Hamilton Bancorp, Inc.
Form 10-Q
February 14, 2017
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2016

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _______________ to _______________

Commission File No. 001-35693

Hamilton Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**46-0543309**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
501 Fairmount Avenue, Suite 200, Towson, Maryland	**21286**
(Address of Principal Executive Offices)	Zip Code

(410) 823-4510

(Registrant's telephone number)

N/A

(Former name or former address, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days.

YES [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES [X] NO [ ]

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if smaller reporting company)	Smaller reporting company [X]

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

YES [ ] NO [X]

3,409,243 shares of the Registrant's common stock, par value $0.01 per share, were issued and outstanding as of February 14, 2017.

Table of Contents

Hamilton Bancorp, Inc. and Subsidiaries

Form 10-Q

Index

Table of Contents

Part I. – Financial Information

Item 1. Financial Statements

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

December 31, 2016 and March 31, 2016

	December 31, 2016 (Unaudited)	March 31, 2016 **(Audited)**
Assets		
Assets		
Cash and due from banks	**$15,703,886**	$47,101,688
Federal funds sold	**2,611,864**	20,346,848
Cash and cash equivalents	**18,315,750**	67,448,536
Certificates of deposit held as investment	**499,303**	3,968,229
Securities available for sale, at fair value	**106,754,363**	70,484,400
Federal Home Loan Bank stock, at cost	**1,640,100**	1,042,500
Loans held for sale	**-**	259,450
Loans	**331,398,269**	221,859,056
Allowance for loan losses	**(2,063,569)**	(1,702,365)
Net loans and leases	**329,334,700**	220,156,691
Premises and equipment, net	**4,228,766**	3,555,474
Premises and equipment held for sale	**-**	405,000
Foreclosed real estate	**460,220**	443,015
Accrued interest receivable	**1,481,388**	948,166
Bank-owned life insurance	**18,132,876**	12,709,908
Deferred income taxes	**7,408,268**	2,353,141
Income taxes refundable	**-**	228,920
Goodwill and other intangible assets	**9,393,243**	7,386,111
Other assets	**2,186,102**	1,527,014
Total Assets	**$499,835,079**	$392,916,555
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	**$22,397,875**	$19,747,437
Interest-bearing deposits	**385,927,067**	294,246,214
Total deposits	**408,324,942**	313,993,651
Borrowings	**26,194,142**	14,805,237

Advances by borrowers for taxes and insurance	**1,112,278**	1,079,794
Other liabilities	**3,529,827**	1,493,290
Total liabilities	**439,161,189**	331,371,972
Commitments and contingencies	**-**	-
Shareholders' Equity		
Common stock, $.01 par value, 100,000,000 shares authorized. Issued: 3,413,646 shares at December 31, 2016 and March 31, 2016	**34,136**	34,136
Additional paid in capital	**31,631,868**	31,242,731
Retained earnings	**32,707,101**	32,659,455
Unearned ESOP shares	**(2,221,800)**	(2,369,920)
Accumulated other comprehensive loss	**(1,477,415)**	(21,819)
Total shareholders' equity	**60,673,890**	61,544,583
Total Liabilities and Shareholders' Equity	**$499,835,079**	$392,916,555

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations (Unaudited)

