss recorded for available-for-sale securities as of June 30, 2024.

Securities pledged at June 30, 2024 and 2023 had fair values of \$19,637 and \$60,374, respectively. These securities were pledged to secure public deposits at June 30, 2024 and to secure public deposits and Federal Home Loan Bank ("FHLB") advances at June 30, 2023.

At June 30, 2024 and 2023, 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.

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

The following tables show the fair value and unrealized loss of securities that have been in unrealized loss positions for less than 12 months and for 12 months or more at June 30, 2024 and 2023. 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		
	Unrealized		Number in	Unrealized		Number in	Unrealized		Number in
	Fair Value	Loss	Loss ⁽¹⁾	Fair Value	Loss	Loss ⁽¹⁾	Fair Value	Loss	Loss ⁽¹⁾
June 30, 2024									
Available-for-sale:									
Municipal securities	\$ -	\$ -	-	\$ 7,851	\$ (505)	21	\$ 7,851	\$ (505)	21
CMOs	2,799	(46)	5	9,679	(1,690)	15	12,478	(1,736)	20
U.S. Government agency mortgage-backed securities	3,788	(44)	8	94,892	(18,206)	88	98,680	(18,250)	96
U.S. Treasury and Government agency bonds	-	-	-	10,389	(1,925)	7	10,389	(1,925)	7
	<u>\$ 6,587</u>	<u>\$ (90)</u>	<u>13</u>	<u>\$ 122,811</u>	<u>\$ (22,326)</u>	<u>131</u>	<u>\$ 129,398</u>	<u>\$ (22,416)</u>	<u>144</u>

	Less than 12 Months			12 Months or More			Total		
	Unrealized		Number in	Unrealized		Number in	Unrealized		Number in
	Fair Value	Loss	Loss ⁽¹⁾	Fair Value	Loss	Loss ⁽¹⁾	Fair Value	Loss	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
	<u>\$ 15,031</u>	<u>\$ (780)</u>	<u>14</u>	<u>\$ 118,182</u>	<u>\$ (22,367)</u>	<u>118</u>	<u>\$ 133,213</u>	<u>\$ (23,147)</u>	<u>132</u>

(1) Actual amounts.

At June 30, 2024, the Company had 144 individual investments that were in an unrealized loss position. The unrealized losses were primarily attributable to changes in interest rates, rather than deterioration in credit quality. The individual securities are each investment grade securities. The Company considers factors such as the financial condition of the issuer including credit ratings and specific events affecting the operations of the issuer, volatility of the security, underlying assets that collateralize the debt security, and other industry and macroeconomic conditions. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell these securities before recovery of the amortized cost.

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

The amortized cost and fair value of debt securities classified as available-for-sale at June 30, 2024 and 2023 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.

	<u>June 30, 2024</u>		<u>June 30, 2023</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Less than one year	\$ 755	\$ 745	\$ -	\$ -
Due from one to five years	6,608	6,059	3,920	3,602
Due after five years to ten years	12,603	10,857	16,406	14,333
Due after ten years	704	579	704	573
Mortgage-backed securities, CMOs and FHLMC stock	<u>131,522</u>	<u>111,627</u>	<u>135,350</u>	<u>114,740</u>
Total available for sale	<u>\$ 152,192</u>	<u>\$ 129,867</u>	<u>\$ 156,380</u>	<u>\$ 133,248</u>

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, 2024 and 2023:

	<u>Year Ended</u>	
	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Available-for-sale:		
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 5 – LOAN AND ALLOWANCE FOR CREDIT LOSSES

The components of loans at June 30, 2024 and 2023 were as follows:

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Real estate loans:		
One-to-four family	\$ 372,564	\$ 318,174
Multi-family	1,533	334
Home equity	14,597	8,617
Nonresidential	45,101	32,912
Agricultural	2,350	2,457
Construction and land	<u>29,880</u>	<u>46,026</u>
Total real estate loans	466,025	408,520
Commercial and industrial	3,860	3,315
Consumer and other loans	<u>3,119</u>	<u>1,189</u>
Total loans	<u>\$ 473,004</u>	<u>\$ 413,024</u>

The table above includes net deferred loan fees of \$5,560 and \$2,333 at June 30, 2024 and June 30, 2023, respectively.

