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Live File	on
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Documents

10-Q	oconee_10q-063011.htm
	Form 10-Q
EX-31.1	oconee_10q-ex3101.htm
	Certification
EX-31.2	oconee_10q-ex3102.htm
	Certification
EX-32	oconee_10q-ex32.htm
	Certification
EX-101.INS	none-20110630.xml
	XBRL Exhibit
EX-101.SCH	none-20110630.xsd
	XBRL Exhibit
EX-101.CAL	none-20110630_cal.xml
	XBRL Exhibit
EX-101.DEF	none-20110630_def.xml
	XBRL Exhibit
EX-101.LAB	none-20110630_lab.xml
	XBRL Exhibit
EX-101.PRE	none-20110630_pre.xml
	XBRL Exhibit

Module and Segment References

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from _____ to _____

Commission File Number 000-25267

OCONEE FINANCIAL CORPORATION

(Exact name of Registrant as specified in its Charter)

Georgia

(State or other jurisdiction of Company or organization)

58-2442250

(I.R.S. Employer Identification No.)

35 North Main Street
Watkinsville, Georgia

(Address of principal executive offices)

30677

(Zip Code)

706-769-6611

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer:

Accelerated filer:

Non-accelerated filer: (Do not check if a smaller reporting company)

Smaller reporting company:

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the issuer's common stock as of August 10, 2011 was 899,815.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

OCONEE FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Balance Sheets
June 30, 2011 and December 31, 2010

	<u>June 30, 2011</u> <u>(unaudited)</u>	<u>December 31, 2010</u>
<u>Assets</u>		
Cash and due from banks, including reserve requirements of \$25,000	\$ 22,951,187	29,958,828
Investment securities available for sale	79,470,545	73,997,925
Restricted equity securities	509,200	556,300
Mortgage loans held for sale	80,000	311,000
Loans, net of allowance for loan losses of \$4,489,641 and \$3,527,567	150,439,112	159,454,155
Premises and equipment, net	5,756,195	5,928,381
Other real estate owned	6,236,917	5,435,735
Accrued interest receivable and other assets	3,696,971	3,726,104
Total assets	\$ 269,140,127	279,368,428
<u>Liabilities and Stockholders' Equity</u>		
<u>Liabilities:</u>		
Deposits		
Noninterest-bearing	\$ 29,722,964	27,796,070
Interest-bearing	209,962,153	215,121,308
Total deposits	239,685,117	242,917,378
Securities sold under repurchase agreements	5,612,789	13,024,262
Accrued interest payable and other liabilities	542,786	491,886
Total liabilities	245,840,692	256,433,526
<u>Stockholders' equity:</u>		
Common stock, \$2 par value; authorized 1,500,000 shares; issued and outstanding 899,815 shares	1,799,630	1,799,630
Additional paid-in capital	4,243,332	4,243,332
Retained earnings	16,717,013	17,226,068
Accumulated other comprehensive income (loss)	539,460	(334,128)
Total stockholders' equity	23,299,435	22,934,902
Total liabilities and stockholders' equity	\$ 269,140,127	279,368,428

See accompanying notes to consolidated financial statements.

OCONEE FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Operations
For the Three Months and the Six Months Ended June 30, 2011 and 2010
(Unaudited)

	Three Months Ended		Six Months Ended	
	2011	2010	2011	2010
Interest Income:				
Loans	\$ 1,994,507	2,424,461	\$ 4,097,471	4,788,621
Investment securities:				
Tax exempt	149,708	128,239	292,518	258,751
Taxable	560,531	649,921	1,066,951	1,285,336
Federal funds sold and other	13,920	10,492	27,858	18,979
Total interest income	<u>2,718,666</u>	<u>3,213,113</u>	<u>5,484,798</u>	<u>6,351,687</u>
Interest Expense:				
Deposits	531,687	834,295	1,126,060	1,806,883
Other	30,880	77,070	90,328	149,101
Total interest expense	<u>562,567</u>	<u>911,365</u>	<u>1,216,388</u>	<u>1,955,984</u>
Net interest income	2,156,099	2,301,748	4,268,410	4,395,703
Provision for loan losses	1,300,000	1,220,000	1,800,000	1,420,000
Net interest income after provision for loan losses	<u>856,099</u>	<u>1,081,748</u>	<u>2,468,410</u>	<u>2,975,703</u>
Other Income:				
Service charges on deposit accounts	203,598	261,284	392,195	537,197
Mortgage origination fees	10,855	42,961	30,167	47,367
Securities gains, net	79,782	250,461	102,921	250,461
Income on other real estate owned	800	85,969	6,500	224,107
Other operating income	290,828	264,669	581,192	547,762
Total other income	<u>585,863</u>	<u>905,344</u>	<u>1,112,975</u>	<u>1,606,894</u>
Other Expense:				
Salaries and other personnel expense	1,135,777	1,144,464	2,222,212	2,300,248
Net occupancy and equipment expense	263,251	310,067	550,728	602,421
Net write-downs and loss on sales of other real estate owned	39,894	67,559	53,844	33,019
Other operating expense	824,843	807,980	1,601,638	1,648,505
Total other expense	<u>2,263,765</u>	<u>2,330,070</u>	<u>4,428,422</u>	<u>4,584,193</u>
Loss before income tax benefit	(821,803)	(342,978)	(847,037)	(1,596)
Income tax benefit	<u>(328,260)</u>	<u>(198,486)</u>	<u>(337,982)</u>	<u>(125,329)</u>
Net earnings (loss)	<u>\$ (493,543)</u>	<u>(144,492)</u>	<u>\$ (509,055)</u>	<u>123,733</u>
Earnings (loss) per common share based on average outstanding shares of 899,815	<u>\$ (0.55)</u>	<u>(0.16)</u>	<u>\$ (0.57)</u>	<u>0.14</u>

See accompanying notes to consolidated financial statements.

OCONEE FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

For the Three Months and the Six Months Ended June 30, 2011 and 2010
(Unaudited)

	Three Months Ended		Six Months Ended	
	2011	2010	2011	2010
Net earnings (loss)	\$ (493,543)	(144,492)	\$ (509,055)	123,733
Other comprehensive gains, net of tax:				
Unrealized gains on securities available for sale:				
Holding gains arising during period, net of tax of \$477,633, \$252,591, \$573,567, and \$406,991	780,620	412,822	937,440	665,167
Reclassification adjustments for gains included in net Earnings (Loss), net of tax of \$30,285, \$95,075, \$39,069, and \$95,075	(49,497)	(155,386)	(63,852)	(155,386)
Total other comprehensive income	731,123	257,436	873,588	509,781
Comprehensive income	\$ 237,580	112,944	\$ 364,533	633,514

See accompanying notes to consolidated financial statements.

