

**U.S. SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-KSB**

- ☒ Annual Report Pursuant to Section 13 or 15(d) of  
The Securities Exchange Act of 1934  
For the Fiscal Year Ended December 31, 2000
- ☐ Transition Report Pursuant to Section 13 or 15(d) of  
The Securities Exchange Act of 1934

Commission File Number 000-25267

Oconee Financial Corporation  
(Exact name of registrant as specified in its charter)

<u>Georgia</u> (State or other jurisdiction of incorporation or organization)	<u>58-2442250</u> (I.R.S. Employer Identification No.)
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35 North Main Street, Watkinsville, Georgia 30677-0205  
(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code: (706) 769-6611

Securities registered pursuant to Section 12(b) of the Act: None

Name of exchange on which registered: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$10.00 par value per share.

Check 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 X No   

Check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. X

State issuer's revenues for its most recent fiscal year. \$15,454,110

Transitional Small Business Disclosure format. Yes    No X

State the aggregate market value of the voting stock held by non-affiliates (which for purposes hereof are all holders other than executive officers and directors): As of March 15, 2001: 115,903 shares of common stock \$10.00 par value (the "Common Stock"), with an aggregate value of \$19,587,607 (based on approximate market value of \$169.00/share) (the last sale price known to the Registrant for the Common Stock for which there is no established trading market).

State the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date. As of March 20, 2001, there were issued and outstanding 179,977 shares of Common Stock, par value \$10.00 per share.

## **PART I**

### **ITEM 1. DESCRIPTION OF BUSINESS.**

#### **General**

Oconee Financial Corporation ("Oconee"), a registered bank holding company, was incorporated under the laws of Georgia in 1998 and commenced operations by acquiring 100% of the outstanding shares of Oconee State Bank (the "Bank") effective January 1, 1999. All of Oconee's activities are currently conducted by the Bank, its wholly owned subsidiary, which was incorporated as a bank under the laws of Georgia in 1959. At December 31, 2000, Oconee had approximately 600 holders of record of Common Stock, its only class of equity securities.

At December 31, 2000, the Bank's total assets were \$181,925,000, compared to \$152,139,000 at year-end 1999. Over the past 5 years, total assets of the Bank have grown by \$92,146,000 representing an increase of 102.6%.

#### **Services**

The Bank is a community oriented, full-service commercial bank, located in Oconee and Clarke Counties, Georgia with three full-service banking offices, one limited-service loan production office and five automated teller machines (ATMs). The Bank places an emphasis on retail banking, and offers such customary banking services as consumer and commercial checking accounts, NOW accounts, money market accounts, savings accounts, certificates of deposits, individual retirement accounts, safe deposit facilities, and money transfers. The Bank finances commercial and consumer transactions, makes secured and unsecured loans, offers lines of credit, VISA and MasterCard accounts, and provides a variety of other banking services.

#### **Markets**

The primary market for the Bank is Oconee County, Georgia. The Bank's secondary market is defined as those counties contiguous to Oconee County, which include Clarke, Greene, Morgan, Walton, Barrow, and Oglethorpe, as well as Madison County, which is not contiguous to Oconee County, but is a part of the Athens Standard Metropolitan Statistical Area.

#### **Deposits**

The Bank offers a full range of depository accounts and services to both consumers and businesses. At December 31, 2000, the Bank's deposit base totaled \$150,538,000 and consisted of the following types of accounts:

	<u>Amount</u>	<u>Percentage</u>
Non-interest bearing demand deposits	\$ 20,065,000	13.3%
Interest-bearing NOW accounts	21,830,000	14.5%
Money market deposit accounts	15,360,000	10.2%
Savings deposits	7,998,000	5.3%
Time deposits less than \$100,000	54,448,000	36.2%
Time deposits of \$100,000 or more	23,162,000	15.4%
Individual Retirement Accounts	7,675,000	5.1%
Total Deposits	<u>\$150,538,000</u>	<u>100.0%</u>

Management of the Bank is of the opinion that its time deposits of \$100,000 or more are customer relationship-oriented and represent a reasonably stable source of funds.

## Loans

The Bank makes both secured and unsecured loans to individuals and businesses. At December 31, 2000, the Bank's loan portfolio totaled \$123,341,000, consisting of the following categories of loans:

	<u>Amount</u>	<u>Percentage</u>
Loans secured by real estate	\$ 94,700,000	76.8%
Agricultural production & loans to farmers	662,000	0.5%
Commercial and industrial loans	15,105,000	12.3%
Credit cards and related plans	997,000	0.8%
Consumer loans (excluding credit cards)	10,822,000	8.8%
All other loans	1,160,000	0.9%
Lease financing receivables	105,000	0.1%
LESS: Unearned income	(210,000)	(0.2%)
Total Loans Net of Unearned Income	<u>\$123,341,000</u>	<u>100.0%</u>

The following table shows the amounts and growth for loans, deposits, capital, and total assets at December 31, for the years ended 1995-2000 (dollar amounts are in millions):

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>5-Year Growth</u>
Loans	\$ 123.3	\$ 93.3	\$ 76.8	\$ 72.3	\$ 68.8	\$ 58.6	\$ 64.7
Deposits	150.5	136.5	116.1	104.6	97.0	79.3	71.2
Capital	15.1	13.0	12.5	11.2	10.0	9.1	6.0
Total Assets	181.9	152.1	130.7	117.5	108.5	89.8	92.1

As of December 31, 2000, the Bank had concentrations of loans to the housing industry and to the hotel and motel industry. Loans secured by real estate totaled \$94,700,000, which represented 76.8% of the Bank's loan portfolio at December 31, 2000. At year-end 2000, total outstanding balances and commitments for development and construction loans were \$41,563,000, which represented 33.7% of the Bank's total loans and 276.1% of the Bank's equity capital. The Bank's established guideline for this concentration is to be in a range of 200% - 285% of Tier 1 equity capital. Low interest rates and the desirability of living in Oconee County have fueled demand for new housing and therefore new subdivisions in the area. Georgia Highway 316, the Watkinsville by-pass, and the re-routing of Highway 441 will continue to encourage further housing growth, resulting in the Bank's continued concentration of loans to this industry. At year-end 2000, total outstanding balances and commitments for hotel and motel loans were \$26,359,000, which represented 21.4% of the Bank's total loans and 175.1% of the Bank's equity capital. The Bank's established guideline for this concentration is to be in a range of 100%-200% of Tier 1 equity capital. The demand for hotel and motel loans, both new and refinancing, continues to be strong. The Bank's proven interest and reputation in providing funding for this industry has led to an increase in demand from repeat, referred, and new borrowers.

### **Lending Policy**

The current lending policy of the Bank is to offer consumer, real estate, and commercial credit services to individuals and entities that meet the Bank's credit standards. The Bank provides each lending officer with written guidelines for lending activities. Lending authority is delegated by the Board of Directors of the Bank to loan officers, each of whom is limited in the amount of secured and unsecured loans which he can make to a single borrower or related group of borrowers.

The Board of Directors of the Bank is responsible for approving and monitoring the loan policy, providing guidance and counsel to all lending personnel and approving all extensions of credit over \$250,000.

### **Loan Review and Non-Performing Assets**

The Bank reviews its loan portfolio to determine deficiencies and corrective action to be taken. Senior lending officers conduct periodic reviews of borrowers with total direct and indirect indebtedness of \$250,000 or more and ongoing review of all past due loans. Past due loans are reviewed at least weekly by lending officers, and a summary report is reviewed monthly by the Board of Directors of the Bank. The Board of Directors of the Bank reviews all loans over \$250,000, whether current or past due, at least once annually. In addition, the Bank maintains internal classifications of potential problem loans. The Bank also utilizes an independent external loan review specialist to review all outstanding debt from customers exceeding \$250,000.

Past due loans are typically charged off when they reach a past due status of 90 days or more. Exceptions to this involve loans involving customers who have begun bankruptcy proceedings, as well as loans on which the Bank has begun foreclosure or other steps of collection, under which circumstances the loans are placed in nonaccrual status.

### **Investment Policy**

The Bank's investment policy provides guidelines for determining permissible investments in the investment portfolio, credit criteria and quality ratings, the desired mix among those investments, and preferred maturity distribution of the portfolio. The Bank has five objectives concerning its investment portfolio which address asset/liability management, profitability, liquidity, pledging, and local community support. The Bank's President/CEO and Executive Vice President/CFO are authorized to buy and sell securities according to the criteria set forth in the investment policy. Individual transactions, portfolio composition and performance are reviewed by the Bank's Investment and Asset/Liability Management Committee and the full Board of the Bank on a monthly basis. The investment policy is reviewed annually by the Bank's Board of Directors.

In general, the Bank's investment policy is to place securities in the Available for Sale portfolio. As of December 31, 2000, investment securities totaled \$30,057,000.

The primary risks in the Bank's securities portfolio consist of two types:

- (1) Credit risk, or the risk of default of the issuer. Treasury and Agency securities comprised 57.6% of the portfolio; therefore the credit risk is primarily limited to the risk of default of the U.S. Government and its agencies. State, County, and Municipal bonds represent 42.4% of the portfolio with the credit risk limited to the risk of default of the issuing municipality.

- (2) Interest rate risk, or the risk of adverse movements in interest rates on the value of the portfolio. In general, a rise in interest rates will cause the value of the Bank's securities portfolio to decline. The longer the maturity of an individual security, the greater the effect of change in interest rate on its value. The Bank measures its interest rate risk exposure by analyzing its rate sensitivity GAP position. The Bank's GAP position is reviewed monthly by the Investment and Asset/Liability Management Committee and the Board of Directors. See "Management's Discussion and Analysis of Financial Condition and Plan of Operation for the Years Ended December 31, 2000 and 1999 – Asset/Liability and Interest Rate Sensitivity Management."

### **Competition**

The Bank competes in Oconee County with five other commercial banks. With three full-service and one limited banking office within Oconee County, the Bank is the market leader in Oconee County in terms of assets, deposit size, facility locations, and market coverage.

The Bank also competes in Athens-Clarke County. There are twelve commercial banks in Athens-Clarke County, four of which have offices in Oconee County. As of June 30, 2000, the twelve banks located in Athens-Clarke County held deposits totaling \$1,112,697,000. The Bank's physical presence in Athens-Clarke County is limited to the loan production office, an in-store branch in the East Athens Wal-Mart Supercenter, and two ATM's, located in Jimbo's Convenience Store and Quick Stop Convenience Store.

The following table shows deposits by financial institution along with market share in Oconee County for the period ended June 30, 2000 (Dollar amounts are in thousands):

	Total Deposits	Market Share
Athens First Bank & Trust Company	\$ 66,035	28.8%
Bank of America, N.A.	8,828	3.9%
First American Bank & Trust Company	5,248	2.3%
North Georgia Bank	5,321	2.3%
Oconee State Bank	140,605	61.4%
SunTrust Bank, N.A.	2,878	1.3%
Total Deposits	<u>\$228,915</u>	<u>100.0%</u>

In addition to the Bank's competition in Oconee County and Athens-Clarke County, the Bank competes with commercial banks, thrifts, and various other financial institutions and brokerage firms located in Northeast Georgia counties outside its primary and secondary market areas. To a lesser extent, the Bank also competes for deposits and loans with credit unions and for loans with insurance companies, small loan or finance companies, and certain governmental agencies. To the extent that banks must maintain non-interest earning reserves against deposits, they may be at a competitive disadvantage when compared with other financial service organizations that are not required to maintain reserves against substantially equivalent sources of funds.

Further, the increased income competition from investment bankers and brokers and other financial service organizations may have a significant impact upon the competitive environment in which the Bank operates.

Set forth below are certain ratios of the Bank for the years indicated:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net income to:			
Average equity capital accounts	17.46%	16.66%	16.61%
Average daily total deposits	1.76%	1.83%	1.93%
Ratio of average daily loans to average daily deposits	80.31%	72.06%	72.16%

The business of the Bank is not materially seasonal. Construction and development lending are strongest in Spring and Summer. Building slows somewhat in Fall and Winter, but not to the degree that there is an appreciable impact upon the Bank's Balance Sheet or Statement of Earnings.