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NOTE 5 - LOAN AND ALLOWANCE FOR CREDIT LOSSES (continued)

The following table presents the activity in the allowance for credit losses for the year ended June 30, 2024 by portfolio segment:

Year ended June 30, 2024	Beginning Balance	Adjustment for CECL	Merger Provision	Initial Provision on loans purchased with credit deterioration acquired			Recoveries	Ending Balance
				Provision	Charge-offs	Provision during the period		
Real estate loans:								
One-to-four family	\$ 976	\$ (218)	\$ 43	\$ 9	\$ (92)	\$ -	\$ -	\$ 718
Multi-family	3	19	85	-	4	-	-	111
Home equity	58	8	2	-	9	-	-	77
Nonresidential	210	846	251	330	349	-	-	1,986
Agricultural	14	14	-	-	-	-	-	28
Construction and land	173	255	7	-	(81)	-	-	354
Total real estate loans	1,434	924	388	339	189	-	-	3,274
Commercial and industrial	53	(21)	17	-	(8)	-	-	41
Consumer and other loans	2	2	15	-	(2)	-	-	17
Total loans	<u>\$ 1,489</u>	<u>\$ 905</u>	<u>\$ 420</u>	<u>\$ 339</u>	<u>\$ 179</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,332</u>

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		Charge-offs	Recoveries	Ending	
	Balance	Provision			Balance	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	<u>\$ 1,339</u>	<u>\$ 150</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,489</u>	

The following table presents the recorded balances of loans and amount of allowance allocated based upon evaluation method by portfolio segment at June 30, 2024 and June 30, 2023:

	CECL			Incurred Loss
	June 30, 2024			June 30, 2023
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	Nonaccrual Loans
Real estate loans:				
One-to-four family	\$ 570	\$ -	\$ 570	\$ 691
Multi-family	188	-	188	-
Home equity	-	-	-	-
Nonresidential	405	-	405	433
Agricultural	-	-	-	-
Construction and land	-	-	-	-
Total real estate loans	1,163	-	1,163	1,124
Commercial and industrial	-	-	-	-
Consumer and other loans	15	-	15	-
Total	<u>\$ 1,178</u>	<u>\$ -</u>	<u>\$ 1,178</u>	<u>\$ 1,124</u>

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NOTE 5 - LOAN AND ALLOWANCE FOR CREDIT LOSSES (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 evaluated for credit losses.

Total past due loans and nonaccrual loans at June 30, 2024:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or more Past Due and still accruing	Nonaccrual Loans	Current	Total Loans
Real estate loans:						
One-to-four family	\$ 3,857	\$ 708	\$ -	\$ 570	\$367,429	\$372,564
Multi-family	-	-	-	188	1,345	1,533
Home equity	80	-	-	-	14,517	14,597
Nonresidential	146	-	-	405	44,550	45,101
Agricultural	-	-	-	-	2,350	2,350
Construction and land	138	-	-	-	29,742	29,880
Total real estate loans	4,221	708	-	1,163	459,933	466,025
Commercial and industrial	-	-	-	-	3,860	3,860
Consumer and other loans	415	6	-	15	2,683	3,119
Total	<u>\$ 4,636</u>	<u>\$ 714</u>	<u>\$ -</u>	<u>\$ 1,178</u>	<u>\$466,476</u>	<u>\$473,004</u>

Total past due and nonaccrual loans by portfolio segment at June 30, 2023:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or more Past Due and still accruing	Nonaccrual Loans	Current	Total Loans
Real estate loans:						
One-to-four family	\$ 1,938	\$ 588	\$ -	\$ 691	\$314,957	\$318,174
Multi-family	196	-	-	-	138	334
Home equity	144	-	-	-	8,473	8,617
Nonresidential	141	173	-	433	32,165	32,912
Agricultural	-	-	-	-	2,457	2,457
Construction and land	-	-	-	-	46,026	46,026
Total real estate loans	2,419	761	-	1,124	404,216	408,520
Commercial and industrial	-	-	-	-	3,315	3,315
Consumer and other loans	-	-	-	-	1,189	1,189
Total	<u>\$ 2,419</u>	<u>\$ 761</u>	<u>\$ -</u>	<u>\$ 1,124</u>	<u>\$408,720</u>	<u>\$413,024</u>

Interest income recognized on nonaccrual loans was insignificant during the years ended June 30, 2024 and 2023.

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NOTE 5 - LOAN AND ALLOWANCE FOR CREDIT LOSSES (continued)

The Company designates individually evaluated loans on nonaccrual status as collateral-dependent loans, as well as other loans that management of the Company designates as having higher risk. Collateral-dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral-dependent loans:

- Commercial real estate loans can be secured by either owner-occupied commercial real estate or non-owner-occupied investment commercial real estate. Typically, owner-occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner-occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.
- Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.
- Home equity lines of credit are generally secured by second mortgages on residential real estate property.
- Consumer loans are generally secured by automobiles, motorcycles, recreational vehicles and other personal property. Some consumer loans are unsecured and have no underlying collateral.