OCONEE FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the Six Months Ended June 30, 2011 and 2010
(Unaudited)

	2011	2010
Cash flows from operating activities:		
Net earnings (loss)	\$ (509,055)	\$ 123,733
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Provision for loan losses	1,800,000	1,420,000
Depreciation, amortization and accretion	289,412	256,395
Loss on sales and disposals of fixed assets	-	355
Gain on sales of securities	(102,921)	(250,461)
Loss on other real estate owned	53,144	33,019
Mortgage loans held for sale	231,000	(131,500)
Change in assets and liabilities:		
Interest receivable and other assets	(505,383)	12,988
Interest payable and other liabilities	50,900	325,953
Net cash provided by operating activities	1,307,097	1,790,482
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	11,966,696	9,235,775
Proceeds from calls, maturities, and paydowns of investment securities available for sale	8,799,644	20,040,306
Purchases of investment securities available for sale	(24,814,521)	(35,689,385)
Proceeds from redemptions of restricted equity securities	47,100	-
Net change in loans	6,481,282	3,821,852
Purchases of premises and equipment	(30,640)	(72,368)
Capital improvements on other real estate	(235,721)	(93,785)
Proceeds from sales of other real estate	115,156	1,180,707
Net cash provided (used) by investing activities	2,328,996	(1,576,898)
Cash flows from financing activities:		
Net change in deposits	(3,232,261)	(7,288,628)
Net change in securities sold under repurchase agreements	(7,411,473)	2,340,749
Net cash used by financing activities	(10,643,734)	(4,947,879)
Net decrease in cash and cash equivalents	(7,007,641)	(4,734,295)
Cash and cash equivalents at beginning of period	29,958,828	24,736,354
Cash and cash equivalents at end of period	\$ 22,951,187	\$ 20,002,059

OCONEE FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Cash Flows, continued

For the Six Months Ended June 30, 2011 and 2010
(Unaudited)

	<u>2011</u>	<u>2010</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 1,277,528	\$ 2,062,078
Noncash investing and financing activities:		
Transfer from loans to other real estate owned	\$ 1,043,102	\$ 2,631,573
Transfer of other real estate to loans	\$ 309,341	\$ 2,070,000
Change in net unrealized gains on investment securities available for sale, net of tax	\$ 873,588	\$ 509,781

See accompanying notes to consolidated financial statements.

OCONEE FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

(1) Basis of Presentation

The financial statements include the accounts of Oconee Financial Corporation (the "Company") and its wholly-owned subsidiary, Oconee State Bank (the "Bank"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The following unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations. The consolidated financial information furnished herein reflects all adjustments which are, in the opinion of management, necessary to present a fair statement of the results of operations and financial position for the periods covered herein. All such adjustments are of a normal recurring nature.

Operating results for the six-month period ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. For further information, refer to the financial statements and footnotes included in the Company's annual report included on Form 10-K for the year ended December 31, 2010.

Critical Accounting Policies

The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. Some of the Company's accounting policies require significant judgment regarding valuation of assets and liabilities and/or significant interpretation of the specific accounting guidance. A description of the Company's significant accounting policies can be found in Note 1 of the Notes to Consolidated Financial Statements in the Company's 10-K for the year ended December 31, 2010.

Many of the Company's assets and liabilities are recorded using various valuation techniques that require significant judgment as to recoverability. The collectability of loans is reflected through the Company's estimate of the allowance for loan losses. The Company performs periodic detailed reviews of its loan portfolio in order to assess the adequacy of the allowance for loan losses in light of anticipated risks and loan losses. In addition, investment securities available for sale and mortgage loans held for sale are reflected at their estimated fair value in the consolidated financial statements. Such amounts are based on either quoted market prices or estimated values derived by the Company using dealer quotes or market comparisons.

(2) Net Earnings (Loss) Per Common Share

Net earnings (loss) per common share are based on the weighted average number of common shares outstanding during the period.

(3) Allowance for Loan Losses

Changes in the allowance for loan losses were as follows:

	Six Months Ended June 30,	
	2011	2010
Balance at beginning of year	\$ 3,527,567	3,497,292
Amounts charged off	(876,142)	(1,385,535)
Recoveries on amounts previously charged off	38,216	20,222
Provision for loan losses	1,800,000	1,420,000
Balance at June 30	<u>\$ 4,489,641</u>	<u>3,551,979</u>

(4) Fair Value Measurements

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale and loans held for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans and other real estate owned. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Under FASB ASC (Financial Accounting Standards Board Accounting Standards Codification) Topic 820, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at 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, and other inputs that are observable or can be corroborated by observable market data.

Level 3 – Generated from model-based techniques that use at least one significant assumption based on unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments recorded at fair value on a recurring and non-recurring basis:

Securities Available-for-Sale: Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans Held for Sale: Loans held for sale are carried at the lower of cost or fair value. The fair value of loans held for sale is based on what secondary markets are currently offering for loans with similar characteristics. As such, management classifies loans subjected to recurring fair value adjustments as Level 2.

Impaired Loans: Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures its impairment. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, and discounted cash flows less selling costs. Those impaired loans not requiring a specific reserve represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At June 30, 2011, substantially all of the impaired loans were evaluated based on the fair value of the collateral. In accordance with FASB ASC Topic 820, impaired loans where a specific reserve is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Other Real Estate: Other real estate is adjusted to fair value upon transfer of the loans to other real estate. Subsequently, other real estate is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral less selling costs. When the fair value of the collateral is based on an observable market price, the Company records the other real estate as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the other real estate as nonrecurring Level 3.

The tables below presents the Company's assets measured at fair value on a recurring basis as of June 30, 2011 and December 31, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall.

	Balance at June 30, 2011			
	(In thousands)	(Level 1)	(Level 2)	(Level 3)
Assets	(In thousands)			
Securities	\$ 79,471	\$ -	\$ 78,489	\$ 982
Loans held for sale	80	-	80	-

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the consolidated balance sheet using significant unobservable (Level 3) inputs for the six months ended June 30, 2011 and the year ended December 31, 2010.

	June 30, 2011		December 31, 2010	
	(In Thousands)			
Securities				
Beginning balance	\$	4,947	\$	914
Reclassified to Level 2		(4,040)		-
Purchases		-		4,040
Unrealized losses included in other comprehensive income (loss)		75		(7)
	\$	<u>982</u>	\$	<u>4,947</u>

	Balance at December 31, 2010			
	(In thousands)	(Level 1)	(Level 2)	(Level 3)
Assets	(In thousands)			
Securities	\$ 73,998	\$ -	\$ 69,051	\$ 4,947
Loans held for sale	311	-	311	-

The table below presents the Company's assets measured at fair value on a nonrecurring basis as of June 30, 2011 and December 31, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall.

	Balance at June 30, 2011				
	(In thousands)	(Level 1)	(Level 2)	(Level 3)	Total Losses
Impaired loans	\$ 14,126	\$ -	\$ -	\$ 14,126	\$ 762
Other real estate	-	-	-	-	-

	Balance at December 31, 2010				
	(In thousands)	(Level 1)	(Level 2)	(Level 3)	Total Losses
Impaired loans	\$ 9,505	\$ -	\$ -	\$ 9,505	\$ 2,638
Other real estate	2,669	-	-	2,669	1,058

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents

For cash, due from banks, and federal funds sold, the carrying amount is a reasonable estimate of fair value.