### **Forward Looking Statements**

Information provided by Oconee or statements made by our directors, officers or employees may constitute "forward-looking" statements under the Private Securities Litigation Reform Act of 1995 and are subject to numerous risks and uncertainties. Any statements made in this Annual Report on Form 10-KSB including any statements incorporated by reference, that are not statements of historical fact are forward-looking statements. These forward-looking statements and other forward-looking statements made by us or our representatives are based on a number of assumptions and involve a number of risks and uncertainties, and, accordingly, actual results could differ materially. 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 Oconee operates); competition from other providers of financial services offered by Oconee; government regulations and legislation; changes in interest rates; material unforeseen changes in the financial stability and liquidity of Oconee's credit customers, all of which are difficult to predict and which may be beyond the control of Oconee. Oconee 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.

### **Supervision and Regulation**

**General.** Oconee is a registered bank holding company subject to regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve") under the Bank Holding Company Act of 1956, as amended (the "Act"). Oconee is required to file financial information with the Federal Reserve periodically and is subject to periodic examination by the Federal Reserve.

The Act requires every bank holding company to obtain the prior approval of the Federal Reserve before (i) it may acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank that it does not already control; (ii) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of a bank; and (iii) it may merge or consolidate with any other bank holding company. In addition, a bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of the voting shares of any company engaged in non-banking activities. This prohibition does not apply to activities found by the Federal Reserve, by order or regulation, to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the activities that the Federal Reserve has determined by regulation or order to be closely related to banking are: making or servicing loans and certain types of leases; performing certain data processing services; acting as fiduciary or investment or financial advisor; providing discount brokerage services; underwriting bank eligible securities; underwriting debt and equity securities on a limited basis through separately capitalized subsidiaries; and making investments in corporations or projects designed primarily to promote community welfare.

Bank holding companies whose banking subsidiaries are all well capitalized and well managed may also apply to become a financial holding company. Financial holding companies have the authority to engage in activities that are “financial in nature” that are not permitted for other bank holding companies. Some of the activities that the Act provides are financial in nature are:

- (a) lending, exchanging, transferring, investing for others, or safeguarding money or securities;
- (b) insuring, guaranteeing, or indemnifying against loss, harm, damage, illness, disability, or death, or providing and issuing annuities, and acting as principal, agent, or broker with respect thereto;
- (c) providing financial, investment, or economic advisory services, including advising an investment company;
- (d) issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly; and
- (e) underwriting, dealing in, or making a market in securities.

Oconee has no immediate plans to register as a financial holding company.

Oconee must also register with the Georgia Department of Banking and Finance (the “GDBF”) and file periodic information with the GDBF. As part of such registration, the GDBF requires information with respect to the financial condition, operations, management, and intercompany relationships of Oconee and the Bank and related matters. The GDBF may also require such other information as is necessary to keep itself informed as to whether the provisions of Georgia law and the regulations and orders issued thereunder by the GDBF have been complied with, and the GDBF may examine Oconee and the Bank.

Oconee is an “affiliate” of the Bank under the Federal Reserve Act, which imposes certain restrictions on (i) loans by the Bank to Oconee, (ii) investments in the stock or securities of Oconee by the Bank, (iii) the Bank’s taking the stock or securities of an “affiliate” as collateral for loans by the Bank to a borrower, and (iv) the purchase of assets from Oconee by the Bank. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

The Bank, a subsidiary of Oconee, is regularly examined by the Federal Deposit Insurance Corporation (the “FDIC”). The Bank, a state banking association organized under Georgia law, is subject to the supervision of, and is regularly examined by, the GDBF. Both the FDIC and the GDBF must grant prior approval of any merger, consolidation or other corporation reorganization involving the Bank. A bank can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with the default of a commonly controlled institution.

**Payment of Dividends.** Oconee is a legal entity separate and distinct from the Bank. Most of the revenues of Oconee result from dividends paid to it by the Bank. There are statutory and regulatory requirements applicable to the payment of dividends by the Bank, as well as by Oconee to its shareholders.

The Bank is a state chartered bank regulated by the GDBF and the FDIC. Under the regulations of the GDBF, dividends may not be declared out of the retained earnings of a state bank without first obtaining the written permission of the GDBF unless such bank meets all the following requirements:

- (a) total classified assets as of the most recent examination of the bank do not exceed 80% of equity capital (as defined by regulation);
- (b) the aggregate amount of dividends declared or anticipated to be declared in the calendar year does not exceed 50% of the net profits after taxes but before dividends for the previous calendar year; and
- (c) the ratio of equity capital to adjusted assets is not less than 6%.

The payment of dividends by Oconee and the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. In addition, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending upon the financial condition of the bank, could include the payment of dividends), such authority may require, after notice and hearing, that such bank cease and desist from such practice. The FDIC has issued a policy statement providing that insured banks should generally only pay dividends out of current operating earnings. In addition to the formal statutes and regulations, regulatory authorities consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items. Capital adequacy considerations could further limit the availability of dividends to the Bank. At December 31, 2000, net assets available from the Bank to pay dividends without prior approval from regulatory authorities totaled \$1,240,381. For 2000, Oconee's cash dividend payout to stockholders was 40.1% of net income.

**Monetary Policy.** The results of operations of the Bank are affected by credit policies of monetary authorities, particularly the Federal Reserve. The instruments of monetary policy employed by the Federal Reserve include open market operations in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and in the money markets, as well as the effect of actions by monetary and fiscal authorities, including the Federal Reserve, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or the business and earnings of the Bank.

**Capital Adequacy.** The Federal Reserve and the FDIC have implemented substantially identical risk-based rules for assessing bank and bank holding company capital adequacy. These regulations establish minimum capital standards in relation to assets and off-balance sheet exposures as adjusted for credit risk. Banks and bank holding companies are required to have (1) a minimum level of total capital (as defined) to risk-weighted assets of eight percent (8%); (2) a minimum Tier One Capital (as defined) to risk-weighted assets of four percent (4%); and (3) a minimum stockholders' equity to risk-weighted assets of four percent (4%). In addition, the Federal Reserve and the FDIC have established a minimum three percent (3%) leverage ratio of Tier One Capital to total assets for the most highly rated banks and bank holding companies. "Tier One Capital" generally consists of common equity not including unrecognized gains and losses on securities, minority interests in equity accounts of consolidated subsidiaries and certain perpetual preferred stock less certain intangibles. The Federal Reserve and the FDIC will require a bank holding company and a bank, respectively, to maintain a leverage ratio greater than three percent (3%) if either is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve. The Federal Reserve and the FDIC use the leverage ratio in tandem with the risk-based ratio to assess the capital adequacy of banks and bank holding companies. The FDIC, the Office of the Comptroller of the Currency (the "OCC") and the Federal Reserve have amended, effective January 1, 1997, the capital adequacy standards to provide for the consideration of interest rate risk in the overall determination of a bank's capital ratio, requiring banks with greater interest rate risk to maintain adequate capital for the risk. The revised standards have not had a significant effect on Oconee's capital requirements.

In addition, effective December 19, 1992, a new Section 38 to the Federal Deposit Insurance Act implemented the prompt corrective action provisions that Congress enacted as a part of the Federal Deposit Insurance Corporation Improvement Act of 1991 (the “1991 Act”). The “prompt corrective action” provisions set forth five regulatory zones in which all banks are placed largely based on their capital positions. Regulators are permitted to take increasingly harsh action as a bank’s financial condition declines. Regulators are also empowered to place in receivership or require the sale of a bank to another depository institution when a bank’s capital leverage ratio reaches 2%. Better-capitalized institutions are generally subject to less onerous regulation and supervision than banks with lesser amounts of capital.

The FDIC has adopted regulations implementing the prompt corrective action provisions of the 1991 Act, which place financial institutions in the following five categories based upon capitalization ratios: (1) a “well capitalized” institution has a total risk-based capital ratio of at least 10%, a Tier One risk-based ratio of at least 6% and a leverage ratio of at least 5%; (2) an “adequately capitalized” institution has a total risk-based capital ratio of at least 8%, a Tier One risk-based ratio of at least 4% and a leverage ratio of at least 4%; (3) an “undercapitalized” institution has a total risk-based capital ratio of under 8%, a Tier One risk-based ratio of under 4% or a leverage ratio of under 4%; (4) a “significantly undercapitalized” institution has a total risk-based capital ratio of under 6%, a Tier One risk-based ratio of under 3% or a leverage ratio of under 3%; and (5) a “critically undercapitalized” institution has a leverage ratio of 2% or less. Institutions in any of the three undercapitalized categories would be prohibited from declaring dividends or making capital distributions. The FDIC regulations also establish procedures for “downgrading” an institution to a lower capital category based on supervisory factors other than capital. Under the FDIC’s regulations, the Bank was a “well capitalized” institution at December 31, 1999 and December 31, 2000.

Set forth below are pertinent capital ratios for the Bank as of December 31, 2000 and 1999:

<u>Minimum Capital Requirement</u>	<u>The Bank</u>	
	<u>2000</u>	<u>1999</u>
Tier One Capital to Risk Weighted Assets: 4%(1)	11.4%	13.3%
Total Capital to Risk Weighted Assets: 8%(2)	12.7%	14.6%
Leverage Ratio (Tier One Capital to Average Total Assets): 3% (3)	8.6%	9.2%

(1) Minimum required ratio for “well capitalized” banks is 6%

(2) Minimum required ratio for “well capitalized” banks is 10%

(3) Minimum required ratio for “well capitalized” banks is 5%

**Recent Legislative and Regulatory Action.** On November 12, 1999, President Clinton signed the Gramm-Leach-Bliley Act, a very significant piece of legislation intended to modernize the financial services industry. The bill repeals the anti-affiliation provisions of the 1933 Glass-Steagall Act to allow for the merger of banking and securities organizations and permits banking organizations to engage in insurance activities including insurance underwriting. The bill also allows bank holding companies to engage in financial

activities that are “financial in nature or complementary to a financial activity.” The act lists the expanded areas that are financial in nature and includes insurance and securities underwriting and merchant banking among others. The bill also:

- (a) prohibits non-financial entities from acquiring or establishing a thrift while grandfathering existing thrifts owned by non-financial entities;
- (b) establishes state regulators as the appropriate functional regulators for insurance activities but provides that state regulators cannot “prevent or significantly interfere” with affiliations between banks and insurance firms;
- (c) contains provisions designed to protect consumer privacy. The bill requires financial institutions to disclose their policy for collecting and protecting confidential information and allows consumers to “opt out” of information sharing except with unaffiliated third parties who market the institutions’ own products and services or pursuant to joint agreements between two or more financial institutions; and
- (d) provides for functional regulation of a bank’s securities activities by the Securities and Exchange Commission.

Various portions of the bill have different effective dates, ranging from immediately to more than a year for implementation.

### **Economic Conditions**

Economic growth in the Bank’s primary service area is expected to remain steady. The counties in the Bank’s market area are expected to continue to receive revenues from their traditional sources of trade, finance, insurance, real estate development and sales, manufacturing and the service industry. Both employment and population growth are projected to increase steadily in Oconee and Athens-Clarke Counties.

### **Employees**

At December 31, 2000, the Bank had 59 full-time employees and 29 part-time employees. The Bank is not a party to any collective bargaining agreement, and the Bank believes that its employee relations are good.