The following table details the amortized cost of collateral dependent loans:

Real estate loans:	<u>June 30, 2024</u>
One-to-four family	\$ 106
Multi-family	-
Home equity	-
Nonresidential	1,711
Agricultural	-
Construction and land	-
Total real estate loans	<u>1,817</u>
Commercial and industrial	-
Consumer and other loans	-
Total	<u>\$ 1,817</u>

Prior to the adoption of ASUC 326, loans were considered impaired when, based on current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include loans on nonaccrual status and accruing troubled debt restructurings. When determining if the Company would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value. The Company individually assessed for impairment all nonaccrual loans greater than \$250. The tables below include all loans deemed impaired, whether or not individually assessed for impairment. There was no specific valuation allowance required at June 30, 2023. Interest payments on impaired loans were typically applied to principal unless collectability of the principal amount was reasonably assured, in which case interest was recognized on a cash basis.

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NOTE 5 - LOAN AND ALLOWANCE FOR CREDIT LOSSES (continued)

The following table presents loans individually evaluated for impairment by class of loans as of June 30, 2023:

	June 30, 2023		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
With no recorded allowance:			
Real estate loans:			
One-to-four family	\$ -	\$ -	\$ -
Multi-family	-	-	-
Home equity	-	-	-
Nonresidential	460	433	-
Agricultural	-	-	-
Construction and land	-	-	-
Total real estate loans	460	433	-
Commercial and industrial	-	-	-
Consumer and other loans	-	-	-
Total	\$ 460	\$ 433	\$ -
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	\$ -
Consumer and other loans	-	-	-
Total	\$ 460	\$ 433	\$ -

The following table shows a reconciliation of the difference between the purchase price and the par value loans purchased with credit deterioration during the year ended June 30, 2024:

Purchase price of loans at acquisition	\$ 1,073
Allowance for credit losses at acquisition	339
Non-credit discount/(premium) at acquisition	4
Par value of acquired loans at acquisition	\$ 1,416

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NOTE 5 - LOAN AND ALLOWANCE FOR CREDIT LOSSES (continued)

The following table shows the amortized cost basis as of June 30, 2024 of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

	Combination - Term Extension		
	Amortized Cost Basis	% of Total Loan Type	Financial Effect
Real estate loans:			
One-to-four family	\$ 88	100%	Added a weighted average 16 months to the life of the loans.

Prior to the adoption of ASU 2022-02, the Company considered a loan to be a TDR when a debtor experienced financial difficulty and the Company granted a concession to the debtor that it would not normally consider. Concessions related to the contractual interest rate, maturity date, or payment structure of the note. As part of our prior workout plan for individual loan relationships, we restructured loan terms to assist borrowers facing challenges in the current economic environment. At June 30, 2023, our TDRs included two loans totaling \$459 with no specific allowance for credit losses. No loans were modified as TDRs during the 12 months ended June 30, 2023. There were no loans modified as a TDR for which there was a payment default within 12 months of the restructuring date.

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.

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NOTE 5 - LOAN AND ALLOWANCE FOR CREDIT LOSSES (continued)

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

Total loans by risk grade and portfolio segment at June 30, 2024:

	Year of Origination						Revolving	Total
	2024	2023	2022	2021	2020	Prior		
Real estate loans:								
One-to-four family								
Pass	\$ 4,363	\$ 24,989	\$ 97,890	\$ 66,467	\$ 48,989	\$ 126,297	\$ -	\$ 368,995
Pass Watch	-	-	-	-	89	1,178	-	1,267
Special Mention	-	-	106	-	379	982	-	1,467
Substandard	-	-	-	-	-	835	-	835
Total One-to-four family	4,363	24,989	97,996	66,467	49,457	129,292	-	372,564
Multi-family								
Pass	-	240	400	453	-	245	-	\$ 1,338
Pass Watch	-	-	-	-	-	-	-	-
Special Mention	-	-	-	-	-	7	-	7
Substandard	-	-	-	-	-	188	-	188
Total Multi-family	-	240	400	453	-	440	-	1,533
Home equity								
Pass	-	-	-	-	-	-	14,582	\$ 14,582
Pass Watch	-	-	-	-	-	-	15	15
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total Home equity	-	-	-	-	-	-	14,597	14,597
Nonresidential								
Pass	1,242	6,989	14,012	7,840	1,968	9,210	1,081	\$ 42,342
Pass Watch	-	-	-	-	-	-	-	-
Special Mention	-	-	266	451	936	-	589	2,242
Substandard	-	-	-	-	-	517	-	517
Total Nonresidential	1,242	6,989	14,278	8,291	2,904	9,727	1,670	45,101
Agricultural								
Pass	-	-	-	1,453	49	355	493	\$ 2,350
Pass Watch	-	-	-	-	-	-	-	-
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total Agricultural	-	-	-	1,453	49	355	493	2,350
Construction and land								
Pass	5,869	17,554	4,718	617	645	450	-	\$ 29,853
Pass Watch	-	-	-	-	-	-	-	-
Special Mention	-	-	-	-	-	27	-	27
Substandard	-	-	-	-	-	-	-	-
Total Construction and land	5,869	17,554	4,718	617	645	477	-	29,880
Total real estate loans	11,474	49,772	117,392	77,281	53,055	140,291	16,760	466,025
Commercial and industrial								
Pass	849	821	969	96	6	251	868	\$ 3,860
Pass Watch	-	-	-	-	-	-	-	-
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total Commercial and industrial	849	821	969	96	6	251	868	3,860
Consumer and other loans								
Pass	694	1,041	402	146	146	89	201	\$ 2,719
Pass Watch	-	-	-	-	-	-	-	-
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	400	400
Total Consumer and other loans	694	1,041	402	146	146	89	601	3,119
Total Loans	\$ 13,017	\$ 51,634	\$ 118,763	\$ 77,523	\$ 53,207	\$ 140,631	\$ 18,229	\$ 473,004
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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NOTE 5 - LOAN AND ALLOWANCE FOR CREDIT LOSSES (continued)