Three and Nine Months Ended December 31, 2016 and 2015

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	**2016**	2015
Interest revenue				
Loans, including fees	**$3,878,223**	$2,805,851	**$11,026,020**	$6,906,069
U.S. treasuries, government agencies and FHLB stock	**33,022**	91,940	**182,130**	276,415
Municipal and corporate bonds	**107,564**	31,722	**226,230**	94,145
Mortgage-backed securities	**310,709**	272,751	**829,437**	848,181
Federal funds sold and other bank deposits	**28,065**	18,005	**147,504**	31,650
Total interest revenue	**4,357,583**	3,220,269	**12,411,321**	8,156,460
Interest expense				
Deposits	**673,348**	458,024	**1,959,630**	1,241,457
Borrowed funds	**74,336**	38,191	**192,977**	64,487
Total interest expense	**747,684**	496,215	**2,152,607**	1,305,944
Net interest income	**3,609,899**	2,724,054	**10,258,714**	6,850,516
Provision for loan losses	**780,000**	70,000	**1,040,006**	190,000
Net interest income after provision for loan losses	**2,829,899**	2,654,054	**9,218,708**	6,660,516
Noninterest revenue				
Service charges	**104,882**	102,979	**319,489**	304,951
Gain on sale of investment securities	**23,720**	20,497	**23,720**	42,212
Gain on sale of loans held for sale	**1,438**	7,826	**23,047**	43,395
(Loss) gain on sale of property and equipment	**(11,043)**	-	**(11,043)**	407,188
Earnings on bank-owned life insurance	**126,302**	87,616	**364,928**	264,062
Other	**42,784**	14,675	**119,937**	49,194
Total noninterest revenue	**288,083**	233,593	**840,078**	1,111,002
Noninterest expenses				
Salaries	**1,354,327**	1,102,598	**4,092,481**	3,018,168
Employee benefits	**359,987**	293,260	**1,056,741**	809,583
Occupancy	**234,310**	195,155	**709,081**	548,817
Advertising	**16,305**	43,295	**91,635**	89,109
Furniture and equipment	**93,058**	85,077	**290,818**	237,752
Data processing	**206,596**	154,977	**583,407**	439,989
Legal services	**47,831**	52,100	**161,278**	110,091
Other professional services	**284,979**	131,353	**808,309**	291,260

Merger related expenses	**-**	196,645	**219,417**	828,225
Branch consolidation expense	**-**	-	**437,424**	-
Deposit insurance premiums	**63,571**	63,105	**251,759**	151,970
Foreclosed real estate expense and losses (gains)	**(1,578)**	3,270	**6,530**	17,157
Other operating	**457,466**	459,817	**1,367,726**	1,114,428
Total noninterest expenses	**3,116,852**	2,780,652	**10,076,606**	7,656,549
Income (loss) before income taxes	**1,130**	106,995	**(17,820)**	114,969
Income tax (benefit) expense	**(58,239)**	234,176	**(65,466)**	324,830
Net income (loss)	**$59,369**	$(127,181)	**$47,646**	$(209,861)
Net income (loss) per common share:				
Basic	**$0.02**	$(0.04)	**$0.01**	$(0.07)
Diluted	**$0.02**	$(0.04)	**$0.01**	$(0.07)

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive (Loss) Income (Unaudited)

Three and Nine Months Ended December 31, 2016 and 2015

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	**2015**	**2016**	**2015**
Net income (loss)	**$59,369**	$(127,181)	**$47,646**	$(209,861)
Other comprehensive income:				
Unrealized loss on investment securities available for sale	**(2,467,108)**	(801,265)	**(2,380,040)**	(716,655)
Reclassification adjustment for realized gain on investment securities available for sale included in net income	**(23,720)**	(20,497)	**(23,720)**	(42,212)
Total unrealized loss on investment securities available for sale	**(2,490,828)**	(821,762)	**(2,403,760)**	(758,867)
Income tax benefit relating to investment securities available for sale	**(982,508)**	(324,144)	**(948,164)**	(299,335)
Other comprehensive income (loss)	**(1,508,320)**	(497,618)	**(1,455,596)**	(459,532)
Total comprehensive loss	**$(1,448,951)**	$(624,799)	**$(1,407,950)**	$(669,393)

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Nine Months Ended December 31, 2016 and 2015