## **ITEM 2. DESCRIPTION OF PROPERTIES.**

The Bank operates three full-service banking offices and one limited service banking office as follows:

- (1) Main Office  
35 North Main Street  
Watkinsville, Georgia 30677
- (2) Bogart Branch  
U.S. Highway 78  
Bogart, Georgia 30622

- (3) Friendship Branch  
8811 Macon Highway  
Athens, Georgia 30606
- (4) Mortgage Department/Operations Annex  
(Limited Service/Support Offices)  
Condominium Units 10, 12, 14, 16, & 18  
Durham Street  
Watkinsville, Georgia 30677
- (5) Athens Loan Center  
(Limited Service Loan Production Office)  
500 North Milledge Avenue  
Athens, Georgia 30605
- (6) East Athens Wal-Mart Supercenter  
(In-Store Full Service Branch)  
4375 Lexington Road  
Athens, Georgia 30605

The executive offices and the main office of Oconee and the Bank are located in a 6,500 square-foot facility at 35 North Main Street in Watkinsville, Georgia with three drive-thru windows and a walk-up ATM.

The Bogart Branch is located at the intersection of U.S. Highway 78 and Mars Hill Road in Bogart, Georgia. This 5,250 square-foot facility has 2 drive-thru windows and a drive-thru ATM.

The Friendship Branch is an 800 square-foot facility at 8811 Macon Highway, Athens, Georgia. This branch has three drive-thru windows and serves the Friendship community. Although it has an Athens address, this branch is located within Oconee County.

The Bank owns five office condominium units adjacent to and behind its main office in Watkinsville. The units are numbered 10, 12, 14, 16, & 18 on Durham Street in Watkinsville, Georgia. Each unit contains 1,180 square feet on the ground floor and 450 square feet on the second floor, for a total of 1,630 square feet per unit or 8,150 square feet for all units owned. Unit 10 houses the Bank's mortgage loan department, Units 12, 14, and 16 are connected by interior hallways and house proof, bookkeeping, supplies, human resources, and training functions. Unit 18 is occupied by the Bank's loan operations department.

All of the properties referenced previously are owned by Oconee or the Bank.

In September 1999, the Bank entered into a lease agreement with Hardigree Properties, LLLP to lease office condominium unit #20 on Durham Street in Watkinsville, Georgia. This unit is next to other office condominiums owned by the Bank. The lease is for two years with an option to renew at the end of two years. Unit 20 houses accounting and audit personnel and allows needed space for expansion. In addition, two parking lots adjacent to the main office are leased which provide additional parking for employees.

The Athens Loan Center is located at 500 North Milledge Avenue in Athens, Georgia. The Loan Center is a 2,000 square foot building that houses one commercial loan officer and one mortgage loan originator, along with their support staff. The Loan Center is leased by the Bank from Henry G. Utley. The lease was entered into in July of 1999 and is for two years.

The Bank leases space in the Wal-Mart Supercenter Store No. 2811 located at 4375 Lexington Road in Athens, Georgia. This branch is located in a 695 square foot leased space inside the store. The space is leased from Wal-Mart Stores East, Inc. The lease was entered into in January of 2000 and is for five years.

The Bank also owns 2.3 acres of land located on Daniels Bridge Road, 1331st G.M.D., Oconee County, Georgia for future branch expansion.

Management of Oconee and the Bank believe that all of its properties are adequately covered by insurance.

### **ITEM 3. LEGAL PROCEEDINGS.**

Neither Oconee nor the Bank is a party to, nor are any of their properties the subject of, any material legal proceeding other than ordinary routine litigation incidental to Oconee's and the Bank's business.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

No matters were submitted to a vote of the security holders of Oconee during the fourth quarter of the fiscal year covered by the report.

## **PART II**

### **ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**

#### **Markets For Capital Stock**

Oconee Stock is not traded on any established public trading market. Management is aware of 13 trades of Oconee Stock in 2000, aggregating 322 shares in blocks ranging from 2 to 60 shares at prices ranging from \$144.00 to \$169.00 per share.

Management is aware of 31 trades of Oconee Stock in 1999, aggregating 845 shares in blocks ranging from 1 share to 100 shares at prices ranging from \$145.00 to \$155.00 per share.

#### **Holders**

As of December 31, 2000, there were 594 holders of record of common stock.

#### **Dividends**

In 2000 and 1999, Oconee declared cash dividends of \$5.50 per share and \$5.00 per share respectively, payable to shareholders of record on December 31 of each year. Oconee intends to continue paying cash dividends on an annual basis. Cash dividends for 2000 represented a payment of 40.1% of net income for the year compared to 40.8% for 1999. The amount and frequency of dividends is determined by Oconee's Board of Directors in light of earnings, capital requirements and the financial condition of the Bank. See "Supervision and Regulation -- Payment of Dividends."

## ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATION FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999.

This analysis of Oconee has been prepared to provide insight into the financial condition of the Company, and addresses the factors which have affected the Company's results of operations. The Company's financial statements and accompanying notes which follow are an integral part of this review and should be read in conjunction with it.

### Selected Financial Information

	2000	1999	1998	1997	1996
	(Amounts in thousands.)				
Net interest income	\$ 7,847	6,331	5,734	5,418	4,865
Other operating income	\$ 1,417	1,328	1,283	1,080	949
Provision for loan losses	\$ 387	116	61	166	281
Net income	\$ 2,467	2,203	2,032	1,705	1,506
Net income per common share	\$ 13.71	12.24	11.29	9.47	8.37
Total assets	\$ 181,925	152,139	130,652	117,482	108,506
Cash dividends declared per common share	\$ 5.50	5.00	4.00	3.30	3.00

**Financial Condition - 2000 vs. 1999.** During 2000, average total assets increased \$25,403,000 (19%) over 1999. Average deposits increased \$19,169,000 (16%) in 2000 over 1999. Average loans increased \$25,344,000 (29%) in 2000 over 1999.

Year-end balances at December 31, 2000 and 1999 show increases in total assets of \$29,787,000 (20%) from 1999 to 2000. Total deposits increased \$14,010,000 (10%) from 1999 to 2000 while total gross loans increased \$30,011,000 (32%) during 2000. Time deposits increased \$16,082,000 (23%) from 1999 to 2000 while all other deposit accounts decreased \$2,072,000 (3%) from 1999 to 2000. Loan demand continued to increase due to a strong local economy. These loan increases were funded by increases in deposits, sales of investment securities, and an advance from the Federal Home Loan Bank during 2000. Non-performing assets at December 31, 2000 were \$255,000 compared to \$78,000 at December 31, 1999. The majority of the increase is attributable to an increase in nonaccrual loans. The increase in nonaccrual loans is primarily due to two borrowers with outstanding loans totaling \$175,000 who were involved in bankruptcy proceedings at December 31, 2000. There were no related party loans which were considered non-performing at December 31, 2000.

The Bank was most recently examined for safety and soundness by its primary regulatory authority in October of 1999. There were no recommendations by the regulatory authority that, in management's opinion, will have material effects on the Bank's liquidity, capital resources, or operations.

**Results of Operations - 2000 vs. 1999.** The Company's earnings depend to a large degree on net interest income, which is the difference between the interest income received from its earning

assets (such as loans, investment securities, federal funds sold, etc.) and the interest expense which is paid on deposit liabilities.

Net interest income in 2000, which was \$7,847,000, increased by \$1,516,000, or 24%, over 1999. The increase is primarily attributable to the increase in interest and fees on loans offset by increases in interest expense on time deposits. Net yield on average interest earning assets (5.13% in 2000 and 4.98% in 1999) increased approximately 0.18% in 2000 from 1999. This increase was attributable to a 0.10% increase in the net interest rate spread from 1999 to 2000.

The provision for loan losses in 2000 was \$387,000 compared to \$116,000 in 1999. The increase in the provision for loan losses was attributable to growth in the loan portfolio and increases in non-performing assets. The provision for loan losses continues to reflect management's estimate of potential loan losses inherent in the portfolio and the creation of an allowance for loan losses to absorb such losses. The allowance for loan losses represented approximately 1.5% of total loans outstanding at December 31, 2000 compared to 1.6% at December 31, 1999. Net charge-offs for 2000 were \$48,055 compared to \$74,294 during 1999. A dedicated loan review function is utilized by the Company which is supplemented by the use of an outside loan review specialist. All loans \$250,000 or more are reviewed annually and placed into various loan grading categories which assist in developing lists of potential problem loans. These loans are regularly monitored by the loan review process to ensure early identification of repayment problems so that adequate allowances can be made through the provision for loan losses. Management believes that these levels of allowance are appropriate based upon the Company's loan portfolio and current economic conditions.

Other operating income in 2000 of \$1,417,000 increased from 1999 by \$89,000 or 7% due primarily to an increase of \$116,000 or 17% in service charges on deposit accounts. The increase in service charges on deposit accounts is due primarily to an increase in fees that the Bank charged during 2000, and an increase of \$161,000 in commission income on mortgage loans. These increases were offset by losses on sales of investment securities totaling \$162,000, resulting from the sales of securities to fund loan growth. Other operating expenses in 2000 of \$5,346,000 increased by \$840,000 or 19% over 1999 levels. The increase in operating expenses is attributable to an increase in salaries and employee benefits expense of \$542,000 or 20%. This increase is due to the Bank opening a new branch in January 2000, experiencing the first full year of salaries expense at the Loan Production Office, which opened in July 1999, as well as merit increases for existing employees. In addition, occupancy expense increased by \$184,000 or 34% primarily due to increased rent and depreciation expense associated with the opening of the Wal-Mart branch. Also, other operating expenses increased by \$114,000 or 9%.

Income taxes expressed as a percentage of earnings before income taxes increased from 27% in 1999 to 30% in 2000. This increase relates to a lower amount of tax-free interest income from state, county and municipal investment securities as compared to 1999.

**Results of Operations - 1999 vs. 1998.** Net interest income in 1999, which was \$6,331,000 increased by \$597,000, or 10%, over 1998. The increase is primarily attributable to the increase in interest and fees on loans offset by increases in interest expense on time deposits. Net yield on average interest earning assets (4.98% in 1999 and 5.08% in 1998) decreased approximately .10% in 1999 from 1998. This decrease was associated with an increase in interest bearing liabilities relative to interest earning assets, offset in part by a 0.02% increase in the net interest rate spread.

The provision for loan losses in 1999 was \$116,000 compared to \$60,720 in 1998. The increase in the provision for loan losses was primarily attributable to growth in the loan portfolio. The provision for loan losses continues to reflect management's estimate of potential loan losses inherent in the portfolio and the creation of an allowance for loan losses to absorb such losses. The allowance for loan losses represented approximately 1.6% of total loans outstanding at December 31, 1999 compared to 1.9% at December 31, 1998. Net charge-offs for 1999 were \$74,294 compared to net recoveries of \$4,170 during 1998.

Other operating income in 1999 of \$1,328,000 increased from 1998 by \$45,000 or 4% due primarily to an increase of \$19,000 in ATM service charges, resulting from two new ATM's which were placed in service during 1999 and an increase of \$92,000 in commission income on investment sales. These increases were offset by a decrease in fee income on mortgage loans of \$79,000 from 1998 as a result of rising interest rates on mortgage loans which resulted in decreased demand for these types of loans. Other operating expenses in 1999 of \$4,506,000 increased by \$397,000 or 10% over 1998 levels. The increase in operating expenses is attributable to an increase in salaries and employee benefits expense of \$244,000 or 10%. Also, other operating expenses increased by \$125,000 or 11% with \$32,000 in costs attributed to Year 2000 compliance.

Income taxes expressed as a percentage of earnings before income taxes decreased from 29% in 1998 to 27% in 1999. This decrease relates to a higher amount of tax-free interest income from state, county and municipal investment securities as compared to 1998.

**Investments.** The investment portfolio consists of debt securities which provide the Company with a source of liquidity and a long-term, relatively stable source of income. Additionally, the investment portfolio provides a balance to interest rate and credit risk in other categories of the balance sheet while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as required collateral for certain deposits.

**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 their local funding requirements.

The Company maintains relationships with correspondent banks that can provide funds to it on short notice, if needed. Presently, the Company has arrangements with a commercial bank for short term unsecured advances up to \$4,400,000. Additional liquidity is provided to the Company through FHLB advances up to \$18,100,000.