Investment Securities Available for Sale

Fair values for investment securities are based on quoted market prices.

Restricted Equity Securities

The carrying amount of restricted equity securities approximates fair value.

Loans and Mortgage Loans Held for Sale

The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans, the carrying amount is a reasonable estimate of fair value. The fair value of impaired loans is estimated based on discounted contractual cash flows or underlying collateral value, where applicable. Mortgage loans held for sale are valued based on the current price at which these loans could be sold into the secondary market.

Deposits and Securities Sold Under Repurchase Agreements

The fair value of demand deposits, interest-bearing demand deposits, savings, and securities sold under repurchase agreements is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

Commitments to Extend Credit and Standby Letters of Credit

Commitments to extend credit and standby letters of credit are generally short-term and carry variable interest rates. Both the carrying value and estimated fair value are based on fees charged to enter into such commitments and are immaterial.

The estimated fair values of the Company's financial instruments as of June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:	(In thousands)		(In thousands)	
Cash and cash equivalents	\$ 22,951	22,951	29,959	29,959
Investment securities	\$ 79,471	79,471	73,998	73,998
Restricted equity securities	\$ 509	509	556	556
Loans held for sale	\$ 80	80	311	311
Loans, net	\$ 150,439	149,735	159,454	159,216
Liabilities:				
Deposits and securities sold under repurchase agreement	\$ 245,298	245,975	255,942	255,964

(5) Investments

Investment securities available for sale at June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011			
	Amortized	Gross	Gross	Estimated
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government-sponsored enterprises (GSEs)*	\$ 14,982,766	11,255	(125,446)	14,868,575
State, county and municipal	13,446,789	223,299	(71,868)	13,598,220
Mortgage-backed securities – GSE residential	49,171,454	917,869	(67,073)	50,022,250
Corporate bonds	1,000,000	-	(18,500)	981,500
Total	\$ 78,601,009	1,152,423	(282,887)	79,470,545

	December 31, 2010			
	Amortized	Gross	Gross	Estimated
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government-sponsored enterprises (GSEs)*	\$ 27,857,120	49,346	(605,172)	27,301,294
State, county and municipal	11,967,547	95,890	(419,434)	11,644,003
Mortgage-backed securities – GSE residential	33,097,012	714,320	(251,407)	33,559,925
Corporate bonds	1,614,815	-	(122,112)	1,492,703
Total	\$ 74,536,494	859,556	(1,398,125)	73,997,925

* Such as Federal National Mortgage Association, Federal Home Loan Mortgage Company, and Federal Home Loan Banks.

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2011 and December 31, 2010 are summarized as follows:

	June 30, 2011				
	Less than 12 Months		12 Months or More		Total Unrealized Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
GSEs	\$ 10,737,564	125,446	-	-	125,446
State, county and municipal	2,278,842	35,206	1,239,075	36,663	71,868
Mortgage-backed securities	7,066,820	63,955	878,323	3,117	67,073
Corporate bonds	-	-	1,000,000	18,500	18,500
	\$ 20,083,226	224,607	3,117,398	58,280	282,887

December 31, 2010

	Less than 12 Months		12 Months or More		Total Unrealized Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
GSEs	\$ 21,031,416	605,172	-	-	605,172
State, county and municipal	5,231,891	276,853	1,096,329	142,581	419,434
Mortgage-backed securities	18,506,462	251,407	-	-	251,407
Corporate bonds	585,703	29,112	907,000	93,000	122,112
	<u>\$ 45,355,472</u>	<u>1,162,544</u>	<u>2,003,329</u>	<u>235,581</u>	<u>1,398,125</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation.

The unrealized losses on these debt securities in a continuous loss position for twelve months or more as of June 30, 2011 and December 31, 2010 are considered to be temporary because they arose due to changing interest rates and the repayment sources of principal and interest are government backed or are securities of investment grade issuers. Included in the table above as of June 30, 2011 were 6 out of 30 securities issued by state and political subdivisions that contained unrealized losses, 13 of 18 securities issued by government sponsored agencies, 9 of 46 mortgage-backed securities, and 1 of 1 corporate bonds that contained unrealized losses.

GSE debt securities. The unrealized losses on the thirteen investments in GSEs were caused by interest rate increases. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2011.

Corporate bonds. The Company's unrealized losses on investments in one corporate bond relates to investments in companies within the financial services sector. The unrealized losses are primarily caused by recent decreases in profitability and profit forecasts by industry analysts. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investments before recovery of its par value, which may be maturity, it does not consider these investments to be other-than-temporarily impaired at June 30, 2011.

GSE residential mortgage-backed securities. The unrealized losses on the Company's investment in nine GSE mortgage-backed securities were caused by interest rate increases. The contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2011.

State, county and municipal securities. The unrealized losses on the Company's investment in six state and municipal securities are primarily caused by securities no longer being insured and/or ratings being withdrawn given the current economic environment, as well as changes in interest rates. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2011.

The amortized cost and fair value of investment securities available for sale at June 30, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due within one year	\$ -	-
Due from one to five years	1,315,114	1,297,294
Due from five to ten years	13,258,029	13,254,939
Due after ten years	14,856,412	14,896,062
Mortgage-backed securities	49,171,454	50,022,250
	<u>\$ 78,601,009</u>	<u>79,470,545</u>

The proceeds from the sales and gross gains and gross losses realized by the Company from sales of investment securities for the three months and the six months ended June 30 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Proceeds from sales	\$ 11,247,995	9,235,775	11,966,696	9,235,775
Gross gains realized	\$ 145,399	250,461	168,538	250,461
Gross losses realized	(65,617)	-	(65,617)	-
Net gain realized	<u>\$ 79,782</u>	<u>250,461</u>	<u>102,921</u>	<u>250,461</u>

(6) Loans

Major classifications of loans at June 30, 2011 and December 31, 2010 are summarized as follows:

	June 30, 2011	December 31, 2010
Commercial, financial and agricultural	\$ 22,109,504	\$ 25,198,562
Real estate – mortgage	110,899,262	115,667,560
Real estate – construction	16,340,168	16,334,644
Consumer	5,536,077	5,738,297
Total loans	154,885,011	162,939,063
Deferred fees and costs, net	43,742	42,659
Less allowance for loan losses	(4,489,641)	(3,527,567)
Net loans	<u>\$ 150,439,112</u>	<u>\$ 159,454,155</u>

The Bank grants loans and extensions of credit primarily to individuals and a variety of firms and companies located in certain Georgia counties, primarily Oconee and Clarke counties. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market in the Bank's primary market area.