	Common stock	Additional paid-in capital	Retained earnings	Unearned ESOP shares	Accumulated other comprehensive loss	Total shareholders' equity
Balance March 31, 2015	$ 34,177	$ 30,832,815	$ 32,752,071	$ (2,518,040)	$ (301,315)	$ 60,799,708
Net loss	-	-	(209,861)	-	-	(209,861)
Unrealized loss on available for sale securities, net of tax effect of $ (299,335)	-	-	-	-	(459,532)	(459,532)
Stock based compensation - options	-	156,907	-	-	-	156,907
Restricted stock - compensation and activity	4	168,995	-	-	-	168,999
ESOP shares allocated for release	-	38,210	-	148,120	-	186,330
Balance December 31, 2015	**$ 34,181**	**$ 31,196,927**	**$ 32,542,210**	**$ (2,369,920)**	**$ (760,847)**	**$ 60,642,551**
Balance March 31, 2016	**$ 34,136**	**$ 31,242,731**	**$ 32,659,455**	**$ (2,369,920)**	**$ (21,819)**	**$ 61,544,583**
Net income	-	-	47,646	-	-	47,646
Unrealized loss on available for sale securities, net of tax effect of $ (948,164)	-	-	-	-	(1,455,596)	(1,455,596)
Stock based compensation - options	-	156,907	-	-	-	156,907
Stock based compensation - restricted stock	-	169,279	-	-	-	169,279
ESOP shares allocated for release	-	62,951	-	148,120	-	211,071
Balance December 31, 2016	**$ 34,136**	**$ 31,631,868**	**$ 32,707,101**	**$ (2,221,800)**	**$ (1,477,415)**	**$ 60,673,890**

The accompanying notes are an integral part of these consolidated financial statements.

6

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

Nine Months Ended December 31, 2016 and 2015

	Nine Months Ended December 31,	
	2016	**2015**
Cash flows from operating activities		
Interest received	**$12,443,330**	$8,379,943
Fees and commissions received	**428,385**	761,333
Interest paid	**(3,005,077)**	(1,397,455)
Cash paid to suppliers and employees	**(8,881,370)**	(7,160,562)
Origination of loans held for sale	**(2,397,825)**	(4,486,900)
Proceeds from sale of loans held for sale	**2,680,322**	4,955,978
Increase in deferred tax asset and income tax refundable	**(1,479,473)**	(204,030)
Net cash (used) provided by operating activities	**(211,708)**	848,307
Cash flows from investing activities		
Acquisition, net of cash acquired	**(11,006,813)**	(12,723,871)
Proceeds from sale of securities available for sale	**4,273,234**	9,985,335
Proceeds from maturing and called securities available for sale, including principal pay downs	**24,634,898**	14,067,458
Proceeds from sale of certificates of deposit	**2,228,273**	-
Proceeds from maturing and called certificates of deposit	**1,724,000**	514,510
Redemption of Federal Home Loan Bank stock	**185,000**	-
Purchase of investment securities available for sale	**(50,585,898)**	-
Loans made, net of principal repayments	**(1,442,039)**	(13,728,071)
Purchase of premises and equipment	**(190,682)**	(47,219)
Proceeds from sale of premises and equipment	**429,177**	463,839
Proceeds from sale of foreclosed real estate	**-**	11,752
Net cash used by investing activities	**(29,750,850)**	(1,456,267)
Cash flows from financing activities		
Net increase (decrease) in		
Deposits	**(15,202,712)**	13,308,083
Advances by borrowers for taxes and insurance	**32,484**	(95,546)
Proceeds from borrowings	**-**	2,000,000
Payments of borrowings	**(4,000,000)**	(2,000,000)
Issuance of restricted stock	**-**	4
Net cash (used) provided by financing activities	**(19,170,228)**	13,212,541
Net (decrease) increase in cash and cash equivalents	**(49,132,786)**	12,604,581

Cash and cash equivalents at beginning of period	**67,448,536**	16,643,888
Cash and cash equivalents at end of period	**$18,315,750**	$29,248,469
Supplemental Disclosures of Cash Flow Information:		
Total cash consideration paid for Fraternity acquisition	**$25,704,871**	$-
Total cash consideration paid for Fairmount acquisition	**-**	14,192,370
Less cash acquired	**14,698,058**	1,468,499
Acquisition, net of cash acquired	**$11,006,813**	$12,723,871

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

(Continued)