Cash and cash equivalents increased \$5,955,000 to a total of \$22,083,000 at year-end 2000 as cash provided by financing activities and operating activities outpaced amounts used by investing activities. Cash inflows from operations totaled \$2,853,000 in 2000, while inflows from financing activities totaled \$26,378,000, most of which were net deposit increases during 2000 of \$14,010,000 and an increase in borrowings from the Federal Home Loan Bank of \$13,300,000.

Investing activities used \$23,276,000 of cash and cash equivalents, principally composed of net advances of loans to customers of \$30,059,000 during 2000, offset by proceeds from the sales of investment securities totaling \$8,848,000.

**Capital Resources.** The Company continues to maintain adequate capital ratios. The following tables present the Company's regulatory capital position at December 31, 2000

Risk-Based Capital Ratios  
Actual as of December 31, 2000

Tier 1 Capital	11.4%
Tier 1 Capital minimum requirement	<u>4.0%</u>
Excess	<u>7.4%</u>
 Total Capital	 12.7%
Total Capital minimum requirement	<u>8.0%</u>
Excess	<u>4.7%</u>

Leverage Ratio As of December 31, 2000

Tier 1 Capital to average total assets	8.6%
Minimum leverage requirement	<u>3.0%</u>
Excess	<u>5.6%</u>

For a more complete discussion of the actual and required ratios of the Company, see note 11 to the consolidated financial statements and "Supervision and Regulation – Capital Adequacy."

**Asset/Liability and Interest Rate Sensitivity Management.** It is the Company's objective to manage assets and liabilities to provide a satisfactory, consistent level of profitability within the framework of established cash, loan, investment, borrowing and capital policies. Certain officers are charged with the responsibility for monitoring policies and procedures that are designed to ensure acceptable composition of the asset/liability mix. It is the overall philosophy of management to support asset growth primarily through growth of core deposits, which include deposits of all categories made by local individuals, partnerships and corporations. The objective of the policy is to control interest sensitive assets and liabilities so as to minimize the impact of substantial movements in interest rates on earnings.

The asset/liability mix is monitored on a regular basis. A report reflecting the interest sensitive assets and interest sensitive liabilities is prepared and presented to the Board of Directors of the Bank on a monthly basis.

The absolute level and volatility of interest rates can have a significant impact on Oconee's profitability. The objective of interest rate risk management is to identify and manage the sensitivity of net interest income to changing interest rates, in order to achieve Oconee's overall financial goals. Based on economic conditions, asset quality and various other considerations, management establishes tolerance ranges for interest rate sensitivity and manages within these ranges.

Oconee uses income simulation modeling as a tool in measuring interest rate risk and managing interest rate sensitivity. Simulation modeling considers not only the impact of changing market rates of interest on future net interest income, but also other potential causes of variability.

Interest rate sensitivity is a function of the repricing characteristics of Oconee'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. Interest rate sensitivity management focuses on the maturity structures of assets and liabilities and their repricing characteristics during periods of change in market interest rates. Interest rate sensitivity is measured as the difference between the volumes of assets and liabilities in Oconee's current portfolio that are subject to repricing at various time horizons: immediate; one to three months; four to twelve months; one to five years; over five years, and on a cumulative basis. The differences are known as interest rate sensitivity gap.

One method to measure a bank's interest rate exposure is through its repricing gap. The gap is calculated by citing all liabilities that reprice or taking all assets that reprice or mature within a given time frame and subtracting all liabilities that reprice or mature within that time frame. The difference between these two amounts is called the "gap", the amount of either liabilities or assets that will reprice without a corresponding asset or liability repricing.

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.

Oconee 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.

The following table summarizes the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2000 that are expected to mature, prepay or reprice in each of the future time periods shown. Except as stated below, the amount of assets or liabilities that mature or reprice during a particular period was determined in accordance with the contractual terms of the asset or liability. Adjustable rate loans are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and fixed rate loans and mortgage-backed securities are included in the periods in which they are anticipated to be repaid based on scheduled maturities. The Company's savings accounts and interest-bearing demand accounts (NOW and money market deposit accounts), which are generally subject to immediate withdrawal, are included in the "Three Months or Less" category, although historical experience has proven these deposits to be more stable over the course of a year.

At December 31, 2000  
Maturing or Repricing in  
(dollars in thousands)

	Three Months or Less	Four Months to 12 Months	1 to 5 Years	Over 5 Years	Total
Interest-earning assets:					
Interest-bearing deposits with banks	\$ 100	--	--	--	100
Investment securities	245	348	3,843	25,621	30,057
Federal funds sold	16,990	--	--	--	16,990
Loans	44,620	33,738	44,780	203	123,341
Total interest-bearing assets	<u>\$ 61,955</u>	<u>34,086</u>	<u>48,623</u>	<u>25,824</u>	<u>170,488</u>
Interest-bearing liabilities:					
Deposits:					
Savings and demand	\$ 45,188	--	--	--	45,188
Time deposits	18,284	45,121	21,880	--	85,285
Federal Home Loan Bank advances	--	--	13,300	--	13,300
Repurchase agreements	836	--	--	--	836
Total interest-bearing liabilities	<u>\$ 64,308</u>	<u>45,121</u>	<u>35,180</u>	<u>--</u>	<u>144,609</u>
Interest sensitive difference per period	<u>(2,353)</u>	<u>(11,035)</u>	<u>13,443</u>	<u>25,824</u>	<u>25,879</u>
Cumulative interest sensitivity difference	<u>(2,353)</u>	<u>(13,388)</u>	<u>55</u>	<u>25,879</u>	
Cumulative difference to total assets	<u>(1.3%)</u>	<u>(7.4%)</u>	<u>0.0%</u>	<u>14.2%</u>	

At December 31, 2000 the difference between the Company's liabilities and assets repricing or maturing within one year was \$13,388,000. Due to an excess of liabilities repricing or maturing within one year, a rise in interest rates would cause the Company's net interest income to decline.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. 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 in the table.

**Inflation.** Inflation impacts the growth in total assets in the banking industry and causes a need to increase equity capital at higher than normal rates to meet capital adequacy requirements. The Company copes with the effects of inflation through the management of its interest rate sensitivity gap position, by periodically reviewing and adjusting its pricing of services to consider current costs, and through managing its level of net earnings relative to its dividend payout policy.

## **SELECTED STATISTICAL INFORMATION**

The following section presents statistical information for the Company which supplements the financial data discussed elsewhere herein.

### **Index to Selected Statistical Information**

Table 1 Average Balances and Interest Rates

Table 2 Volume-Rate Analysis

Table 3 Investment Portfolio

Table 4 Loan Portfolio

Table 5 Allowance for Loan Losses

Table 6 Deposits

Table 7 Selected Ratios

Average balances contained in the following selected statistical information generally represent average daily balances for all periods.

**TABLE 1**  
**Average Balance Sheets and Interest Rates**

The table below shows the year-to-date average balance for each category of interest earning assets and interest-bearing liabilities for the indicated periods and the average rate of interest earned or paid thereon.

	For the Years Ended December 31,								
	2000			1999			1998		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:									
Interest earning assets:									
Interest earning deposits	76,230	5,206	6.83%	-	-	-	-	-	-
Investment securities:									
Taxable	19,706,949	1,356,630	6.88%	18,573,453	1,163,116	6.26%	16,607,049	1,051,887	6.33%
Non-taxable	14,562,470	752,648	5.17%	16,219,209	808,336	4.98%	13,976,265	704,153	5.04%
Federal funds sold	6,325,574	404,551	6.40%	5,561,260	294,214	5.28%	6,201,576	340,869	5.50%
Loans (including loan fees)	112,270,626	11,518,428	10.26%	86,926,333	8,379,754	9.65%	76,117,421	7,676,432	10.09%
Total interest-earning assets	152,941,849	14,037,463	9.18%	127,280,255	10,645,420	8.37%	112,902,311	9,773,341	8.66%
Allowance for loan losses	(1,596,322)			(1,424,606)			(1,371,765)		
Cash and due from banks	4,332,515			5,324,326			3,516,984		
Other assets	5,092,932			4,188,340			3,912,157		
Total assets	<u>\$160,770,974</u>			<u>\$135,368,315</u>			<u>\$118,959,687</u>		
Liabilities and stockholders' equity:									
Interest-bearing liabilities:									
Deposits:									
Interest-bearing demand	35,981,339	1,180,610	3.28%	35,025,775	1,045,860	2.99%	26,784,495	771,894	2.88%
Savings	9,579,717	195,484	2.04%	9,606,416	192,028	2.00%	8,741,058	203,929	2.33%
Time	74,724,850	4,435,334	5.94%	57,723,166	3,041,875	5.27%	53,995,027	3,043,214	5.64%
Federal Funds Purchased	442,514	29,310	6.62%	136,877	5,295	3.87%	-	-	-
Federal Home Loan Bank Advances	4,715,027	303,995	6.45%						
Securities sold under repurchase agreements	1,161,681	45,593	3.92%	779,715	29,207	3.75%	510,940	20,499	4.01%
Total interest bearing liabilities	126,605,128	6,190,326	4.89%	103,271,949	4,314,265	4.18%	90,031,520	4,039,536	4.49%
Non-interest bearing deposits	19,513,375			18,275,259			15,970,054		
Other liabilities	523,064			599,312			724,339		
Total liabilities	146,641,567			122,146,520			106,725,913		
Stockholders' equity	14,129,407			13,221,795			12,233,774		
Total liabilities and stockholders' equity	<u>\$160,770,974</u>			<u>\$135,368,315</u>			<u>\$118,959,687</u>		
Excess of interest-bearing assets over interest-bearing liabilities	<u>26,336,721</u>			<u>24,008,306</u>			<u>22,870,791</u>		
Ratio of interest-earning assets to interest-bearing liabilities	120.80%			123.25%			125.40%		
Net interest income		7,847,137			6,331,155			5,733,805	
Net interest spread			4.29%			4.19%			4.17%
Net interest yield on interest earning assets			5.13%			4.98%			5.08%

Non-accrual loans and the interest income which was recorded on these loans, if any, are included in the yield calculation for loans in all periods reported. Tax-exempt income is not calculated on a tax-equivalent basis. Loan fees of \$637,275, \$433,240, and \$334,383 are included in the yields for 2000, 1999, and 1998, respectively.

**Table 2**  
**Volume-Rate Analysis**

The following tables show a summary of the changes in interest income and interest expense resulting from changes in volume and changes in rates for each major category of interest earning assets and interest-bearing liabilities for 2000 over 1999 and 1999 over 1998.

	<u>2000 over 1999</u>		
	<u>Increase (decrease) due to changes in:</u>		
	<u>Volume</u>	<u>Rate</u>	<u>Total</u>
Interest income on:			
Investment securities			
Interest-earning deposits	5,206	--	5,206
Taxable	106,885	86,629	193,514
Non-taxable	(85,627)	29,939	(55,688)
Federal funds sold	48,822	61,515	110,337
Loans (including loan fees)	<u>2,598,431</u>	<u>540,243</u>	<u>3,138,674</u>
Total interest earning assets	<u>2,673,717</u>	<u>718,326</u>	<u>3,392,043</u>
Interest expense on:			
Deposits:			
Interest bearing demand	68,505	66,245	134,750
Savings	(544)	4,000	3,456
Time	1,050,886	342,573	1,393,459
Securities sold under repurchase agreements	8,027	8,359	16,386
Federal funds purchased	20,244	3,771	24,015
Federal Home Loan Bank Advances	<u>303,995</u>	<u>--</u>	<u>303,995</u>
Total interest bearing liabilities	<u>1,451,113</u>	<u>424,948</u>	<u>1,876,061</u>

Note: Rate/volume variances were allocated between rate variances and volume variances using a weighted average allocation method.