Total loans by risk grade and portfolio segment at June 30, 2023:

	Year of Origination						Revolving	Total
	2023	2022	2021	2020	2019	Prior		
Real estate loans:								
One-to-four family								
Pass	\$ 7,985	\$ 53,736	\$ 66,550	\$ 51,304	\$ 17,038	\$ 118,561	\$ -	\$ 315,174
Pass Watch	-	-	-	92	-	1,408	-	1,500
Special Mention	-	-	-	-	-	744	-	744
Substandard	-	-	-	-	-	756	-	756
Total One-to-four family	7,985	53,736	66,550	51,396	17,038	121,469	-	318,174
Multi-family								
Pass	-	-	-	-	-	334	-	334
Pass Watch	-	-	-	-	-	-	-	-
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total Multi-family	-	-	-	-	-	334	-	334
Home equity								
Pass	-	-	-	-	-	-	8,557	8,557
Pass Watch	-	-	-	-	-	-	60	60
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total Home equity	-	-	-	-	-	-	8,617	8,617
Nonresidential								
Pass	6,154	12,214	3,009	1,918	724	8,061	276	32,356
Pass Watch	-	-	-	-	-	-	-	-
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	556	-	556
Total Nonresidential	6,154	12,214	3,009	1,918	724	8,617	276	32,912
Agricultural								
Pass	-	-	1,512	57	-	393	495	2,457
Pass Watch	-	-	-	-	-	-	-	-
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total Agricultural	-	-	1,512	57	-	393	495	2,457
Construction and land								
Pass	5,005	31,917	6,607	628	944	773	-	45,874
Pass Watch	-	-	-	-	-	123	-	123
Special Mention	-	-	-	-	-	29	-	29
Substandard	-	-	-	-	-	-	-	-
Total Construction and land	5,005	31,917	6,607	628	944	925	-	46,026
Total real estate loans	19,144	97,867	77,678	53,999	18,706	131,738	9,388	408,520
Commercial and industrial								
Pass	135	723	91	21	503	83	1,759	3,315
Pass Watch	-	-	-	-	-	-	-	-
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total Commercial and industrial	135	723	91	21	503	83	1,759	3,315
Consumer and other loans								
Pass	422	406	3	104	6	37	211	1,189
Pass Watch	-	-	-	-	-	-	-	-
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total Consumer and other loans	422	406	3	104	6	37	211	1,189
Total Loans	\$ 19,701	\$ 98,996	\$ 77,772	\$ 54,124	\$ 19,215	\$ 131,858	\$ 11,358	\$ 413,024
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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NOTE 5 - LOAN AND ALLOWANCE FOR CREDIT LOSSES (continued)

At June 30, 2024 and June 30, 2023 there were no loans in foreclosure.

Loans to principal officers, directors, and their affiliates during the years ended June 30, 2024 and 2023 were as follows:

	June 30, 2024	June 30, 2023
Beginning balance	\$ 360	\$ 368
New loans	-	-
Sales and repayments	<u>(8)</u>	<u>(8)</u>
Ending balance	<u>\$ 352</u>	<u>\$ 360</u>

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 6—PREMISES AND EQUIPMENT

Premises and equipment at June 30, 2024 and 2023 were as follows:

	June 30, 2024	June 30, 2023
Land	\$ 2,578	\$ 2,438
Buildings and improvements	10,578	10,027
Furniture, fixtures and equipment ⁽¹⁾	2,621	2,497
Computer software	<u>236</u>	<u>236</u>
	16,013	15,198
Less: accumulated depreciation	<u>(7,298)</u>	<u>(6,786)</u>
	<u>\$ 8,715</u>	<u>\$ 8,412</u>

(1) A right of use equipment lease of \$186 and \$210 is included in this balance as of June 30, 2024 and June 30, 2023, respectively.

Depreciation expense was \$514 and \$542 for the years ended June 30, 2024 and 2023, respectively.