The following table presents the activity in the allowance for loan losses by portfolio segment as of June 30, 2011:

	Commercial, financial and agricultural	Real estate - mortgage	Real estate - construction	Consumer
Balance at January 1, 2011	\$ 1,095,015	\$ 944,649	\$ 1,428,254	\$ 59,649
Provision for loan losses	157,051	684,383	860,772	97,794
Amounts charged off	(309,750)	(231,123)	(258,545)	(76,724)
Recoveries on amounts previously charged off	4,342	5,500	13,788	14,586
Balance at June 30, 2011	<u>\$ 946,658</u>	<u>\$ 1,403,409</u>	<u>\$ 2,044,269</u>	<u>\$ 95,305</u>

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method as of June 30, 2011 and December 31, 2010:

As of June 30, 2011:

	Commercial, financial and agricultural	Real estate - mortgage	Real estate - construction	Consumer
Allowance for loan losses:				
Ending balance attributable to loans:				
Individually evaluated for impairment	\$ 26,458	\$ 560,222	\$ 1,711,494	\$ -
Collectively evaluated for impairment	<u>44,913</u>	<u>222,907</u>	<u>40,848</u>	<u>11,162</u>
Total ending allowance balance	<u>\$ 71,371</u>	<u>\$ 783,128</u>	<u>\$ 1,752,342</u>	<u>\$ 11,162</u>
Loans:				
Individually evaluated for impairment	\$ 533,845	\$ 18,268,134	\$ 12,345,880	\$ 33,230
Collectively evaluated for impairment	<u>263,884</u>	<u>1,309,675</u>	<u>240,000</u>	<u>65,584</u>
Total ending loan balance	<u>\$ 797,729</u>	<u>\$ 19,577,809</u>	<u>\$ 12,585,880</u>	<u>\$ 98,814</u>

As of December 31, 2010:

	Commercial, financial and agricultural	Real estate - mortgage	Real estate - construction	Consumer
Allowance for loan losses:				
Ending balance attributable to loans:				
Individually evaluated for impairment	\$ 149,604	\$ -	\$ 1,172,987	\$ -
Collectively evaluated for impairment	53,911	451,364	-	21,734
Total ending allowance balance	<u>\$ 203,515</u>	<u>\$ 451,364</u>	<u>\$ 1,172,987</u>	<u>\$ 21,734</u>
Loans:				
Individually evaluated for impairment	\$ 583,093	\$ 1,670,256	\$ 12,492,132	\$ -
Collectively evaluated for impairment	187,713	1,571,600	-	75,675
Total ending loan balance	<u>\$ 770,806</u>	<u>\$ 3,241,856</u>	<u>\$ 12,492,132</u>	<u>\$ 75,675</u>

Impaired loans at June 30, 2011 and December 31, 2010 were as follows:

	June 30, 2011	December 31, 2010
Loans with no allocated allowance for loan losses	\$ 16,239,061	4,503,896
Loans with allocated allowance for loan losses	16,821,171	12,076,573
Total	\$ 33,060,232	16,580,469
Amount of the allowance for loan losses allocated	\$ 2,618,003	1,849,600
Average of individually impaired loans during year	\$ 18,961,399	15,960,463

The following table presents loans individually evaluated for impairment by portfolio segment as of June 30, 2011 and December 31, 2010:

As of June 30, 2011:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial, financial and agricultural	485,124	485,124	-
Real estate – mortgage	12,449,839	12,318,853	-
Real estate –construction	3,401,854	3,401,854	-
Consumer	33,230	33,230	-
With an allowance recorded:			
Commercial, financial and agricultural	312,605	312,605	71,371
Real estate – mortgage	7,258,956	7,258,956	783,128
Real estate –construction	12,678,012	9,184,026	1,752,342
Consumer	65,584	65,584	11,162

As of December 31, 2010:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial, financial and agricultural	77,539	77,539	-
Real estate – mortgage	1,670,256	1,670,256	-
Real estate –construction	2,730,055	2,533,712	-
Consumer	-	-	-
With an allowance recorded:			
Commercial, financial and agricultural	693,267	693,267	203,515
Real estate – mortgage	1,571,600	1,571,600	451,364
Real estate –construction	13,715,472	9,958,420	1,172,987
Consumer	75,675	75,675	21,734

This valuation allowance is included in the allowance for loan losses on the statements of condition.

The qualitative factors are determined based on the various risk characteristics of each loan class. Relevant risk characteristics are as follows:

Commercial, financial and agricultural loans – Loans in this class are made to businesses. Generally these loans are secured by assets of the business and repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer and/or business spending will have an effect on the credit quality in this loan class.

Real Estate – Mortgage loans – Loans in this class include loans secured by residential real estate, both owner-occupied and rental residences, income-producing investment properties and owner-occupied real estate used for business purposes. The underlying properties are generally located largely in our primary market area. Residential real estate loans are made based on the appraised value of the underlying collateral, in addition to the borrower’s ability to service the debt. Adverse economic conditions may impact the borrower’s financial status and thus affect their ability to repay the debt. In addition, the value of the collateral may be adversely affected by declining real estate values. The cash flows of the income producing investment properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on credit quality. In the case of owner-occupied real estate used for business purposes, a weakened economy and resultant decreased consumer and/or business spending will have an adverse effect on credit quality.

Real Estate – Construction loans – Loans in this class primarily include land loans to local contractors and developers for developing the land for sale or for the purpose of making improvements thereon. Repayment is derived from sale of the lots/ units including any pre-sold units. Credit risk is affected by market conditions, time to sell at an adequate price and cost overruns. Credit risk is affected by construction delays, cost overruns, and market conditions.

Consumer loans – Loans in this class may be either secured or unsecured and repayment is dependent on the credit quality of the individual borrower and, if applicable, sale of the collateral securing the loan (such as automobile, mobile home, etc.). Therefore the overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class.

Nonaccrual loans and loans past due 90 days still on accrual at June 30, 2011, December 31, 2010, and June 30, 2010 are as follows:

	June 30, 2011	December 31, 2010	June 30, 2010
Loans past due 90 days still on accrual	\$ 7,472	\$ 680,992	\$ -
Nonaccrual Loans	\$ 18,568,252	\$ 16,358,081	\$ 15,045,258

The following table presents the aging of the recorded investment in past due loans as of June 30, 2011 and December 31, 2010 by portfolio segment:

As of June 30, 2011:

	30-89 Days Past Due	Accruing Greater than 90 Days Past Due	Accruing Total Past Due	Nonaccrual	Loans Not Past Due
Commercial, financial and agricultural	\$ 50,838	\$ -	\$ 50,838	\$ 797,729	\$ 21,260,937
Real estate – mortgage	889,872	-	889,872	6,732,902	103,276,488
Real estate – construction	50,041	-	50,041	10,938,807	5,351,320
Consumer	65,753	7,472	73,225	98,814	5,364,038
Total	\$ 1,056,504	\$ 7,472	\$ 1,063,976	\$ 18,568,252	\$ 135,252,783

As of December 31, 2010:

	30-89 Days Past Due	Accruing Greater than 90 Days Past Due	Accruing Total Past Due	Nonaccrual	Loans Not Past Due
Commercial, financial and agricultural	\$ 438,651	\$ -	\$ 438,651	\$ 2,268,453	\$ 22,491,458
Real estate – mortgage	1,367,916	680,992	2,048,908	1,521,822	112,096,830
Real estate – construction	-	-	-	12,492,131	3,842,513
Consumer	63,661	-	63,661	75,675	5,598,961
Total	\$ 1,870,228	\$ 680,992	\$ 2,551,220	\$ 16,358,081	\$ 144,029,762

Troubled Debt Restructurings:

At June 30, 2011 and December 31, 2010, the Company identified \$16,968,818 and \$4,574,602, respectively as loans whose terms have been modified in troubled debt restructurings. Of this total at June 30, 2011, all of the troubled debt restructurings were considered non-performing. The Company has allocated \$808,712 and \$267,544 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2011 and December 31, 2010, respectively. The Company has committed to lend no additional funds to customers with outstanding loans that are classified as troubled debt restructurings.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on 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. The Company analyzes loans individually by classifying the loans as to credit risk. All loans are analyzed at origination and assigned a risk category. In addition, on an annual basis, management performs an analysis on loans with an outstanding balance greater than \$1,000,000 and non-homogeneous loans, such as commercial and commercial real estate loans. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard 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.

Loans not meeting the criteria above that are analyzed as part of the above described process are considered to be pass rated loans.

As of June 30, 2011 and December 31, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

As of June 30, 2011:

	Pass	Special Mention	Substandard	Doubtful
Commercial, financial and agricultural	\$ 21,218,086	\$ 135,575	\$ 755,843	\$ -
Real estate – mortgage	79,082,040	10,288,681	21,528,541	-
Real estate – construction	-	2,525,852	13,814,316	-
Consumer	5,370,624	25,754	139,699	-
Total	<u>\$ 105,670,750</u>	<u>\$ 12,975,862</u>	<u>\$ 36,238,399</u>	<u>\$ -</u>

As of December 31, 2010:

	Pass	Special Mention	Substandard	Doubtful
Commercial, financial and agricultural	\$ 23,831,124	\$ 157,336	\$ 1,210,102	\$ -
Real estate – mortgage	89,717,573	12,435,730	13,514,257	-
Real estate – construction	-	1,992,743	15,127,039	-
Consumer	5,495,391	85,524	157,382	-
Total	<u>\$ 118,258,950</u>	<u>\$ 14,671,333</u>	<u>\$ 30,008,780</u>	<u>\$ -</u>

(7) Accounting Standards Updates

In April 2011, the FASB issued Accounting Standards Update No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring* ("ASU No. 2011-02"). ASU No. 2011-02 requires a creditor to separately conclude that 1.) the restructuring constitutes a concession and 2.) the debtor is experiencing financial difficulties in order for a modification to be considered a troubled debt restructuring ("TDR"). The guidance was issued to provide clarification and to address diversity in practice in identifying TDR's. It is effective for the Bank in the third quarter of 2011 and will be applied retrospectively to the beginning of the year. Although evaluation of the impact is not complete, it is not expected to have a material impact on the Bank's results of operations, financial position, or disclosures.

In April 2011, the FASB issued Accounting Standards Update No. 2011-03, *Reconsideration of Effective Control in Repurchase Agreements* ("ASU No. 2011-03"). ASU No. 2011-03 removes from the assessment of effective control the criterion related to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. In addition, this guidance also eliminates the requirement to demonstrate that a transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. It is effective for the Bank for the first quarter of 2012, and is not expected to have a material impact on the Bank's results of operations, financial position, or disclosures.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This discussion contains forward-looking statements under the private Securities Litigation Reform Act of 1995 that involve risk and uncertainties. Although the Company believes that the assumptions underlying the forward-looking statements contained in the discussion are reasonable, any of the assumptions could be inaccurate, and therefore, no assurance can be made that any of the forward-looking statements included in this discussion will be accurate. Factors that could cause actual results to differ from results discussed in forward-looking statements include, but are not limited to: economic conditions (both generally and in the markets where the Company operates); competition from other providers of financial services offered by the Company; government regulations and legislation; changes in interest rates; material unforeseen changes in the financial stability and liquidity of the Company's credit customers, all of which are difficult to predict and which may be beyond the control of the Company. The Company undertakes no obligation to revise forward-looking statements to reflect events or changes after the date of this discussion or to reflect the occurrence of unanticipated events.

Financial Condition

Like many financial institutions across the United States, the Company's operations have been negatively affected by the current economic crisis. The recession has reduced liquidity and credit quality within the banking system and the labor, capital and real estate markets. Dramatic declines in the housing market have negatively affected the credit performance of our residential construction and development loans. The economic recession has also lowered commercial and residential real estate values and substantially reduced general business activity and investment. Combined, the deterioration in the residential and the commercial real estate markets has materially increased our level of nonperforming assets and charge-offs of problem loans over the past three years. These market conditions and the tightening of credit have led to increased delinquencies in our loan portfolio, increased market volatility, added pressure on our capital, a lower net interest margin and net losses in the prior three years.

These factors have magnified the need for careful management of the Bank. Regulatory scrutiny within the banking industry has increased significantly, and as a result, the Bank's management team and Board of Directors continue to guide the Bank through this difficult market. Management has focused on strategies to increase revenues and control expenses in an effort to return the Bank to profitability. In addition, loan underwriting standards have been tightened and credit risk will continue to be closely monitored. Balance sheet management strategies have been developed which has resulted in a decline in loans, deposit balances and in total assets in order to reduce interest expense and produce a better match in the bank's funding and its funding needs, as well as improve regulatory capital ratios.

On August 18, 2009, the Bank entered into a Stipulation and Consent to the Issuance of an Order to Cease and Desist (the "Consent Agreement") with the Federal Deposit Insurance Company (the "FDIC") and the Georgia Department of Banking and Finance (the "GDBF"), whereby the Bank consented to the issuance of an Order to Cease and Desist (the "Order").

Among other things, the Order provides that, unless otherwise agreed by the FDIC and GDBF:

- the Board of Directors of the Bank must increase its participation in the affairs of the Bank and establish a Board committee responsible for ensuring compliance with the Order;
- the Bank must have and retain qualified management and notify the FDIC and the GDBF in writing when it proposes to add any individual to the Bank's Board of Directors or employ any individual as a senior executive officer;
- the Bank must have and maintain a Tier 1 (Leverage) Capital ratio of not less than 8% and a Total Risk-based Capital ratio of at least 10%;

- the Bank must collect or charge-off problem loans;
- the Bank must formulate a written plan to reduce the Bank's adversely classified assets in accordance with a defined asset reduction schedule;
- the Bank may not extend any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been charged-off or adversely classified and is uncollected;
- the Bank must strengthen its lending and collection policy to provide effective guidance and control over the Bank's lending functions;
- the Bank must perform a risk segmentation analysis with respect to concentrations of credit and reduce such concentrations;
- the Board of Directors of the Bank must review the adequacy of the allowance for loan and lease losses (the "ALLL") and establish a comprehensive policy for determining the adequacy of the ALLL;
- the Bank must revise its budget and include formal goals and strategies to improve the Bank's net interest margin, increase interest income, reduce discretionary expenses and improve and sustain earnings of the Bank;
- the Bank may not pay a cash dividend to Oconee Financial Corporation;
- the Board of Directors of the Bank must strengthen its asset/liability management and interest rate risk policies and liquidity contingency funding plan,
- the Bank may not accept, renew or rollover brokered deposits without obtaining a brokered deposit waiver from the FDIC.
- the Bank must eliminate or correct all violations of law and contraventions of policy;
- the Bank must submit quarterly reports to the FDIC and GDBF regarding compliance with the Order.