**Table 2**  
**Volume-Rate Analysis (continued)**

	<b><u>1999 over 1998</u></b>		
	<b><u>Increase (decrease) due to changes in:</u></b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
Interest income on:			
Investment securities			
Taxable	131,505	(20,276)	111,229
Non-taxable	113,687	(9,504)	104,183
Federal funds sold	(32,945)	(13,710)	(46,655)
Loans (including loan fees)	<u>1,050,369</u>	<u>(347,047)</u>	<u>703,322</u>
Total interest earning assets	<u>1,262,616</u>	<u>(390,537)</u>	<u>872,079</u>
Interest expense on:			
Deposits:			
Interest bearing demand	238,076	35,889	273,965
Savings	17,776	(29,677)	(11,901)
Time	203,301	(204,637)	(1,336)
Federal funds purchased	--	5,295	5,295
Securities sold under repurchase agreements	<u>8,708</u>	<u>--</u>	<u>8,708</u>
Total interest bearing liabilities	<u>467,861</u>	<u>(193,130)</u>	<u>274,731</u>

Note: Rate/volume variances were allocated between rate variances and volume variances using a weighted average allocation method.

**Table 3**  
**Investment Portfolio**

The following table presents the carrying value of investments by category at December 31, 2000, 1999, and 1998:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>Held to maturity (at amortized cost)</b>			
State, county and municipal	<u>\$ --</u>	<u>\$ --</u>	<u>\$15,303,990</u>
<b>Available for sale</b>			
State, county and municipal	\$ 12,738,644	\$ 16,113,705	\$ --
United States treasuries and agencies	9,448,516	8,248,061	6,291,116
Mortgage-backed	<u>7,870,038</u>	<u>12,895,247</u>	<u>13,764,308</u>
Totals	<u><u>\$ 30,057,198</u></u>	<u><u>\$ 37,257,013</u></u>	<u><u>\$ 20,055,424</u></u>

The following table presents the maturities of all investment securities at carrying value and the weighted average yields for each range of maturities presented.

Maturities at December 31, 2000	<u>United States Treasury and Agencies</u>	<u>Mortgage- Backed Securities</u>	<u>State, County and Municipal</u>	<u>Weighted Average Yields</u>
Within 1 year	--	--	450,256	7.88%
After 1 through 5 years	2,040,367	--	1,802,749	6.90%
After 5 through 10 years	6,573,996	--	1,737,241	7.04%
After 10 years	<u>834,153</u>	<u>7,870,038</u>	<u>8,748,398</u>	<u>6.85%</u>
Totals	<u><u>9,448,516</u></u>	<u><u>7,870,038</u></u>	<u><u>12,738,644</u></u>	

Mortgage backed securities are included in the maturities categories in which they are anticipated to be repaid based on scheduled maturities.

**Table 4**  
**Loan Portfolio**

The following table presents loans by type at the end of the last 5 years.

	2000	1999	1998	1997	1996
Commercial, financial and agricultural	\$ 16,487,028	\$ 12,714,342	\$11,332,765	\$10,570,994	\$ 9,792,533
Real estate - construction	29,663,443	28,310,935	16,925,962	13,824,372	16,836,092
Real estate - mortgage	64,214,266	40,222,371	38,942,845	38,748,388	34,511,657
Consumer	12,976,318	12,082,629	9,578,312	9,129,134	7,680,871
	<u>123,341,055</u>	<u>93,330,277</u>	<u>76,779,884</u>	<u>72,272,888</u>	<u>68,821,153</u>
Less: Allowance for loan losses	<u>(1,807,671)</u>	<u>(1,469,126)</u>	<u>(1,427,420)</u>	<u>(1,362,530)</u>	<u>(1,202,201)</u>
Loans, net	<u><u>\$121,533,384</u></u>	<u><u>\$91,861,151</u></u>	<u><u>\$75,352,464</u></u>	<u><u>\$70,910,358</u></u>	<u><u>\$67,618,952</u></u>

At December 31, 2000, maturities of loans in the indicated classifications were as follows:

<u>Maturity</u>	<u>Commercial, Financial and Agricultural</u>	<u>Real Estate Construction</u>	<u>Total</u>
Within 1 year	\$ 8,666,497	\$25,396,534	\$34,063,031
1 to 5 years	7,564,258	4,266,909	11,831,167
Over 5 years	<u>256,273</u>	<u>--</u>	<u>256,273</u>
Totals	<u><u>\$ 16,487,028</u></u>	<u><u>\$ 29,663,443</u></u>	<u><u>\$46,150,471</u></u>

As of December 31, 2000, the interest terms of loans in the indicated classifications for the indicated maturity ranges are as follows:

	<u>Fixed Interest Rates</u>	<u>Variable Interest Rates</u>	<u>Total</u>
Commercial, financial and agricultural			
1 to 5 years	\$ 6,761,361	\$ 802,897	\$ 7,564,258
Over 5 years	\$ 256,273	--	\$ 256,273
Real estate construction			
1 to 5 years	--	\$4,266,909	\$ 4,266,909
Over 5 years	--	--	--

**Table 4**  
**Loan Portfolio (continued)**

The following summarizes past-due and non-accrual loans, other real estate and repossessions and income that would have been reported on non-accrual loans as of December 31, 2000, 1999, 1998, 1997, and 1996:

	<u>2000</u>	<u>1999</u>	December 31, <u>1998</u>	<u>1997</u>	<u>1996</u>
Other real estate and repossessions	37,265	53,398	40,000	40,000	40,000
Accruing loans 90 days or more past due	586	-	530	-	-
Non-accrual loans	217,919	25,010	30,571	4,000	278,000
Interest on non-accrual loans which would have been reported	7,200	200	1,500	200	19,000

A loan is placed on non-accrual status when, in management's judgment, the collection of interest appears doubtful. As a result of management's ongoing review of the loan portfolio, loans are classified as non-accrual generally when they are past due in principal and interest for more than 90 days or it is otherwise not reasonable to expect collection of principal and interest under the original terms. Exceptions are allowed for 90 day past due loans when such loans are well secured and in process of collection. Generally, payments received on non-accrual loans are applied directly to principal.

**Table 5**  
**Allowance for Loan Losses**

The following table summarizes information concerning the allowance for loan losses:

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
	(Amounts are presented in thousands)				
Balance at beginning of year	\$1,469	\$1,427	\$1,363	\$1,202	\$1,020
Charges-offs:					
Commerce, financial and agricultural	69	29	18	4	83
Installment	<u>29</u>	<u>74</u>	<u>74</u>	<u>30</u>	<u>47</u>
Total charge-offs	<u>98</u>	<u>103</u>	<u>92</u>	<u>34</u>	<u>130</u>
Recoveries:					
Commerce, financial and agricultural	31	17	73	4	5
Installment	<u>19</u>	<u>12</u>	<u>23</u>	<u>25</u>	<u>26</u>
Total recoveries	<u>50</u>	<u>29</u>	<u>96</u>	<u>29</u>	<u>31</u>
Net charge-offs (recoveries)	48	74	(4)	5	99
Provisions charged to operations	<u>387</u>	<u>116</u>	<u>60</u>	<u>166</u>	<u>281</u>
Balance at end of year	<u><u>\$1,808</u></u>	<u><u>\$1,469</u></u>	<u><u>\$1,427</u></u>	<u><u>\$1,363</u></u>	<u><u>\$1,202</u></u>
Ratios of net charge-offs (recoveries) during the period to average loans outstanding during the period	<u><u>.04%</u></u>	<u><u>.09%</u></u>	<u><u>(.01%)</u></u>	<u><u>.01%</u></u>	<u><u>.15%</u></u>

The Company has a dedicated loan review function. All loans \$250,000 or more are reviewed annually and placed into various loan grading categories which assist in developing lists of potential problem loans. These loans are regularly monitored by the loan review function to ensure early identification of deterioration. The formal allowance for loan loss adequacy test is performed at each calendar quarter end. Specific amounts of loss are estimated on problem loans and historical loss percentages are applied to the balance of the portfolio using certain portfolio stratifications. Additionally, the evaluation takes into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions, regulatory examination results, and the existence of loan concentrations.

**Table 6**  
**Deposits**

The average balance of the deposits and the average rates paid on such deposits are summarized for the periods indicated in the following table.

	2000		December 31, 1999		1998	
Deposits:						
Non-interest bearing demand	\$ 19,513,375	-	\$ 18,275,259	-	\$ 15,970,054	-
Interest bearing demand	35,981,339	3.28%	35,025,775	2.99%	26,784,495	2.88%
Savings	9,579,717	2.04%	9,606,416	2.00%	8,741,058	2.33%
Time	74,724,850	5.94%	57,723,166	5.27%	53,995,027	5.64%
	<u>\$139,799,281</u>		<u>\$120,630,616</u>		<u>\$105,490,634</u>	

Maturities of time certificates of deposit of \$100,000 or more outstanding at December 31, 2000 are summarized as follows:

Within 3 months	\$ 4,481,527
After 3 through 6 months	4,985,821
After 6 through 12 months	7,818,151
After 12 months	<u>6,857,769</u>
	<u>\$ 24,143,268</u>

**Table 7**  
**Selected Ratios**

The following table sets out certain ratios of the Company for the years indicated.

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net income to:			
Average stockholders' equity	17.46%	16.66%	16.61%
Average assets	1.53%	1.63%	1.71%
Dividends to net income	40.13%	40.85%	35.43%
Average equity to average assets	8.79%	9.77%	10.28%

**ITEM 7. FINANCIAL STATEMENTS.**

The financial statements and the report of independent accountants are included in this report beginning at page F-1 of this Form 10-KSB.

**ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

During the Bank's two most recent fiscal years, the Bank did not change accountants and had no disagreement with its accountants on any matters of accounting principles or practices or financial statement disclosure.

**PART III**

**ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.**

The information contained under the headings "Information About Nominees For Directors and Executive Officers," and "Compliance with Section 16(a)" in the definitive Proxy Statement to be used in connection with the solicitation of proxies for the Company's annual meeting of shareholders to be held on May 7, 2001 to be filed with the Securities and Exchange Commission ("SEC"), is incorporated herein by reference.

**ITEM 10. EXECUTIVE COMPENSATION.**

The information contained under the heading "Executive Compensation" in the definitive Proxy Statement to be used in connection with the solicitation of proxies for the Bank's annual meeting of shareholders to be held on May 7, 2001, to be filed with the SEC, is incorporated herein by reference.

**ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.**

The information contained under the heading "Beneficial Ownership of Securities and Voting Rights" in the definitive Proxy Statement to be used in connection with the solicitation of proxies for the Company's annual meeting of shareholders to be held on May 7, 2001, to be filed with the SEC, is incorporated herein by reference.

**ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

The information contained under the heading "Certain Relationships and Related Transaction" in the definitive Proxy Statement to be used in connection with the solicitation of proxies for all the Company's annual meeting of shareholders to be held on May 7, 2001, to be filed with the SEC, is incorporated herein by reference.

**ITEM 13. EXHIBITS, LIST AND REPORTS ON FORM 8-K.**

(a) **Financial Statements.**

The following financial statements and notes thereto of the Registrant are located beginning at page F-1 of this Form 10-KSB pursuant to Item 7 of this Report:

1. Report of Independent Certified Public Accountants
2. Balance Sheets - December 31, 2000 and 1999
3. Statements of Earnings  
For the Years Ended December 31, 2000, 1999, and 1998
4. Statements of Changes in Stockholders Equity  
For the Years Ended December 31, 2000, 1999, and 1998
5. Statements of Cash Flows  
For the Years Ended December 31, 2000, 1999, and 1998
6. Notes to Financial Statements

The following exhibits are required to be filed with this Report on 10-KSB by Item 601 of Regulation S-B.