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NOTE 7—GOODWILL AND INTANGIBLE ASSETS

The carrying value of goodwill was \$2,593 at June 30, 2024 and 2023, respectively. The carrying value of the core deposit intangible was \$59 and \$22 at June 30, 2024 and 2023, respectively.

	June 30, 2024	June 30, 2023
Core deposit intangible gross	\$ 1,034	\$ 959
Accumulated amortization	(975)	(937)
Core deposit intangible, net	\$ 59	\$ 22

Amortization expense for the core deposit intangible for the years ended June 30, 2024 and 2023 was \$37 and \$52, respectively.

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

2025	\$ 37
2026	22
2027	-
2028	-
2029	-
Total	\$ 59

NOTE 8—DEPOSITS

At June 30, 2024 and 2023, certificate of deposit accounts with balances over \$250 totaled approximately \$47,521 and \$36,565, respectively. Scheduled maturities of certificates of deposit at June 30, 2024 are as follows for each fiscal year:

2025	\$ 208,154
2026	28,275
2027	1,626
2028	208
2029	433
	\$ 238,696

There are no certificates of deposit scheduled to mature after 2029.

There were no brokered deposits at June 30, 2024. 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.

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 \$2,970 and \$2,809 at June 30, 2024 and 2023, respectively.

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NOTE 9 - BORROWINGS

At June 30, 2024 and 2023, advances from the FHLB were as follows:

Maturity Date	June 30, 2024		June 30, 2023	
	Amount	Rate	Amount	Rate
9/6/2023	\$ -	0.00%	\$ 4,500,000	5.37%
9/13/2023	-	0.00%	6,000,000	5.41%
4/10/2024	-	0.00%	8,000,000	4.95%
7/19/2023	-	0.00%	7,000,000	5.21%
8/16/2023	-	0.00%	4,500,000	5.23%
7/5/2023	-	0.00%	6,500,000	5.29%
8/30/2023	-	0.00%	7,000,000	5.30%
1/29/2025	2,500,000	1.59%	2,500,000	1.59%
2/2/2028	3,000,000	3.74%	-	0.00%
5/10/2028	1,750,000	3.69%	-	0.00%
7/10/2024	7,000,000	5.48%	-	0.00%
7/17/2024	4,500,000	5.33%	-	0.00%
8/7/2024	7,000,000	5.47%	-	0.00%
8/28/2024	5,500,000	5.48%	-	0.00%
9/18/2024	2,500,000	5.49%	-	0.00%
10/16/2024	6,500,000	5.48%	-	0.00%
11/13/2024	7,000,000	5.47%	-	0.00%
11/27/2024	2,700,000	5.47%	-	0.00%
12/11/2024	6,000,000	5.45%	-	0.00%
	<u>\$ 55,950,000</u>	<u>5.14%</u>	<u>\$ 46,000,000</u>	<u>5.04%</u>

The weighted average interest rate of all outstanding FHLB advances was 5.14% and 5.04% on June 30, 2024 and June 30, 2023, respectively.

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances are collateralized by \$152,166 in loans at June 30, 2024 under a blanket collateral agreement whereby qualifying mortgages, free of other encumbrances and at various discounted values as determined by the FHLB, are maintained. The advances were collateralized by \$56,014 of investment securities at June 30, 2023. The Association has also pledged as collateral FHLB stock. Based on this collateral, the Association is eligible to borrow up to a total of \$166,089 at June 30, 2024.

There were no overnight borrowings at June 30, 2024 or June 30, 2023.

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NOTE 10—INCOME TAXES

Income tax expense for the years ended June 30, 2024 and 2023 was as follows:

	June 30, 2024	June 30, 2023
Current federal expense	\$ 150	\$ 591
Current state expense	65	212
Deferred federal expense	183	53
Deferred state expense	41	17
Total	<u>\$ 439</u>	<u>\$ 873</u>

Temporary differences between tax and financial reporting that result in net deferred tax assets are as follows at June 30, 2024 and 2023:

	June 30, 2024	June 30, 2023
Deferred tax assets:		
Fair value adjustments from acquisition	\$ 1,131	\$ 26
Allowance for credit losses	930	383
Deferred loan fees, net	574	583
Deferred compensation	40	59
Acquired net operating loss ("NOL")	593	48
Equity compensation plans	14	29
Prepaid expenses	65	55
Accrued compensation	83	91
Securities available-for-sale	4,684	4,857
Other	<u>2</u>	<u>2</u>
Total deferred tax assets	8,116	6,133
Deferred tax liabilities:		
Fixed assets	(67)	(88)
FHLB stock dividends	<u>(48)</u>	<u>(48)</u>
Total deferred tax liabilities	(115)	(136)
Net deferred tax asset	<u>\$ 8,001</u>	<u>\$ 5,997</u>