	Nine Months Ended December 31,	
	2016	2015
Reconciliation of net income (loss) to net cash (used) provided by operating activities		
Net income (loss)	**$47,646**	$(209,861)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Amortization of premiums on securities	**600,201**	311,204
Amortization of premiums on certificates of deposit	**12,927**	7,043
Gain on sale of investment securities	**(23,720)**	(42,212)
Loan discount accretion	**(103,330)**	25,811
Deposit premium amortization	**(455,107)**	(52,656)
Borrowing premium amortization	**(404,632)**	(41,955)
Core deposit intangible asset amortization	**89,506**	38,620
Premises and equipment depreciation and amortization	**251,976**	200,092
Loss (gain) on disposal of premises and equipment	**11,043**	(407,188)
Stock based compensation	**326,186**	325,902
Provision for loan losses	**1,040,006**	190,000
ESOP shares allocated for release	**211,071**	186,330
Decrease (increase) in		
Accrued interest receivable	**(533,222)**	(161,838)
Loans held for sale	**259,450**	425,683
Cash surrender value of life insurance	**(364,927)**	(264,062)
Income taxes refundable and deferred income taxes	**(1,544,939)**	120,800
Other assets	**2,300,101**	374,756
Increase (decrease) in		
Accrued interest payable	**7,269**	3,100
Deferred loan origination fees	**55,433**	41,263
Other liabilities	**(1,994,646)**	(222,525)
Net cash (used) provided by operating activities	**$(211,708)**	$848,307
Noncash investing activity		
Real estate acquired through foreclosure	**$17,205**	$12,560

The accompanying notes are an integral part of these consolidated financial statements.

8

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Form 10-Q

Notes to Consolidated Financial Statements (Unaudited)

December 31, 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Hamilton Bancorp, Inc. (the "Company") was incorporated on September 7, 2012 to serve as the stock holding company for Hamilton Bank (the "Bank"), a federally chartered savings bank. On October 10, 2012, the Bank converted from a mutual savings bank to a stock savings bank and became the wholly owned subsidiary of the Company. In connection with the conversion, the Company sold 3,703,000 shares of common stock at a price of $10.00 per share, through which the Company received proceeds of approximately $35,580,000, net of offering expenses of approximately $1,450,000. The Bank's employee stock ownership plan (the "ESOP") purchased 8.0% of the shares sold in the offering, or 296,240 common shares. The purchase of shares by the ESOP was funded by a loan from the Company. The Company's common stock began trading on the NASDAQ Capital Market under the trading symbol "HBK" on October 12, 2012.

In accordance with Office of the Comptroller of the Currency (the "OCC") regulations, upon the completion of the conversion, the Bank restricted retained earnings by establishing a liquidation account. The liquidation account will be maintained for the benefit of eligible account holders who continue to maintain their accounts at the Bank after conversion. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation of the Bank, and only in such event, each account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the adjusted qualifying account balances then held. The Bank may not pay dividends if those dividends would reduce equity capital below the required liquidation account amount.

On May 13, 2016, the Company completed its acquisition of Fraternity Community Bancorp, Inc. ("Fraternity") through the merger of Fraternity, the parent company of Fraternity Federal Savings and Loan, with and into the Company pursuant to the Agreement and Plan of Merger dated as of October 12, 2015, by and between the Company and Fraternity. As a result of the merger, each shareholder of Fraternity received a cash payment equal to nineteen dollars and twenty-five cents ($19.25) for each share of Fraternity common stock, or an aggregate of approximately $25.7 million. Immediately following the merger of Fraternity into the Company, Fraternity Federal Savings and Loan was merged with and into the Bank, with the Bank as the surviving entity.

On September 11, 2015, the Company completed its acquisition of Fairmount Bancorp, Inc. (“Fairmount”) through the merger of Fairmount, the parent company of Fairmount Bank, with and into the Company pursuant to the Agreement and Plan of Merger dated as of April 15, 2015, by and between the Company and Fairmount. As a result of the merger, each shareholder of Fairmount received a cash payment equal to thirty dollars ($30.00) for each share of Fairmount common stock, or an aggregate of approximately $14.2 million. Immediately following the merger of Fairmount into the Company, Fairmount Bank was merged with and into the Bank, with the Bank as the surviving entity.

Hamilton Bancorp is a holding company that operates a community bank with seven branches in the Baltimore-metropolitan area. Its primary deposit products are certificates of deposit and demand, savings, NOW, and money market accounts. Its primary lending products consist of real estate mortgages, along with commercial and consumer loans. Hamilton Bancorp’s primary source of revenue is derived from loans to customers, who are predominately small and middle-market business and middle-income individuals.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting and with instructions for Form 10–Q and Regulation S–X as promulgated by the Securities and Exchange Commission (the "SEC"). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the preceding unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. We derived the balances as of March 31, 2016 from audited financial statements. Operating results for the three and nine months ended December 31, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2017, or any other period. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2016. Certain amounts from prior period financial statements have been reclassified to conform to the current period's presentation.