- 3.1 Articles of Incorporation of Oconee Financial Corporation, dated August 27, 1998. (included as Exhibit 3.1 to the Bank's 10-KSB filed with the SEC on March 30, 1999 and incorporated hereby reference).
- 3.2 Bylaws of Oconee Financial Corporation, dated August 27, 1998 (included as Exhibit 3.2 to the Bank's 10-KSB filed with the SEC on March 30, 1999 and incorporated hereby reference).
- 4. See Exhibits 3.1 and 3.2 for provisions of the Articles of Incorporation and Bylaws which define the rights of the holders of Common Stock of the Bank.
- 4.1 Form of Common Stock Certificate (included as Exhibit 4.1 to the Bank's 10-KSB filed with the SEC on March 30, 1999 and incorporated hereby reference).
- 10.1 Oconee State Bank 401 (k) Savings Incentive Plan (included as Exhibit 3 to the Bank's F-1 filed with the FDIC on April 30, 1997 and incorporated hereby reference.)
- 10.2 Oconee State Bank Officer's Cash Incentive Plan (included as Exhibit 3 to the Bank's F-1 filed with the FDIC on April 30, 1997 and incorporated hereby reference.)
- 21. Subsidiaries of Oconee Financial Corporation. (included as Exhibit 21 to the Bank's 10-KSB filed with the SEC on March 30, 1999 and incorporated hereby reference).
- 24. Power of Attorney (included herein on signature page).
- 27.1 Financial Data Schedule

(b) **Reports on Form 8-K.**

The Bank did not file any reports on Form 8-k during the fourth quarter of 2000.

**OCONEE FINANCIAL CORPORATION**  
**Consolidated Financial Statements**  
**December 31, 2000, 1999 and 1998**

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Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998	F-6
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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Directors and Stockholders  
Oconee Financial Corporation:

We have audited the accompanying consolidated balance sheets of Oconee Financial Corporation and subsidiary as of December 31, 2000 and 1999, and the related consolidated statements of earnings, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oconee Financial Corporation and subsidiary as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with generally accepted accounting principles.

*/s/ Porter Keadle Moore, LLP*

PORTER KEADLE MOORE, LLP

Atlanta, Georgia  
February 23, 2001

# OCONEE FINANCIAL CORPORATION

## Consolidated Balance Sheets

December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
<u>Assets</u>		
Cash and due from banks, including reserve requirements of \$1,111,000 and \$1,453,000	\$ 4,992,978	6,437,789
Interest-bearing deposits with banks	100,000	-
Federal funds sold	<u>16,990,000</u>	<u>9,690,000</u>
Cash and cash equivalents	22,082,978	16,127,789
Investment securities available for sale	30,057,198	37,257,013
Other investments	765,429	492,629
Mortgage loans held for sale	2,278,613	1,867,390
Loans, net	121,533,384	91,861,151
Premises and equipment, net	2,218,729	1,625,990
Accrued interest receivable and other assets	<u>2,988,828</u>	<u>2,906,606</u>
	<u>\$ 181,925,159</u>	<u>152,138,568</u>
<u>Liabilities and Stockholders' Equity</u>		
Deposits:		
Demand	\$ 20,064,661	18,735,537
Interest-bearing demand	37,189,965	37,398,067
Savings	7,997,824	11,190,553
Time	<u>85,285,167</u>	<u>69,203,052</u>
Total deposits	150,537,617	136,527,209
Securities sold under repurchase agreements	836,087	865,908
Federal Home Loan Bank advances	13,300,000	-
Accrued interest payable and other liabilities	<u>2,196,120</u>	<u>1,730,832</u>
Total liabilities	<u>166,869,824</u>	<u>139,123,949</u>
Stockholders' equity:		
Common stock, par value \$10, authorized 300,000 shares, issued and outstanding 179,977 in 2000 and 179,994 in 1999	1,799,770	1,799,940
Additional paid-in capital	4,246,832	4,249,160
Retained earnings	9,178,677	7,701,769
Accumulated other comprehensive loss	<u>(169,944)</u>	<u>(736,250)</u>
Total stockholders' equity	<u>15,055,335</u>	<u>13,014,619</u>
	<u>\$ 181,925,159</u>	<u>152,138,568</u>

See accompanying notes to consolidated financial statements.

# OCONEE FINANCIAL CORPORATION

## Consolidated Statements of Earnings

For the Years Ended December 31, 2000, 1999 and 1998

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Interest income:			
Interest and fees on loans	\$ 11,518,428	8,379,754	7,676,432
Interest on federal funds sold	404,551	294,214	340,869
Interest on investment securities:			
U. S. Treasuries	12,256	116,719	204,356
U. S. Government agencies	1,344,374	1,046,094	847,531
State, county and municipal	752,648	808,336	704,153
Interest on interest bearing deposits	<u>5,206</u>	<u>303</u>	<u>-</u>
Total interest income	<u>14,037,463</u>	<u>10,645,420</u>	<u>9,773,341</u>
Interest expense:			
Interest-bearing demand deposits	1,180,610	1,045,860	771,894
Savings deposits	195,484	192,028	203,929
Time deposits	4,435,334	3,041,875	3,043,214
Federal Home Loan Bank advances	303,995	-	-
Other	<u>74,903</u>	<u>34,502</u>	<u>20,499</u>
Total interest expense	<u>6,190,326</u>	<u>4,314,265</u>	<u>4,039,536</u>
Net interest income	7,847,137	6,331,155	5,733,805
Provision for loan losses	<u>386,600</u>	<u>116,000</u>	<u>60,720</u>
Net interest income after provision for loan losses	<u>7,460,537</u>	<u>6,215,155</u>	<u>5,673,085</u>
Other income:			
Service charges	780,368	664,279	659,014
Gain (loss) on sale of securities	(161,867)	9,171	14,250
Mortgage banking income	487,938	327,162	406,033
Miscellaneous	<u>310,208</u>	<u>327,649</u>	<u>203,997</u>
Total other income	<u>1,416,647</u>	<u>1,328,261</u>	<u>1,283,294</u>
Other expenses:			
Salaries and employee benefits	3,205,107	2,663,419	2,418,512
Occupancy	727,866	543,808	516,428
Other operating	<u>1,413,242</u>	<u>1,299,133</u>	<u>1,174,378</u>
Total other expenses	<u>5,346,215</u>	<u>4,506,360</u>	<u>4,109,318</u>
Earnings before income taxes	3,530,969	3,037,056	2,847,061
Income tax expense	<u>1,064,187</u>	<u>833,729</u>	<u>815,167</u>
Net earnings	<u>\$ 2,466,782</u>	<u>2,203,327</u>	<u>2,031,894</u>
Net earnings per share	<u>\$ 13.71</u>	<u>12.24</u>	<u>11.29</u>
Weighted average shares outstanding	<u>179,977</u>	<u>179,998</u>	<u>180,000</u>

See accompanying notes to consolidated financial statements.

**OCONEE FINANCIAL CORPORATION**

**Consolidated Statements of Comprehensive Income**

**For the Years Ended December 31, 2000, 1999 and 1998**

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net earnings	\$ <u>2,466,782</u>	<u>2,203,327</u>	<u>2,031,894</u>
Other comprehensive income, net of income taxes:			
Unrealized gains on securities available for sale:			
Holding gains (losses) arising during period,			
net of tax of \$285,057, \$(477,457) and \$(3,515)	465,884	(780,332)	(5,744)
Reclassification adjustment for losses (gains) included in net			
earnings, net of tax of \$61,445, \$(3,481) and \$(5,410)	<u>100,422</u>	<u>(5,690)</u>	<u>(8,840)</u>
Total other comprehensive income (loss)	<u>566,306</u>	<u>(786,022)</u>	<u>(14,584)</u>
Comprehensive income	\$ <u>3,033,088</u>	<u>1,417,305</u>	<u>2,017,310</u>

See accompanying notes to consolidated financial statements.

# OCONEE FINANCIAL CORPORATION

## Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2000, 1999 and 1998

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance, December 31, 1997	\$ 1,800,000	4,250,000	5,086,518	64,356	11,200,874
Cash dividends declared (\$4.00) per share	-	-	(720,000)	-	(720,000)
Net earnings	-	-	2,031,894	-	2,031,894
Change in net unrealized gain (loss) on investment securities available for sale, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	(14,584)	<u>(14,584)</u>
Balance, December 31, 1998	1,800,000	4,250,000	6,398,412	49,772	12,498,184
January 1, 1999 conversion of 1 share of Oconee State Bank stock for 1 share of Oconee Financial Corporation stock	-	-	-	-	-
Purchase and retirement of common stock	(60)	(840)	-	-	(900)
Cash dividends declared (\$5.00) per share	-	-	(899,970)	-	(899,970)
Change in net unrealized gain (loss) on investment securities available for sale, net of tax	-	-	-	(786,022)	(786,022)
Net earnings	<u>-</u>	<u>-</u>	<u>2,203,327</u>	<u>-</u>	<u>2,203,327</u>
Balance, December 31, 1999	1,799,940	4,249,160	7,701,769	(736,250)	13,014,619
Purchase and retirement of common stock	(170)	(2,328)	-	-	(2,498)
Cash dividends declared (\$5.50) per share	-	-	(989,874)	-	(989,874)
Net earnings	-	-	2,466,782	-	2,466,782
Change in net unrealized gain (loss) on investment securities available for sale, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>566,306</u>	<u>566,306</u>
Balance, December 31, 2000	\$ <u>1,799,770</u>	<u>4,246,832</u>	<u>9,178,677</u>	<u>(169,944)</u>	<u>15,055,335</u>

See accompanying notes to consolidated financial statements.

# OCONEE FINANCIAL CORPORATION

## Consolidated Statements of Cash Flows

For the Years Ended December 31, 2000, 1999 and 1998

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:			
Net earnings	\$ 2,466,782	2,203,327	2,031,894
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, amortization and accretion	306,446	248,192	214,733
Provision for loan losses	386,600	116,000	60,720
Provision for deferred taxes	(120,110)	(24,203)	(11,509)
Loss (gain) on sale of investment securities	161,867	(9,171)	(14,250)
Loss (gain) on sale of premises and equipment	(1,500)	-	21,428
Change in:			
Accrued interest receivable	(361,304)	(256,152)	(178,321)
Accrued interest payable	248,328	138,876	(33,326)
Other assets	49,951	(56,104)	(14,890)
Other liabilities	127,056	(63,856)	50,353
Mortgage loans held for sale	<u>(411,223)</u>	<u>(32,090)</u>	<u>(1,173,453)</u>
Net cash provided by operating activities	<u>2,852,893</u>	<u>2,264,819</u>	<u>953,379</u>
Cash flows from investing activities:			
Purchase of other investments	(272,800)	(39,800)	(27,000)
Purchase of investment securities available for sale	(2,950,769)	(10,236,926)	(13,590,609)
Purchase of investment securities held to maturity	-	(1,854,069)	(2,602,423)
Proceeds from calls and maturities of investment securities available for sale	2,077,390	4,788,162	7,683,927
Proceeds from calls and maturities of investment securities held to maturity	-	500,000	575,900
Proceeds from sales of investment securities available for sale	8,847,572	3,130,054	2,503,305
Proceeds from sales of investment securities held to maturity	-	505,000	-
Net change in loans	(30,058,833)	(16,624,687)	(4,502,826)
Purchases of premises and equipment	(922,619)	(367,136)	(241,276)
Proceeds from sales of premises and equipment	1,500	-	-
Proceeds from sales of other real estate	<u>2,736</u>	<u>-</u>	<u>-</u>
Net cash used by investing activities	<u>(23,275,823)</u>	<u>(20,199,402)</u>	<u>(10,201,002)</u>
Cash flows from financing activities:			
Net change in deposits	14,010,408	20,407,021	11,530,281
Net change in securities sold under repurchase agreements	(29,821)	307,739	199,333
Net change in Federal Home Loan Bank advances	13,300,000	-	-
Dividends paid	(899,970)	(720,000)	(594,000)
Purchase and retirement of stock	<u>(2,498)</u>	<u>(900)</u>	<u>-</u>
Net cash provided by financing activities	<u>26,378,119</u>	<u>19,993,860</u>	<u>11,135,614</u>
Net increase in cash and cash equivalents	5,955,189	2,059,277	1,887,991
Cash and cash equivalents at beginning of year	<u>16,127,789</u>	<u>14,068,512</u>	<u>12,180,521</u>
Cash and cash equivalents at end of year	\$ <u>22,082,978</u>	<u>16,127,789</u>	<u>14,068,512</u>

# OCONEE FINANCIAL CORPORATION

## Consolidated Statements of Cash Flows, continued

For the Years Ended December 31, 2000, 1999 and 1998

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 5,941,998	4,175,389	4,072,862
Income taxes	\$ 869,000	629,000	773,000
Noncash investing and financing activities:			
Change in net unrealized loss on investment securities available for sale, net of tax	\$ 566,306	786,022	(14,584)
Change in dividends payable	\$ 89,904	179,970	126,000
Transfer of investment securities held to maturity to available for sale	\$ -	16,159,794	-

See accompanying notes to consolidated financial statements.