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NOTE 10—INCOME TAXES (Continued)

A federal net operating loss (“NOL”) of \$403 was acquired in the Stephens Federal Bank acquisition in 2014. At June 30, 2024 and 2023, the NOL remaining totaled \$206 and \$225, respectively, with a deferred tax asset of \$43 and \$47, respectively. The NOL will expire on June 30, 2034. Federal and state NOLs of \$2,188 for each was acquired in the Mutual Savings Bank acquisition in 2024 with an annual Section 382 limitation of \$122. At June 30, 2024 the Mutual Savings Bank federal and state NOLs remaining was \$2,137 for each, with a deferred tax asset of \$550. The Mutual Savings Bank NOLs will begin to expire on June 30, 2030. The realization of the deferred tax asset resulting from the NOLs 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, 2024.

Retained earnings as of June 30, 2024 and 2023 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, 2024 and 2023 is as follows:

	June 30, 2024		%	June 30, 2023		%
	Amount			Amount		
Tax at statutory federal income tax rate	\$ 1,406		21.00 %	\$ 887		21.00 %
Increase (decrease) resulting from:						
State income tax expense, net of federal benefit	84		1.25	212		5.02
Life insurance benefits	(111)		(1.65)	(100)		(2.37)
Tax exempt interest income	(32)		(0.47)	(33)		(0.78)
Bargain purchase gain	(1,028)		(15.36)	-		-
Merger expenses	69		1.03	-		-
Other—net	51		0.76	(93)		(2.20)
Total	\$ 439		6.56 %	\$ 873		20.68 %

The Company has no current uncertain tax positions in place. No amounts were accrued for penalties or interest as of June 30, 2024 and 2023. 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 2021.

NOTE 11—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.

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NOTE 11—COMMITMENTS (Continued)

The contractual amount of financial instruments with off-balance-sheet risk at June 30, 2024 and 2023 was as follows:

	June 30, 2024		June 30, 2023	
	Fixed	Variable	Fixed	Variable
Loan commitments	\$ 3,920	\$ 610	\$ 960	\$ 3,790
Unused lines of credit	\$ 18,627	\$ 28,035	\$ 24,289	\$ 35,258

The allowance for credit losses for unfunded loan commitments of \$280 at June 30, 2024 is separately classified on the balance sheet within Other Liabilities. There was no allowance for unfunded commitments at June 30, 2023.

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the year ended June 30, 2024.

Year ended June 30, 2024	Beginning Balance	Adjustment for CECL	Provision/ (Reclamation)	Charge-offs	Recoveries	Ending Balance
Reserve for Unfunded commitments	\$ -	\$ 299	\$ (19)	\$ -	\$ -	\$ 280

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, 2024, these commitments and unused lines of credit have interest rates ranging from 1.25% 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 12—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, 2024, 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, 2024 and 2023, 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.

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NOTE 12—REGULATORY CAPITAL REQUIREMENTS (Continued)

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, 2024 and 2023, the Association met all capital adequacy requirements to which it was subject.

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

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	June 30, 2024					
Total capital to risk weighted assets	\$ 90,789	24.99 %	\$ 38,148	10.50 %	\$ 36,332	10.00 %
Common equity tier 1 capital to risk weighted assets	87,177	23.99	25,432	7.00	23,616	6.50
Tier 1 (core) capital to risk weighted assets	87,177	23.99	30,882	8.50	29,065	8.00
Tier 1 (core) capital to average assets	87,177	12.85	27,135	4.00	33,919	5.00

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	June 30, 2023					
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

The June 30, 2024 and 2023 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 \$5,658 dividends during calendar year 2024 and, as of June 30, 2024 could, without prior approval, but with regulatory notice, declare dividends of approximately \$692 (based on calendar year net income through June 30, 2024).

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NOTE 13—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.

Individually Evaluated Loans:

The fair value of individually evaluated loans with specific allocations of the allowance for credit 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. Individually evaluated loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. There were \$1,412 of individually evaluated loans with specific allocations at June 30, 2024. There were no individually evaluated loans with specific allocations at June 30, 2023.

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.

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NOTE 13—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.

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NOTE 13—FAIR VALUE MEASUREMENTS (Continued)

Assets and liabilities measured at fair value on a recurring basis at June 30, 2024 and 2023 are summarized below:

	Fair Value Measurements			
	June 30, 2024		June 30, 2023	
	(Level 2)	(Level 3)	(Level 2)	(Level 3)
Financial assets:				
Securities available-for-sale:				
FHLMC common stock	\$ 110	\$ -	\$ 35	\$ -
Municipal securities	7,851	-	8,188	-
CMOs	12,837	-	10,583	-
U.S. Government agency mortgage-backed securities	98,680	-	104,122	-
U.S. Treasury and Government agency bonds	10,389	-	10,320	-
Total securities available-for-sale	129,867	-	133,248	-
Loan servicing rights	-	342	-	357
Total financial assets	\$ 129,867	\$ 342	\$ 133,248	\$ 357

There were no liabilities measured at fair value on a recurring basis at June 30, 2024 or 2023.