Summary of Significant Accounting Policies

The accounting and reporting policies of Hamilton Bancorp, Inc. and Subsidiary ("Hamilton") conform to GAAP and to general practices in the banking industry. The more significant policies follow:

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of the parent company and its wholly owned subsidiary, Hamilton Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, deferred income tax valuation allowances, the fair value of investment securities and other temporary impairment of investment securities.

Loans Receivable. The Bank makes mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout the Baltimore metropolitan area. The ability of the

Bank’s debtors to repay their loans is dependent upon the real estate and general economic conditions in this area.

Loans are reported at their outstanding unpaid principal balance adjusted for the allowance for loan loss, premiums on loans acquired, and/or any deferred fees or costs on originated loans. Interest revenue is accrued on the unpaid principal balance. Loan origination fees and the direct costs of underwriting and closing loans are recognized over the life of the related loan as an adjustment to yield using a method that approximates the interest method. Any differences that arise from prepayment will result in a recalculation of the effective yield.

Loans are generally placed on nonaccrual status when they are 90 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status at an earlier date if the collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status are reversed against interest revenue. The interest on nonaccrual loans is accounted for on the cash basis method, until the loans qualify for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and, in management’s judgment, future payments are reasonably assured.

Loans are generally placed on nonaccrual status when they are 90 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status at an earlier date if the collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status are reversed against interest revenue. The interest on nonaccrual loans is accounted for on the cash basis method, until the loans qualify for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and, in management’s judgment, future payments are reasonably assured.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Loans are considered impaired when, based on current information, management considers it unlikely that collection of principal and interest payments will be made according to contractual terms. If collection of principal is evaluated as doubtful, all payments are applied to principal. Impaired loans are measured: (i) at the present value of expected cash flows discounted at the loan's effective interest rate; (ii) at the observable market price; or (iii) at the fair value of the collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, impairment is recognized through an allocation of the allowance for loan losses and corresponding provision for loan losses. Generally, identified impairments are charged-off against the allowance for loan losses.

Troubled debt restructurings are loans for which Hamilton, for legal or economic reasons related to a debtor's financial difficulties, has granted a concession to the debtor that it otherwise would not have considered. Concessions that result in the categorization of a loan as a troubled debt restructuring include:

- Reduction of the stated interest rate;
- Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk;
- Reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement; or
- Reduction of accrued interest

Accounting for Certain Loans or Debt Securities Acquired in a Transfer. The loans acquired from the Company's acquisition of Fraternity on May 13, 2016 (see Note 3 "*Acquisitions*") were recorded at fair value at the acquisition date and no separate valuation allowance was established. The initial fair values were determined by management, with the assistance of an independent valuation specialist, based on estimated expected cash flows discounted at appropriate rates. The discount rates were based on market rates for new originations of comparable loans and did not include a separate factor for loan losses as that was included in the estimated cash flows.

Accounting Standards Codification ("ASC") Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, applies to loans acquired in a transfer with evidence of deterioration of credit quality for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. If both conditions exist, the Company determines whether to account for each loan individually or whether such loans will be assembled into pools based on common risk characteristics such as credit score, loan type, and origination date.

The Company considered expected prepayments and estimated the total expected cash flows, which included undiscounted expected principal and interest. The excess of that amount over the fair value of the loan is referred to as accretable yield. Accretable yield is recognized as interest income on a constant yield basis over the expected life of the loan. The excess of the contractual cash flows over expected cash flows is referred to as nonaccretable difference and is not accreted into income. Over the life of the loan, the Company continues to estimate expected cash flows. Subsequent decreases in expected cash flows are recognized as impairments in the current period through the allowance for loan losses. Subsequent increases in cash flows to be collected are first used to reverse any existing valuation allowance and any remaining increase are recognized prospectively through an adjustment of the loan’s yield over its remaining life.