The provisions of the Order will remain effective until modified, terminated, suspended or set aside by the FDIC. The primary focuses continue to be reducing classified and non-performing assets, maintaining adequate levels of capital and returning the Bank to profitable operating levels. As of June 30, 2011, the Bank was in compliance with the Order with the exception of the stipulation requiring the Bank to maintain a Tier 1 (Leverage) Capital ratio of not less than 8%. As of June 30, 2011, the Bank's Tier 1 (Leverage) Capital ratio was 7.51%.

Balance Sheet Review

Total assets at June 30, 2011 were \$269,140,000, representing a \$10,228,000 (3.66%) decrease from December 31, 2010. Investment securities increased \$5,473,000 as compared to December 31, 2010. Loans decreased \$8,053,000 (4.94%) at June 30, 2011 as compared to December 31, 2010, primarily due to loan pay-downs. Deposits decreased \$3,232,000 (1.33%) from December 31, 2010. The decrease in deposits is primarily attributable to decreases in time deposits of \$7,564,000, offset by increases in money market accounts of \$3,007,000 and non-interest checking accounts of \$1,927,000 as compared to December 31, 2010 balances. Securities sold under repurchase agreements decreased \$7,411,000 at June 30, 2011 as compared to December 31, 2010. The reduction in these accounts is primarily due to a decision by Bank management to discontinue offering these types of accounts effective July 31, 2011 in conjunction with changes in Regulation Q, which will allow banks to begin paying interest on corporate checking accounts. As a result of this decision, the Bank had some customers close their repurchase agreement accounts and move the funds to other financial institutions. The allowance for loan losses at June 30, 2011 was \$4,490,000, compared to the December 31, 2010 balance of \$3,528,000, representing 2.90% of total loans at June 30, 2011, compared to 2.16% of total loans at December 31, 2010. Cash and cash equivalents decreased \$7,008,000 from December 31, 2010. Total stockholders' equity at June 30, 2011 of \$23,299,000 increased \$365,000 (1.59%) from December 31, 2010 due to an increase in unrealized gains on securities of \$874,000, offset by a reduction in retained earnings due to a net loss for the period of \$509,000.

The following table presents a summary of the Bank's loan portfolio by loan type at June 30, 2011 and December 31, 2010 (dollars are in thousands).

	June 30, 2011		December 31, 2010	
	Amount	Percentage	Amount	Percentage
Commercial, financial and agricultural	\$ 22,110	14.3%	\$ 25,199	15.5%
Real estate – mortgage	110,899	71.6%	115,667	71.0%
Real estate –construction	16,340	10.5%	16,335	10.0%
Consumer	5,536	3.6%	5,738	3.5%
Total loans	\$ 154,885	100.0%	\$ 162,939	100.0%

The total amount of nonperforming assets, which includes nonaccruing loans, other real estate owned, repossessed collateral and loans for which payments are more than 90 days past due was \$24,998,000 at June 30, 2011, representing an increase of \$2,513,000 (11.18%) from December 31, 2010. This increase is attributable to an increase of \$2,210,000 in nonaccrual loans, \$801,000 in other real estate owned and \$176,000 in repossessions, offset by a decrease of \$674,000 in accruing loans 90 days or more past due. Total nonperforming assets were 16.14% of total loans at June 30, 2011, compared to 13.80% at December 31, 2010. Nonperforming assets represented 9.29% of total assets at June 30, 2011, compared to 8.05% of total assets at December 31, 2010. Nonaccrual loans represented 11.98% of total loans outstanding at June 30, 2011, compared to 10.04% of total loans outstanding at December 31, 2010. The Bank continues to focus on reducing nonperforming assets and this will be a major strategic objective going forward. There were no related party loans which were considered to be nonperforming at June 30, 2011. A summary of non-performing assets at June 30, 2011, December 31, 2010 and June 30, 2010 is presented in the following table (dollars are in thousands).

	June 30, 2011	December 31, 2010	June 30, 2010
Other real estate owned	\$ 6,237	5,436	6,357
Repossessions	186	10	-
Non-accrual loans	18,568	16,358	15,045
Accruing loans 90 days or more past due	7	681	-
	\$ 24,998	22,485	21,402

The table below details the changes in other real estate owned for the six months ending June 30, 2011 and 2010 (dollars are in thousands).

	2011	2010
Balance at January 1	\$ 5,436	6,915
Transfer from loans to other real estate	1,043	2,632
Capital Improvements on other real estate	235	94
External and internal sales of other real estate	(424)	(3,251)
Net write-downs and loss on sales	(53)	(33)
Balance at June 30	\$ 6,237	6,357

During the first quarter 2009, the Bank formed Motel Holdings Georgia, Inc., a subsidiary Company for the purpose of holding a motel that was foreclosed upon by the Bank in January 2009. This subsidiary was set up to limit the Bank's liability on the operations of the motel and to make a more clear separation of the income and expenses relating to the motel and the Bank's ordinary lines of business. The Bank contracted with an independent hospitality management company to operate the motel while the Bank marketed the motel for sale. During the second quarter of 2010, the Bank sold the motel and recognized a loss on the sale of \$204,000. Upon the sale of the motel, Motel Holdings Georgia became inactive and remains inactive as of June 30, 2011.

At June 30, 2011, the Company had loan concentrations in the housing industry and in the hotel and motel industry. Total commitment amounts for hotel and motel loans were \$19,896,000 at June 30, 2011, of which the full amount was funded and outstanding. The Company's primary risk relating to the hotel and motel industry is a slowdown in the travel and tourism industry.

As of June 30, 2011, the Company had total commitments for construction and development loans of \$14,503,000, of which \$11,059,000 was funded and outstanding. The local housing industry has slowed considerably over the past 18 to 24 months, as has occurred at the state and national level. New loan requests have been down as compared to prior periods due to this slowdown. The immediate challenge for the Bank is to finance builders and developers with the financial strength to deal with the current weaker demand, while working with financially weaker builders in an attempt to help them work through this economic downturn.