The table below presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a recurring basis at June 30, 2024 and 2023:

	Level 3 Quantitative Information				
	June 30, 2024	June 30, 2023	Valuation		
	Fair Value	Fair Value	Technique	Unobservable Inputs	Range
Loan servicing rights	\$ 342	\$ 357	Discounted cash flows	Discount rate, estimated timing of cash flows	11.13% to 11.63%

Assets and liabilities measured at fair value on a non-recurring basis at June 30, 2024 and 2023 are summarized below:

	Fair Value Measurements	
	June 30, 2024	June 30, 2023
	(Level 3)	(Level 3)
Financial assets:		
Individually evaluated loans		
One-to-four family	\$ 97	\$ -
Nonresidential	976	-
Total assets measured at fair value on a non-recurring basis	\$ 1,073	\$ -

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NOTE 13—FAIR VALUE MEASUREMENTS (Continued)

The table below presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at June 30, 2024 and 2023:

Level 3 Quantitative Information					
	June 30, 2024	June 30, 2023	Valuation	Unobservable Inputs	Range
	Fair Value	Fair Value	Technique		
Individually evaluated loans	\$ 1,073	\$ -	Appraised Value/Discounted Cash Flows	Discounts to appraisals or cash flows for estimated holding and/or selling costs	0% to 38%

There were no liabilities measured at fair value on a non-recurring basis at June 30, 2024 and 2023.

NOTE 14—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, 2024 and 2023, respectively. The total expense incurred under these plans for the years ended June 30, 2024 and 2023 was \$22 and \$30, respectively. The recorded liability for these agreements was \$157 and \$230 at June 30, 2024 and 2023, 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 2024 and 2023, and as such, total expense under the profit sharing plan for each of the years ended June 30, 2024 and 2023 was \$170 and \$171, respectively.

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NOTE 15—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. The ESOP loan was repaid in full in December 2022. ESOP compensation expense recognized for the years ended June 30, 2024 and 2023 was \$122 and \$3, respectively.

Shares held by the ESOP at June 30, 2024 and 2023 were as follows:

	June 30, 2024	June 30, 2023
Committed to be released to participants	-	-
Allocated to participants	168,630	168,630
Unearned	-	-
Total ESOP shares	168,630	168,630
Fair value of unearned shares	\$ -	\$ -

NOTE 16—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 and therefore, there have been no stock options or restricted stock issued in fiscal 2024 or 2023.

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NOTE 16—STOCK BASED COMPENSATION (Continued)

The following table summarizes stock option activity for the year ended June 30, 2024:

	Options	Weighted- Average Exercise Price/Share	Aggregate Intrinsic Value ⁽¹⁾
Outstanding - June 30, 2023	43,900	\$ 22.90	
Granted	-	-	
Exercised	-	-	
Forfeited	-	-	
Outstanding - June 30, 2024	<u>43,900</u>	<u>\$ 22.90</u>	<u>\$ -</u>
Fully vested and exercisable at June 30, 2024	<u>38,300</u>	<u>\$ 22.60</u>	<u>\$ -</u>
Expected to vest in future periods	<u>5,600</u>		
Fully vested and expected to vest - June 30, 2024	<u>43,900</u>	<u>\$ 22.90</u>	<u>\$ -</u>

(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 \$12.60 per share on June 30, 2024.

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

(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.

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NOTE 16—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 3,600 and 4,600 options that were earned during the years ended June 30, 2024 and 2023, respectively. Stock-based compensation expense for stock options for the years ended June 30, 2024 and 2023 was \$15 and \$17, respectively. Total unrecognized compensation cost related to stock options was \$17 at June 30, 2024 and is expected to be recognized over a weighted-average period of 1.6 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, 2024 and June 30, 2023:

	June 30, 2024	June 30, 2023
Balance - beginning of year	6,900	9,700
Granted	-	-
Forfeited	-	-
Vested	<u>(2,300)</u>	<u>(2,800)</u>
Balance - end of period	<u>4,600</u>	<u>6,900</u>
Weighted average grant date fair value	<u>\$ 23.16</u>	<u>\$ 23.16</u>

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 2024 or 2023. Total shares of restricted stock granted under the Plan is 131,044 of which 4,600 remain unvested at June 30, 2024. 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, 2024 and 2023 was \$53 and \$59, respectively. Unrecognized compensation expense for non-vested restricted stock awards was \$105 and is expected to be recognized over a weighted-average period of 2.0 years.

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NOTE 17—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 \$32,494 and \$34,543 at June 30, 2024 and 2023, respectively.