ASC Topic 310-20, *Nonrefundable Fees and Other Costs*, was applied to loans not considered to have deteriorated credit quality at acquisition. Under ASC Topic 310-20, the difference between the loan’s principal balance at the time of purchase and the fair value is recognized as an adjustment of yield over the life of the loan.

Allowance for Loan Losses. The allowance for loan losses represents an amount which, in management’s judgment, will be adequate to absorb probable future losses on existing loans. The allowance for loan losses is established, as loan losses are estimated to have occurred, through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Recoveries on previously charged-off loans are credited to the allowance for loan losses.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

The allowance for loan losses is increased by provisions charged to income and reduced by charge-offs, net of recoveries. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and current economic conditions. The look back period for historical losses consists of reviewing both a 36 and 48 month look back period for net charge-offs. Both of these periods are used individually to develop a range in which the allowance for loan losses should be within.

Management considers a number of factors in estimating the required level of the allowance. These factors include: historical loss experience in the loan portfolios; the levels and trends in past-due and nonaccrual loans; the status of nonaccrual loans and other loans identified as having the potential for further deterioration; credit risk and industry concentrations; trends in loan volume; the effects of any changes in lending policies and procedures or underwriting standards; and a continuing evaluation of the economic environment. Management modified the analysis during the quarter ended September 30, 2016 by keeping our net charge-off history as a percentage of loans, as it pertains to each loan segment, constant across all risk ratings and altering our qualitative factors either up or down based upon the respective risk rating for each loan segment. The change in methodology did not have a material impact on the amount of the allowance for loan and lease losses at September 30, 2016 as compared to the prior methodology.

Accumulated Other Comprehensive Income (Loss). The Bank records unrealized gains and losses on available for sale securities in accumulated other comprehensive income, net of taxes. Unrealized gains and losses on available for sale securities are reclassified into earnings as the gains or losses are realized upon sale of the securities. The credit component of unrealized losses on available for sale securities that are determined to be other-than-temporarily impaired are reclassified into earnings at the time the determination is made.

Stock Based Compensation. Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Note 2: New Accounting Pronouncements

Recent Accounting Pronouncements

ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This update made the following changes that may affect the Company: (1) Debt Prepayment or Debt Extinguishment Costs: Cash payments for debt prepayment or debt extinguishment costs should be classified as cash flows for financing activities. (2) Proceeds from the settlement of Bank-Owned Life Insurance Policies: Cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash flows from investing activities. The cash payments for premiums on bank-owned policies may be classified as cash flows from investing activities, operating activities, or a combination of investing and operating activities. The amendments in this Update will be effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company does not expect the guidance to have a material impact on its financial statements.

ASU 2016-13, Financial Instruments – Credit Losses. The ASU sets forth a "current expected credit loss" (CECL) model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently assessing the impact of the adoption of this ASU on its consolidated financial statements.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

ASU 2016-09, Improvements to Employee share-Based Payment Accounting (Topic 718). This ASU includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Some of the key provisions of this new ASU include: (1) companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital ("APIC"). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. The guidance also eliminates the requirement that excess tax benefits be realized before companies can recognize them. In addition, the guidance requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity; (2) increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation. The new guidance will also require an employer to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on its statement of cash flows (current guidance did not specify how these cash flows should be classified); and (3) permit companies to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. ASU No. 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted, but all of the guidance must be adopted in the same period. The Company is currently evaluating the provisions of ASU No. 2016-09 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

ASU 2016-02, Leases (Topic 842). This ASU guidance requires lessees to recognize lease assets and lease liabilities related to certain operating leases on the balance sheet by lessees and disclose key information about leasing arrangements. This guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The Company is currently evaluating this guidance to determine the impact on its consolidated financial statements.