Results of Operations

Net interest income decreased \$128,000 (2.91%) in the first six months of 2011 compared to the same period for 2010. The Bank's net interest margin for the first six months of 2011 was 3.36%, compared to 3.42% for the same time period during 2010. Yield on interest earning assets, including nonaccrual loans, for the six-month period ending June 30, 2011 was 4.31%, compared to 4.94% for the six-month period ending June 30, 2010. Average rate paid on interest bearing liabilities was 1.11% for the six months ending June 30, 2011, compared to 1.76% for the same period during 2010. The reduction in the average rate paid on interest bearing liabilities is a result of a lower interest rate environment in 2011 and a reduction of \$13,983,000 in average time deposits during the first six months of 2011 as compared to the same time period in 2010.

Interest income for the first six months of 2011 was \$5,485,000, representing a decrease of \$867,000 (13.65%) as compared to the same period in 2010. Interest expense for the first six months of 2011 decreased \$740,000 (37.83%) compared to the same period in 2010. The decrease in interest income during the first six months of 2011 compared to the same period in 2010 is primarily attributable to a lower average level of outstanding loans in 2011 as compared to 2010. Year-to-date average loans were \$17,756,000 lower during the first six months of 2011 as compared to 2010. Loan demand continues to be weak in the Bank's market and loan pay-offs have exceeded production of new loans. The decrease in average loans was offset by increases in average investment securities of \$10,156,000 and an increase in interest-earning due from bank accounts of \$5,020,000. The decrease in interest expense is primarily attributable to a lower interest rate market and a decrease in interest-bearing deposits of \$3,993,000 during the first six months of 2011 as compared to the same time period for 2010. The reduction in interest-bearing liabilities is primarily due to decreases in average time deposits of \$13,983,000, offset by increases in average interest-bearing demand deposits of \$4,292,000 and average savings deposits of \$5,698,000.

Net interest income for the quarterly period ended June 30, 2011 was \$2,156,000, as compared to \$2,302,000 for the same time period in 2010. The decrease in net interest income in 2011 was due to a decline in interest income of \$494,000, offset by a decrease in interest expense of \$349,000. The decline in interest expense was primarily due to lower levels of interest-bearing liabilities in 2011 as compared to 2010, as well as a lower interest rate environment for deposits. The decrease in interest income is due to lower average levels of interest-earning assets in 2011 as compared to 2010.

The Bank analyzes its allowance for loan losses on a monthly basis. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Loans deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses. For the six months ended June 30, 2011, the provision for loan losses was \$1,800,000, compared to \$1,420,000 for the same period in 2010. The provision for loan losses increased in 2011 as compared to 2010 as a result of a higher level of historic charge-offs at June 30, 2011 as compared to June 30, 2010. The historic charge-offs are primarily tied to the construction and real estate development industry, which has continued to experience a prolonged downturn throughout 2010 and the first half of 2011. The historic charge-offs are part of the calculation used to determine the adequacy of the loan loss reserve. The nature of the process by which the Company determines the appropriate allowance for loan losses requires the exercise of considerable judgment. It is management's belief that the allowance for loan losses is adequate to absorb possible losses in the portfolio.

For the quarterly period ended June 30, 2011, the Bank provided \$1,300,000 to the allowance for loan losses. This is an increase of \$800,000 compared to the first quarter of 2011 and an increase of \$80,000 compared to the same time period during 2010. The significant increase in provision expense during the second quarter of 2011 was primarily due increased loan charge-offs during the second quarter of 2011 as compared to the first quarter.

The following table summarizes information concerning the allowance for loan losses for the three-month and six-month periods ended June 30, 2011 and 2010. Dollar amounts are in thousands.

	Three Months Ending June 30,		Six Months Ending June 30,	
	2011	2010	2011	2010
Balance at beginning of period	\$ 4,001	\$ 3,685	\$ 3,528	\$ 3,497
Charges-offs:				
Commercial, financial and agricultural	275	-	310	-
Installment	74	19	77	19
Real Estate	488	1,347	489	1,366
Total charge-offs	837	1,366	876	1,385
Recoveries:				
Commercial, financial and agricultural	3	4	4	6
Installment	10	7	15	7
Real Estate	13	2	19	7
Total recoveries	26	13	38	20
Net charge-offs	811	1,353	838	1,365
Provisions charged to operations	1,300	1,220	1,800	1,420
Balance at end of period	\$ 4,490	\$ 3,552	\$ 4,490	\$ 3,552
Ratio of net charge-offs during the period to average loans outstanding during the period	0.52%	0.78%	0.54%	0.77%

Other income for the first six months of 2011 decreased \$494,000 (30.74%) compared to the first six months of 2010. This decrease is primarily attributable to decreases of \$218,000 in income on other real estate owned, \$148,000 in net gains on the sale of investment securities, and a \$140,000 decrease in non-sufficient funds service charges, offset by an increase of \$33,000 in ATM fees.

The primary source of the Bank's income on other real estate owned during 2010 was revenue generated by the operation of a motel that the Bank foreclosed on in February of 2009. The motel was owned by Motel Holdings Georgia, Inc., a wholly-owned subsidiary of the Bank, and is operated through a management contract with a hospitality company. The revenues and expenses from the motel operations are consolidated with the Bank operations for purposes of financial statement disclosure. During the second quarter of 2010, the Bank sold the motel and recognized a loss of \$204,000 on the sale.

Other expenses for the first six months of 2011 decreased \$156,000 (3.40%) compared to the first six months in 2010. The decrease is attributable to a decrease in expenses on other real estate owned of \$180,000, a decrease in loan and collection expense of \$84,000, and a decrease in salaries and employee benefits expense of \$78,000, offset by an increase in non-loan related charge-offs and forgeries of \$88,000.

The reduction in expenses on other real estate owned is due to the sale of the motel mentioned previously. The reduction in salaries and benefits expense is primarily due the Bank having fewer employees in 2011 as compared to 2010. This reduction in employees is due to attrition of the Bank's work force. As employees have left the Bank over the past year, management has evaluated the ability of the Bank to continue normal operations without replacing the departed employees. As a result, the Bank has reduced its full-time equivalent employees from 87 full-time equivalent employees at January 1, 2010 to 84.5 full-time equivalent employees at June 30, 2011.

The increase in non-loan related charge-offs and forgeries in the first six months of 2011 is primarily due to a significant increase in debit card disputes due to compromised debit cards. The Bank experienced \$93,000 in debit card losses during the first six months of 2011, compared to losses of \$5,000 during the same time period in 2010.

For the six months ended June 30, 2011, the Bank showed an income tax expense benefit of \$338,000.

Interest rate sensitivity

Interest rate sensitivity is a function of the repricing characteristics of the Bank's portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest earning assets and liabilities are subject to change in interest rates either at replacement, repricing or maturity during the life of the instruments. One method to measure interest rate sensitivity is through a repricing gap. The gap is calculated by taking all assets that reprice or mature within a given time frame and subtracting all liabilities that reprice or mature during that time frame. A negative gap (more liabilities repricing than assets) generally indicates that the Bank's net interest income will decrease if interest rates rise and will increase if interest rates fall. A positive gap generally indicates that the Bank's net interest income will decrease if rates fall and will increase if rates rise.