Custodial escrow balances maintained in connection with serviced loans were \$443 and \$422 at June 30, 2024 and 2023, respectively.

Activity for loan servicing rights for the years ended June 30, 2024 and 2023 is as follows:

	Year Ended	
	June 30, 2024	June 30, 2023
Loan servicing rights:		
Beginning of period:	\$ 357	\$ 345
Additions	25	-
Change in fair value	(40)	12
End of period:	\$ 342	\$ 357

Fair value at June 30, 2024 was determined using a discount rate of 11.13%, prepayment speed assumptions ranging from 5.57% to 12.71% 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, 2023 was determined using a discount rate of 11.63%, prepayment speed assumptions ranging from 6.41% to 14.65% CPR depending on the loans coupon, term and seasoning, and a weighted average default rate of 3.0%.

NOTE 18—SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the years ended June 30, 2024 and 2023 is as follows:

	June 30, 2024	June 30, 2023
Cash paid during the period for:		
Interest paid	\$ 11,831	\$ 4,721
Income taxes paid	\$ 155	\$ 1,190
Supplemental noncash disclosures:		
Transfers from loans to real estate owned	\$ -	\$ 106
Change in unrealized gain/loss on securities available-for-sale	\$ 732	\$ (6,030)
Adoption of CECL accounting standard	\$ 816	\$ -

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NOTE 19—PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

CONDENSED BALANCE SHEETS
JUNE 30, 2024 AND 2023

	June 30,	June 30,
	2024	2023
ASSETS		
Cash and cash equivalents	\$ 6,258	\$ 3,152
Other	18	64
Investment in banking subsidiary	<u>72,495</u>	<u>68,601</u>
Total assets	<u>\$ 78,771</u>	<u>\$ 71,817</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and other liabilities	\$ -	\$ 28
Shareholders' equity	<u>78,771</u>	<u>71,789</u>
Total liabilities and shareholders' equity	<u>\$ 78,771</u>	<u>\$ 71,817</u>

CONDENSED STATEMENTS OF INCOME
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

	June 30,	June 30,
	2024	2023
Interest income	\$ -	\$ 2
Dividend from banking subsidiary	5,658	4,867
Other expenses	<u>(306)</u>	<u>(245)</u>
Income/(loss) before equity in undistributed income of subsidiary	5,352	4,624
Equity in undistributed income of subsidiary	<u>864</u>	<u>(1,324)</u>
Income before income taxes	6,216	3,300
Income tax benefit	<u>(39)</u>	<u>(49)</u>
Net income	<u>\$ 6,255</u>	<u>\$ 3,349</u>

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NOTE 19—PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

**CONDENSED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023**

	<u>June 30,</u> <u>2024</u>	<u>June 30,</u> <u>2023</u>
Cash Flows From Operating Activities		
Net income	\$ 6,255	\$ 3,349
Adjustments to reconcile net income to net cash provided by provided by operating activities:		
Change in other assets	47	(39)
Change in accounts payable and other liabilities	(28)	28
Change in undistributed income of subsidiary	(864)	1,324
Net cash provided by operations	<u>5,410</u>	<u>4,662</u>
Cash Flows From Investing Activities		
Payments received on ESOP loans	<u>-</u>	<u>110</u>
Net cash (used)/provided by investing activities	<u>-</u>	<u>110</u>
Cash Flows from Financing Activities		
Purchases of treasury shares	(14)	-
Dividends paid	<u>(2,290)</u>	<u>(2,240)</u>
Net cash provided/(used) in financing activities	<u>(2,304)</u>	<u>(2,240)</u>
Change in cash and cash equivalents	3,106	2,532
Cash and cash equivalents, beginning of year	<u>3,152</u>	<u>620</u>
Cash and cash equivalents, end of year	<u>\$ 6,258</u>	<u>\$ 3,152</u>

NOTE 20—SUBSEQUENT EVENTS

On July 23, 2024, 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 8, 2024, which was paid on August 22, 2024.

Management has reviewed events occurring through September 26, 2024, 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

Executive Offices

201 E. North Second Street Seneca, SC 29678

BRANCHES AND OFFICES

Main Office

115 E. North Second Street Seneca, SC 29678

Seneca Branch

813 - 123 By-Pass Seneca, SC 29678

Walhalla Branch

204 W. North Broad Street Walhalla, SC 29691

Toccoa Branch

2859 Highway 17 Alternate Toccoa, GA 30577

Clayton Branch

221 Highway 76 East Clayton, GA 30525

Westminster Branch

111 W. Windsor Street Westminster, SC 29693

Doyle Street Branch

12 East Doyle Street Toccoa, GA 30577

Clemson Branch

357 Old Greenville Hwy. Clemson, SC 29631

Hartsville Branch

330 W. Carolina Ave. Hartsville, SC 29550