ASU No. 2016-01, Financial Instruments – Recognition and Measurement of Financial Assets and Liabilities. This ASU requires equity investments to be measured at fair value with changes in fair value recognized in net income, excluding equity investments that are consolidated or accounted for under the equity method of accounting. The amendment allows equity investments without readily determinable fair values to be measured at cost minus impairment, with a qualitative assessment required to identify impairment. The amendment also requires public companies to use exit prices to measure the fair value of financial instruments purposes; requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statement; it eliminates the disclosure requirements related to measurement assumptions for the fair value of instruments measured at amortized cost. In addition, for liabilities measured at fair value under the fair value option, to present in other comprehensive income changes in fair value due to changes in instrument specific credit risk. ASU No. 2016-01 is effective for fiscal years beginning after December

15, 2017 and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period

Adjustments. This update eliminates the requirement to retrospectively adjust the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill. These adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date that if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. The update also requires the nature of and reason for the business combination, to be disclosed in the consolidated financial statements. ASU 2015-16 became effective for fiscal years beginning after December 15, 2015, and was not material to the consolidated financial statements. All measurement period adjustments related to the acquisition of Fairmount and Fraternity were recorded in the period in which the adjustments were determined.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective on January 1, 2017 and is not expected to have a significant impact on our financial statements.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Note 3: Acquisitions

Fraternity Community Bancorp, Inc.

On May 13, 2016, Hamilton Bancorp acquired Fraternity Community Bancorp, Inc. ("Fraternity"), the parent company of Fraternity Federal Savings and Loan. Under the terms of the Merger Agreement, shareholders of Fraternity received a cash payment equal to nineteen dollars and twenty-five cents ($19.25) for each share of Fraternity common stock. The total merger consideration was $25.7 million.

In connection with the acquisition, Fraternity Federal Savings and Loan was merged with and into Hamilton Bank, with Hamilton Bank as the surviving bank. The results of the Fraternity acquisition are included with Hamilton's results as of and from May 13, 2016.

As required by the acquisition method of accounting, we have adjusted the acquired assets and liabilities of Fraternity to their estimated fair value on the date of acquisition and added them to those of Hamilton Bancorp. Based on management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, which we have based on level 3 valuation estimates and assumptions that are subject to change, we have allocated the preliminary purchase price for Fraternity as follows:

	As recorded by Fraternity Community Bancorp, Inc.	Fair Value Adjustments		As recorded by Hamilton Bancorp, Inc.
Identifiable assets:				
Cash and cash equivalents	$ 15,196,058	$ -		$ 15,196,058
Investment securities available for sale	17,570,712	-		17,570,712
FHLB Bank Stock	782,600	-		782,600
Loans	108,872,041	(126,757)	A	108,745,284

Allowance For Loan Loss	(1,550,000)	1,550,000	A	-
Premises and equipment	691,095	78,711	B	769,806
Bank-Owned Life Insurance	5,058,041	-		5,058,041
Deferred income taxes	2,743,481	(410,377)	C	2,333,104
Other assets	2,877,665	-		2,877,665
Total identifiable assets	$152,241,693	$1,091,577		$153,333,270
Identifiable liabilities:				
Non-interest bearing deposits	1,242,187	-		1,242,187
Interest bearing deposits	107,648,792	1,098,131	D	108,746,923
Borrowings	15,000,000	793,537	E	15,793,537
Other liabilities	4,023,914	-		4,023,914
Total identifiable liabilities	$127,914,893	$1,891,668		$129,806,561
Net tangible assets acquired	24,326,800	(800,091)		23,526,709
Definite lived intangible assets acquired	-	242,020		242,020
Goodwill	-	1,936,142		1,936,142
Net intangible assets acquired	-	2,178,162		2,178,162
Total cash consideration	$24,326,800	$1,378,071		$25,704,871

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Explanation of fair value adjustments:

A - Adjustment reflects the fair value adjustments based on Hamilton Bancorp's evaluation of the acquired loan portfolio and excludes the allowance for losses recorded by Fraternity Community Bancorp, Inc.

B - Adjustment reflects the fair value adjustments based on Hamilton Bancorp's evaluation of the acquired premises and equipment.

C - Adjustment to record deferred tax asset related to fair value adjustments at 39.45% income tax rate.

D - Adjustment arises since the rates on interest-bearing deposits are higher than rates available on similar deposits as of the acquisition date.

E - Adjustment reflects the fair value of Fraternity's borrowings acquired on acquisition date.

Prior to the end of the measurement period, if information becomes available which indicates the purchase price allocations require adjustments, we will include such adjustments in the purchase price allocation retrospectively.