The Bank also measures its short-term exposure to interest rate risk by simulating the impact to net interest income under several rate change levels. Interest-earning assets and interest-bearing liabilities are rate shocked to stress test the impact to the Bank's net interest income and margin. The rate shock levels span three 100 basis point increments up and down from current interest rates. This information is used to monitor interest rate exposure risk relative to anticipated interest rate trends. Asset/liability management strategies are developed based on this analysis in an effort to limit the Bank's exposure to interest rate risk.

The Bank tracks its interest rate sensitivity on a monthly basis using a model, which applies betas to various types of interest-bearing deposit accounts. The betas represent the Bank's expected repricing of deposit rates based on historical data provided from a call report driven database. The betas are used because it is not likely that deposit rates would change the full amount of a prime rate increase or decrease.

At June 30, 2011, the difference between the Bank's liabilities and assets repricing or maturing within one year, after applying the betas, was \$28,865,000, indicating that the Bank was asset sensitive. Due to a large percentage of the Bank's floating rate loans being currently priced at floor rates, meaning that the loans will not reprice in a falling rate environment, rate shock data show that the Bank's net interest income would increase \$382,000 on an annual basis if rates increased 100 basis points, and would increase \$94,000 on an annual basis if rates decreased 100 basis points.

Certain shortcomings are inherent in the method of analysis presented in the foregoing paragraph. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees or at different points in time to changes in market interest rates. Additionally, certain assets, such as adjustable-rate mortgages, have features that restrict changes in interest rates, both on a short-term basis and over the life of the asset. Changes in interest rates, prepayment rates, early withdrawal levels and the ability of borrowers to service their debt, among other factors, may change significantly from the assumptions made above. In addition, significant rate decreases would not likely be reflected in liability repricing and therefore would make the Bank more sensitive in a falling rate environment.

Liquidity

The Company must maintain, on a daily basis, sufficient funds to cover the withdrawals from depositors' accounts and to supply new borrowers with funds. To meet these obligations, the Company keeps cash on hand, maintains account balances with its correspondent banks, and purchases and sells federal funds and other short-term investments. Asset and liability maturities are monitored in an attempt to match these to meet liquidity needs. It is the policy of the Company to monitor its liquidity to meet regulatory requirements and its local funding requirements.

The Company monitors its liquidity position weekly. The primary tool used in this analysis is an internal calculation of a liquidity ratio. This ratio is calculated by dividing the Company's short-term and marketable assets, including cash, federal funds sold, and unpledged investment securities by the sum of the Company's deposit liabilities. At June 30, 2011, the Company's liquidity ratio was 22.1%. This level of liquidity is within the Bank's goal of maintaining a sufficient level of liquidity in all expected economic environments.

The Company maintains relationships with correspondent banks that can provide it with funds on short notice, if needed through secured lines of credit and securities repurchase agreements. Additional liquidity is provided to the Company through available Federal Home Loan Bank advances, none of which were outstanding at June 30, 2011.

During the first six months of 2011, cash and cash equivalents decreased \$7,008,000 to a total of \$22,951,000 at June 30, 2011. Cash inflows from operations totaled \$1,307,000 during the first six months of 2011, while outflows from financing activities totaled \$10,644,000, comprised of net decreases of \$3,232,000 in deposits and net decreases in securities sold under repurchase agreements of \$7,411,000.

Investing activities provided \$2,329,000 of cash and cash equivalents, consisting primarily of proceeds from calls, maturities and paydowns of investment securities of \$8,800,000, net decreases in loans of \$6,481,000 and proceeds from the sales of investment securities of \$11,967,000, offset by purchases of investment securities of \$24,815,000. At June 30, 2011, the Bank had \$79,471,000 of investment securities available for sale.

Contractual Obligations and Commitments

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the balance sheet. The contract amounts of these instruments reflect the extent of the involvement of the Company in particular classes of financial instruments. At June 30, 2011, the contractual amounts of the Company's commitments to extend credit and standby letters of credit were \$20,471,000 and \$506,000, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and because they may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Standby letters of credit and financial guarantees written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party.

Capital

The following tables present the Bank's regulatory capital position at June 30, 2011 and December 31, 2010, based on the regulatory capital requirements of federal banking agencies. The capital ratios of the Company are essentially the same as those of the Bank at June 30, 2011 and December 31, 2010 and therefore only the Bank's ratios are presented.

<u>Risk-Based Capital Ratios</u>	June 30, 2011	December 31, 2010
Tier 1 Capital, Actual	12.3%	12.9%
Tier 1 Capital minimum requirement	4.0%	4.0%
Excess	8.3%	8.9%
Total Capital, Actual	13.5%	14.2%
Total Capital minimum requirement	8.0%	8.0%
Excess	5.5%	6.2%
<u>Leverage Ratio</u>		
Tier 1 Capital to adjusted total assets	7.5%	8.1%
Minimum leverage requirement	4.0%	4.0%
Excess	3.5%	4.1%

Item 3. Qualitative and Quantitative Disclosures about Market Risk.

Not applicable because the registrant is a smaller reporting company.

Item 4T. Controls and Procedures.

Our management, including our principal executive officer and principal financial officer, supervised and participated in an evaluation of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934) and pursuant to such evaluation, concluded that our disclosure controls and procedures were effective as of June 30, 2011. Disclosure controls and procedures are those controls and procedures which ensure that information required to be disclosed in this filing is accumulated and communicated to management and is recorded, processed, summarized and reported in a timely manner and in accordance with Securities and Exchange Commission rules and regulations.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Not applicable because the registrant is a smaller reporting company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 5. Other Information

None

Item 6. Exhibits

(a) Exhibits

10.1	Order to Cease and Desist, dated August 18, 2009, and Stipulation and Consent thereto.*
31.1	Certification by B. Amrey Harden, CEO and President of the Company, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Steven A. Rogers, Vice President and Chief Financial Officer of the Company, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

*Previously filed.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OCONEE FINANCIAL CORPORATION

By: /s/ B. Amrey Harden
B. Amrey Harden, President and CEO
(Principal Executive Officer)

Date: August 10, 2011

By: /s/ Steven A. Rogers
Steven A. Rogers, Vice President and CFO
(Principal Financial Officer)

Date: August 10, 2011

I, B. Amrey Harden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oconee Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I have been responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2011

/s/ B. Amrey Harden
B. Amrey Harden
President & Chief Executive Officer

I, Steven A. Rogers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oconee Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I have been responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and audit committee of the registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2011

/s/ Steven A. Rogers
Steven A. Rogers
Vice President & Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

The undersigned certify, pursuant to 18 U.S.C. § 1350 as adopted by § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Quarterly Report on Form 10-Q of Oconee Financial Corporation (the "Company") for the quarterly period ended June 30, 2011 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: August 10, 2011

/s/ B. Amrey Harden
B. Amrey Harden
Chief Executive Officer

Dated: August 10, 2011

/s/ Steven A. Rogers
Steven A. Rogers
Chief Financial Officer