# OCONEE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

### (1) Summary of Significant Accounting Policies

#### Organization

Oconee Financial Corporation (“OFC”) received regulatory approval to operate as a bank holding company on October 13, 1998, and began operations effective January 1, 1999. OFC is primarily regulated by the Federal Reserve Bank, and serves as the one-bank holding company for Oconee State Bank.

Oconee State Bank (the “Bank”) commenced business in 1960 upon receipt of its banking charter from the Georgia Department of Banking and Finance (the “DBF”). The Bank is primarily regulated by the DBF and the Federal Deposit Insurance Corporation and undergoes periodic examinations by these regulatory agencies. The Bank provides a full range of commercial and consumer banking services primarily in Oconee and Clarke counties in Georgia.

#### Principles of Consolidation

The consolidated financial statements include the financial statements of Oconee Financial Corporation and its wholly owned subsidiary, Oconee State Bank (collectively called the “Company”). All significant intercompany balances and transactions have been eliminated in consolidation for 2000 and 1999.

#### Basis of Presentation

The accounting principles followed by the Company, and the methods of applying these principles, conform with generally accepted accounting principles (“GAAP”) and with general practices in the banking industry. In preparing the financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from these estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses and valuation of real estate acquired in connection with or in lieu of foreclosure on loans.

#### Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits with banks and federal funds sold.

#### Investment Securities

The Company classifies its securities in one of three categories: trading, available for sale, or held to maturity. Trading securities are bought and held principally for sale in the near term. Held to maturity securities are those securities for which the Company has the ability and intent to hold the security until maturity. All other securities not included in trading or held to maturity are classified as available for sale.

Available for sale securities are recorded at fair value. Held to maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses, net of the related tax effect, on securities available for sale are excluded from earnings and are reported as a separate component of stockholders’ equity until realized. Transfers of securities between categories are recorded at fair value at the date of transfer. Unrealized holding gains or losses associated with transfers of securities from held to maturity to available for sale are recorded as a separate component of stockholders’ equity. The unrealized holding gains or losses included in the separate component of stockholders’ equity for securities transferred from available for sale to held to maturity are maintained and amortized into income over the remaining life of the security as an adjustment to the yield in a manner consistent with the amortization or accretion of premium or discount on the associated security.

A decline in the market value of any available for sale or held to maturity security below cost that is deemed other than temporary is charged to earnings and establishes a new cost basis for the security.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to the yield. Realized gains and losses for securities classified as available for sale and held to maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

# OCONEE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements, continued

### (1) Summary of Significant Accounting Policies, continued

#### Other Investments

Other investments include Federal Home Loan Bank stock and other equity securities with no readily determinable fair value. These investment securities are carried at cost.

#### Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of aggregate cost or market value. At December 31, 2000 and 1999, the cost of mortgage loans held for sale approximates the market value.

#### Loans and Allowance for Loan Losses

Loans are stated at the principal amount outstanding, net of the allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is impaired when, based on current information and events, it is probable that all amounts due according to the contractual terms of the loan will not be collected.

Accrual of interest is discontinued on a loan when management believes, after considering economic conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Interest previously accrued but not collected is reversed against current period earnings when such loans are placed on non-accrual status.

The allowance for loan losses is established through a provision for loan losses charged to earnings. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance represents an amount which, in management's judgment, will be adequate to absorb probable losses on existing loans that may become uncollectible.

Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions that may affect the borrower's ability to pay, overall portfolio quality and review of specific problem loans. In determining the adequacy of the allowance for loan losses, management uses a loan grading system that rates loans in seven different categories. Grades four through seven are assigned allocations of loss based on standard regulatory loss percentages. All other loans are assigned loss allocations based on historical credit loss percentages. The combination of these results are compared quarterly to the recorded allowance for loan losses. Management uses an external loan review program to challenge and corroborate the internal grading system and provide additional analysis in determining the adequacy of the allowance and the future provisions for estimated loan losses.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on judgments different than those of management.

#### Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is reflected in earnings for the period. The cost of maintenance and repairs which do not improve or extend the useful life of the respective asset is charged to income as incurred, whereas significant renewals and improvements are capitalized. The range of estimated useful lives for premises and equipment are generally as follows:

Buildings and improvements	5 - 40 years
Furniture and equipment	3 - 10 years

## OCONEE FINANCIAL CORPORATION

### Notes to Consolidated Financial Statements, continued

#### (1) Summary of Significant Accounting Policies, continued

##### Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements are treated as financing activities, and are carried at the amounts at which the securities will be repurchased as specified in the respective agreements.

##### Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Additionally, the recognition of future tax benefits, such as net operating loss carryforwards, is required to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the Company's assets and liabilities result in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such assets is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realizability of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies.

##### Profit Sharing Plan

The Company has a contributory profit sharing plan which is available to substantially all employees subject to certain age and service requirements. Contributions to the plan are determined annually by the Board of Directors. The total contribution by the Company for 2000, 1999 and 1998 was approximately \$180,900, \$127,100 and \$203,200, respectively.

##### Mortgage Banking Income

Mortgage banking income represents net gains from the sale of mortgage loans and fees received from borrowers and loan investors related to the Bank's origination of single-family residential mortgage loans.

##### Net Earnings Per Common Share

Earnings per common share are based on the weighted average number of common shares outstanding during the period while the effects of potential common shares outstanding during the period are included in diluted earnings per share. The Company had no potential common shares outstanding during 2000, 1999 and 1998.

##### Reclassification

Reclassifications of certain amounts in the 1999 and 1998 financial statements have been made to conform with the financial statement presentation for 2000. The reclassifications have no effect on net earnings or shareholders' equity as previously reported.

##### Derivative Instruments and Hedging Activities

Effective July 1, 1999, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), which establishes accounting and reporting standards for hedging activities and for derivative instruments including derivative instruments embedded in other contracts. It requires the fair value recognition of derivatives as assets or liabilities in the financial statements. At the date of initial application, an entity may transfer any held to maturity security into the available for sale or trading categories without calling into question the entity's intent to hold other securities to maturity in the future. In 1999, the Company transferred all held to maturity investment securities to available for sale under this provision of SFAS No. 133. The held to maturity securities had amortized costs of approximately \$16,160,000 and net unrealized loss of approximately \$41,000. The result of the transfer was to decrease stockholders' equity by approximately \$22,000, which represented the net of tax effect of the unrealized losses associated with the held to maturity investments transferred.

# OCONEE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements, continued

### (2) Corporate Reorganization

Effective January 1, 1999, the Bank completed the process of converting to the holding company form of operation. Oconee Financial Corporation has become the parent of the Bank. OFC is a Georgia, one-bank holding company, headquartered in Watkinsville, Georgia.

The Bank's shareholders approved the holding company reorganization on December 15, 1998. Regulatory approval was received on October 13, 1998. The holding company conversion was completed successfully on January 1, 1999. As a result of the conversion, each share of Bank \$10 par value common stock was converted into one share of OFC \$10 par value stock. OFC is now the sole shareholder of the Bank.

### (3) Investment Securities

Investment securities available for sale at December 31, 2000 and 1999 are as follows:

	December 31, 2000			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasuries and Government agencies	\$ 9,543,711	34,544	129,739	9,448,516
State, county and municipal	12,739,772	128,240	129,368	12,738,644
Mortgage-backed securities	<u>8,047,641</u>	<u>-</u>	<u>177,603</u>	<u>7,870,038</u>
Total	\$ <u>30,331,124</u>	<u>162,784</u>	<u>436,710</u>	<u>30,057,198</u>

	December 31, 1999			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasuries and Government agencies	\$ 8,377,169	35,759	164,867	8,248,061
State, county and municipal	16,698,398	48,493	633,186	16,113,705
Mortgage-backed securities	<u>13,368,181</u>	<u>2,665</u>	<u>475,599</u>	<u>12,895,247</u>
Total	\$ <u>38,443,748</u>	<u>86,917</u>	<u>1,273,652</u>	<u>37,257,013</u>

The amortized cost and fair value of investment securities available for sale at December 31, 2000, 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	\$ 449,909	450,256
Due from one to five years	3,834,877	3,843,116
Due from five to ten years	8,364,554	8,311,237
Due after ten years	9,634,143	9,582,551
Mortgage-backed securities	<u>8,047,641</u>	<u>7,870,038</u>
	\$ <u>30,331,124</u>	<u>30,057,198</u>

Proceeds from sales of securities available for sale during 2000 were \$8,847,572. Gross gains of \$2,861 along with gross losses of \$164,728 were realized on 2000 sales. Proceeds from sales of securities available for sale during 1999 were \$3,130,054. Gross gains of \$7,895 and gross losses of \$7,546 were realized on 1999 sales. Proceeds from sales of securities available for sale during 1998 were \$2,503,305. Gross gains of \$14,695 and gross losses of \$445 were realized on 1998 sales.

# OCONEE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements, continued

### (3) Investment Securities, continued

During 1999, the Company determined that a municipal bond classified as held to maturity was deemed an unacceptable investment security for banks by the DBF. The bond was sold during 1999 for \$505,000. A gain of \$8,822 was realized on the sale.

Securities with a carrying value of approximately \$16,817,000 and \$14,747,000 at December 31, 2000 and 1999, respectively, were pledged to secure public deposits and for other purposes as required by law.

### (4) Loans

Major classifications of loans at December 31, 2000 and 1999 are summarized as follows:

	<u>2000</u>	<u>1999</u>
Commercial, financial and agricultural	\$ 16,487,028	12,714,342
Real estate - mortgage	64,214,266	40,222,371
Real estate - construction	29,663,443	28,310,935
Consumer	<u>12,976,318</u>	<u>12,082,629</u>
Total loans	123,341,055	93,330,277
Less allowance for loan losses	<u>1,807,671</u>	<u>1,469,126</u>
Total net loans	\$ <u>121,533,384</u>	<u>91,861,151</u>

The Bank grants loans and extensions of credit primarily to individuals and a variety of firms and corporations located in certain Georgia counties including Oconee and Clarke. 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.

Changes in the allowance for loan losses were as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Balance at beginning of year	\$ 1,469,126	1,427,420	1,362,530
Amounts charged off	(97,676)	(102,981)	(91,925)
Recoveries on amounts previously charged off	49,621	28,687	96,095
Provision for loan losses	<u>386,600</u>	<u>116,000</u>	<u>60,720</u>
Balance at end of year	\$ <u>1,807,671</u>	<u>1,469,126</u>	<u>1,427,420</u>

### (5) Premises and Equipment

Major classifications of premises and equipment are summarized as follows:

	<u>2000</u>	<u>1999</u>
Land	\$ 459,929	459,929
Buildings and improvements	1,796,481	1,721,021
Furniture and equipment	<u>2,321,947</u>	<u>1,502,881</u>
	4,578,357	3,683,831
Less accumulated depreciation	<u>2,359,628</u>	<u>2,057,841</u>
	\$ <u>2,218,729</u>	<u>1,625,990</u>

Depreciation expense was \$329,780, \$235,802 and \$222,525 for the years ended December 31, 2000, 1999 and 1998, respectively.

# OCONEE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements, continued

### (6) Deposits

The aggregate amounts of certificates of deposit, each with a minimum denomination of \$100,000, were approximately \$24,143,000 and \$10,182,000 at December 31, 2000 and 1999, respectively.

At December 31, 2000, the scheduled maturities of certificates of deposits are as follows:

2001	\$ 63,378,709
2002	19,969,338
2003	826,902
2004	520,003
2005 and thereafter	<u>590,215</u>
	<u>\$ 85,285,167</u>

### (7) Income Taxes

The components of income tax expense in the statements of earnings are as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Current	\$ 1,184,297	857,932	826,676
Deferred	<u>(120,110)</u>	<u>(24,203)</u>	<u>(11,509)</u>
Total income tax expense	<u>\$ 1,064,187</u>	<u>833,729</u>	<u>815,167</u>

The differences between income tax expense and the amount computed by applying the statutory federal income tax rate to earnings before income taxes are as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Pretax income at statutory rates	\$ 1,200,529	1,032,599	968,000
Add (deduct):			
Tax exempt interest income	(258,405)	(279,293)	(243,794)
Non-deductible interest expense	38,178	34,719	37,162
State taxes, net of federal effect	78,896	69,836	56,488
Other	<u>4,989</u>	<u>(24,132)</u>	<u>(2,689)</u>
	<u>\$ 1,064,187</u>	<u>833,729</u>	<u>815,167</u>

The following summarizes the sources and expected tax consequences of future taxable deductions (income) which comprise the net deferred tax asset. The net deferred tax asset is a component of other assets at December 31, 2000 and 1999.

	<u>2000</u>	<u>1999</u>
Deferred income tax assets:		
Allowance for loan losses	\$ 599,990	471,478
Other real estate	25,952	25,952
Unrealized losses on investment securities available for sale	103,982	450,484
Other	<u>7,544</u>	<u>13,283</u>
Total gross deferred income tax assets	737,468	961,197
Deferred income tax liabilities, consisting of		
premises and equipment	<u>(47,436)</u>	<u>(44,773)</u>
Net deferred income tax asset	<u>\$ 690,032</u>	<u>916,424</u>

# OCONEE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements, continued

### (8) Federal Home Loan Bank Advances

The Bank has an agreement with the Federal Home Loan Bank ("FHLB") whereby the FHLB agreed to provide the Bank credit facilities under an Agreement for Advances and Security Agreement. Any amounts advanced by the FHLB are secured under a blanket floating lien on all of the Bank's 1-4 family first mortgage loans. The Bank may draw advances up to 75% of the outstanding balance of these loans based on the agreement with the FHLB. At December 31, 2000, the Bank had one advance outstanding in the amount of \$13,300,000, which matures in August 2003, and calls for interest to be paid quarterly at a fixed rate of 6.34%. The Bank had no advances from the FHLB at December 31, 1999.

### (9) Related Party Transactions

The Company conducts transactions with directors and executive officers, including companies in which they have beneficial interests, in the normal course of business. It is the policy of the Company that loan transactions with directors and officers be made on substantially the same terms as those prevailing at the time made for comparable loans to other persons. The following is a summary of activity for related party loans for 2000:

Beginning balance	\$ 2,503,000
New loans	5,522,000
Repayments	(4,014,000)
Ending balance	\$ <u>4,011,000</u>

Deposits with related parties totaled approximately \$5,710,000 and \$5,142,000 as of December 31, 2000 and 1999, respectively.

### (10) Commitments

The Company is a 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. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

In most cases, the Company does require collateral or other security to support financial instruments with credit risk.

	<u>Contractual Amount</u>	
	<u>2000</u>	<u>1999</u>
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 25,237,000	18,516,000
Standby letters of credit and financial guarantees written	\$ 736,000	609,000

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 or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation. Collateral held varies but may include unimproved and improved real estate, certificates of deposit, or personal property.

# OCONEE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements, continued

### (10) Commitments, continued

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. Those guarantees are primarily issued to businesses in the Company's delineated trade area. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds real estate, equipment, automobiles and customer deposits as collateral supporting those commitments for which collateral is deemed necessary.

### (11) Regulatory Matters

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2000, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2000, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The capital ratios for the Company are essentially the same as those of the Bank. Therefore, only the Bank's capital ratios are presented in the following table (in thousands):

	<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>
<b>As of December 31, 2000:</b>						
Total Capital						
(to Risk-Weighted Assets)	\$ 16,682	12.7%	\$ 10,535	8.0%	\$ 13,169	10.0%
Tier 1 Capital						
(to Risk-Weighted Assets)	\$ 15,036	11.4%	\$ 5,268	4.0%	\$ 7,901	6.0%
Tier 1 Capital						
(to Average Assets)	\$ 15,036	8.6%	\$ 7,015	4.0%	\$ 8,769	5.0%
<b>As of December 31, 1999</b>						
Total Capital						
(to Risk-Weighted Assets)	\$ 14,966	14.6%	\$ 8,226	8.0%	\$ 10,283	10.0%
Tier 1 Capital						
(to Risk-Weighted Assets)	\$ 13,678	13.3%	\$ 4,113	4.0%	\$ 6,170	6.0%
Tier 1 Capital						
(to Average Assets)	\$ 13,678	9.2%	\$ 5,962	4.0%	\$ 7,452	5.0%

## OCONEE FINANCIAL CORPORATION

### Notes to Consolidated Financial Statements, continued

#### (12) Dividend Limitations

Dividends paid by the Bank are the primary source of funds available to the Company for payment of dividends to its shareholders and for other working capital needs. Banking regulations limit the amount of dividends that may be paid without prior approval of the regulatory authorities. These restrictions are based on the level of regulatory classified assets, the prior year's net earnings, and the ratio of equity capital to total assets. Approximately \$1,240,000 is available for payment of dividends from the Bank to the Company in 2001.

#### (13) Fair Value of Financial Instruments

The Company is required to disclose fair value information about financial instruments, whether or not recognized on the face of the balance sheet, for which it is practicable to estimate that value. The assumptions used in the estimation of the fair value of the Company's financial instruments are detailed below. Where quoted prices are not available, fair values are based on estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following disclosures should not be considered a surrogate of the liquidation value of the Company, but rather a good faith estimate of the increase or decrease in value of financial instruments held by the Company since purchase, origination, or issuance.

##### Cash and Cash Equivalents

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

##### Investment Securities

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

##### Other Investments

The carrying amount of other investments 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.

##### 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.

##### FHLB Advances

The fair value of FHLB advances is estimated based upon discounted future cash flows using a discount rate comparable to the current market rate for such borrowings.

##### Commitments to Extend Credit and Standby Letters of Credit

Because commitments to extend credit and standby letters of credit are made using variable rates, the contract value is a reasonable estimate of fair value.

##### Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

# OCONEE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements, continued

### (13) Fair Value of Financial Instruments, continued

#### Limitations, continued

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include the deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

The carrying amount and estimated fair values of the Company's financial instruments at December 31, 2000 and 1999 are as follows:

	<u>2000</u>		<u>1999</u>	
	<u>Carrying</u>	<u>Estimated</u>	<u>Carrying</u>	<u>Estimated</u>
	<u>Amount</u>	<u>Fair Value</u>	<u>Amount</u>	<u>Fair Value</u>
	<i>(In thousands)</i>		<i>(In thousands)</i>	
Assets:				
Cash and cash equivalents	\$ 22,083	22,083	16,128	16,128
Investment securities available for sale	\$ 30,057	30,057	37,257	37,257
Loans and mortgage loans held for sale	\$ 123,812	122,497	93,729	95,232
Other investments	\$ 765	765	493	493
Liabilities:				
Deposits and securities sold under repurchase agreement	\$ 151,374	151,507	137,393	137,409
FHLB Advances	\$ 13,300	13,503	-	-
Unrecognized financial instruments:				
Commitments to extend credit	\$ 25,237	25,237	18,516	18,516
Standby letters of credit	\$ 736	736	609	609

### (14) Other Operating Expenses

Components of other operating expenses which are greater than 1% of interest income and other income are as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Postage expense	\$ 138,217	130,345	118,154

### (15) Oconee Financial Corporation (Parent Company Only) Financial Information

#### Balance Sheets

December 31, 2000 and 1999

#### Assets

	<u>2000</u>	<u>1999</u>
Cash	\$ 1,174,375	970,959
Investment in subsidiary	14,866,161	12,941,972
Other assets	<u>7,544</u>	<u>10,959</u>
	<u>\$ 16,048,080</u>	<u>13,923,890</u>

#### Liabilities and Stockholders' Equity

Other liabilities	\$ 992,745	909,271
Stockholders' equity	<u>15,055,335</u>	<u>13,014,619</u>
	<u>\$ 16,048,080</u>	<u>13,923,890</u>

# OCONEE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements, continued

### (15) Oconee Financial Corporation (Parent Company Only) Financial Information, continued

#### Statement of Earnings

For the Years Ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Dividends from subsidiary	\$ 1,122,878	1,015,947
Other expenses	<u>22,533</u>	<u>68,392</u>
Earnings before income taxes and equity in undistributed earnings of subsidiary	1,100,345	947,555
Income tax benefit	<u>8,554</u>	<u>25,962</u>
Earnings before equity in undistributed earnings of subsidiary	1,108,899	973,517
Equity in undistributed earnings of subsidiary	<u>1,357,883</u>	<u>1,229,810</u>
Net earnings	\$ <u>2,466,782</u>	<u>2,203,327</u>

#### Statement of Cash Flows

For the Years Ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Net earnings	\$ 2,466,782	2,203,327
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary	(1,357,883)	(1,229,810)
Change in:		
Other assets	3,415	(10,959)
Other liabilities	<u>(6,430)</u>	<u>9,301</u>
Net cash provided by operating activities	<u>1,105,884</u>	<u>971,859</u>
Cash flows from financing activities:		
Dividends paid	(899,970)	-
Purchase and retirement of common stock	<u>(2,498)</u>	<u>(900)</u>
Net cash used by financing activities	<u>(902,468)</u>	<u>(900)</u>
Change in cash	203,416	970,959
Cash at beginning of year	<u>970,959</u>	<u>-</u>
Cash at end of year	\$ <u>1,174,375</u>	<u>970,959</u>
Supplemental disclosure of cash flow information:		
Noncash investing activities:		
Change in unrealized gain on securities available for sale	\$ 566,306	786,022
Change in dividends payable	\$ 89,904	899,970

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Watkinsville, State of Georgia, on the 28th of March, 2001.

### OCONEE STATE BANK (Registrant)

By: /s/ B. Amrey Harden  
B. Amrey Harden  
Title: President

## POWER OF ATTORNEY AND SIGNATURES

KNOW ALL MEN BY THESE PRESENTS that each person whose signature appears below constitutes and appoints B. Amrey Harden or Douglas D. Dickens and either of them (with full power in each to act alone), as true and lawful attorneys-in-fact, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any amendments to this Report on Form 10-KSB and to file the same, with all exhibits thereto and other documents in connection therewith, with the SEC, hereby ratifying and confirming all that said attorney-in-fact, or their substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1934, this Report on Form 10-KSB has been signed by the following persons in the capacities indicated on the 28th day of March 2001.

**Signature****Title**/s/ G. Robert Bishop

G. Robert Bishop

Director

/s/ Jimmy L. Christopher

Jimmy L. Christopher

Director

/s/ Douglas D. Dickens

Douglas D. Dickens

Chairman of the Board of Directors

/s/ Walter T. Evans, Sr.

Walter T. Evans, Sr.

Director

/s/ John A. Hale

John A. Hale

Vice Chairman of the Board, Director

/s/ B. Amrey Harden

B. Amrey Harden

President and Chief Executive Officer, Director

/s/ Donald L. Jesweak

Donald L. Jesweak

Senior Vice President and Senior Lending Officer

/s/ Henry C. Maxey

Henry C. Maxey

Director

/s/ Carl R. Nichols

Carl R. Nichols

Director

/s/ Ann Breedlove Powers

Ann Breedlove Powers

Director

/s/ Jerry K. Wages

Jerry K. Wages

Executive Vice President and Chief Financial  
Officer, Corporate Secretary, and Director/s/ Virginia S. Wells

Virginia S. Wells

Director