Of the total estimated purchase price, we have allocated $23.5 million to net tangible assets acquired and we have allocated $242,020 to the core deposit intangible which is a definite lived intangible asset. We have allocated the remaining purchase price to goodwill, which is deductible for income tax purposes. We will amortize the core deposit intangible on a straight-line basis over its estimated useful life of eight years. We will evaluate goodwill annually for impairment.

Pro forma Condensed Combined Financial Information. The following schedule includes consolidated statements of operations data for the unaudited pro forma results for the three months ended December 31, 2015 and nine-month periods ended December 31, 2016 and 2015 as if the Fraternity acquisition had occurred as of the beginning of the periods presented.

	Three Months Ended December 31,	Nine Months Ended December 31,	
	2015	**2016**	2015
Net interest income	$3,978,170	**$10,862,778**	$10,589,458
Other non-interest revenue	236,691	**862,502**	1,245,048
Total revenue	4,214,861	**11,725,279**	11,834,506
Provision expense	70,000	**1,040,006**	190,000
Other non-interest expense	3,775,757	**9,420,767**	11,044,009
Income before income taxes	369,104	**1,264,507**	600,497
Income tax expense	389,641	**385,181**	534,920
Net (loss) income	$(20,537)	**$879,325**	$65,577
Basic (loss) earnings per share	$(0.01)	**$0.28**	$0.02
Diluted (loss) earnings per share	$(0.01)	**$0.28**	$0.02

We have not included any provision for loan losses during the period for loans acquired from Fraternity. In accordance with accounting for business combinations, we included the credit losses evident in the loans in the determination of the fair value of loans at the date of acquisition and eliminated the allowance for loan losses maintained by Fraternity at acquisition date. Also excluded are an estimated $3.0 million in merger related expenses associated with completing the actual acquisition. This expense includes expenses incurred by both the buyer and the seller. For the three and nine months ending December 31, 2015, acquisition costs of $196,000 and $828,000, respectively, associated with the acquisition of Fairmount are included in non-interest expense. For the nine months ending December 31, 2016 there were no acquisition costs attributable to Fairmount because that acquisition had been completed at that time. The acquisition expenses are non-deductible and the reasoning for income tax expense being higher in those periods relative to pre-tax income.

We have presented the pro forma financial information for illustrative purposes only and it is not necessarily indicative of the financial results of the combined companies had we actually completed the acquisition at the beginning of the periods presented, nor does it indicate future results for any other interim or full year period. Pro forma basic and diluted earnings per common share were calculated using Hamilton Bancorp's actual weighted average shares outstanding for the periods presented, assuming the acquisition occurred at the beginning of the periods presented.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

The following table outlines the contractually required payments receivable, cash flows we expect to receive, non-accretable credit adjustments and the accretable yield for all Fraternity loans as of the acquisition date.

	Contractually Required Payments Receivable	**Non-Accretable Credit Adjustments**	**Cash Flows Expected To Be Collected**	**Accretable FMV Adjustments**	**Carrying Value of Loans Receivable**
Performing loans acquired	$107,474,993	$ -	$107,474,993	$ 242,773	$107,717,766
Impaired loans acquired	1,397,048	(314,484)	1,082,564	(55,046)	1,027,518
Total	**$108,872,041**	**$ (314,484)**	**$108,557,557**	**$ 187,727**	**$108,745,284**

At our acquisition of Fraternity, we recorded all loans acquired at the estimated fair value on the purchase date with no carryover of the related allowance for loan losses. On the acquisition date, we segregated the loan portfolio into two loan pools, performing and nonperforming loans, to be retained in our portfolio.

We had an independent third party determine the fair value of cash flows on $107,474,993 of performing loans. The valuation took into consideration the loans' underlying characteristics, including account types, remaining terms, annual interest rates, interest types, past delinquencies, timing of principal and interest payments, current market rates, loan to value ratios, loss exposures, and remaining balances. These performing loans were segregated into pools based on loan and payment type and in some cases, risk grade. The effect of this fair valuation process was a net accretable premium adjustment of $242,773 at acquisition.

We also individually evaluated 23 impaired loans totaling $1,397,048 to determine the fair value as of the May 13, 2016 measurement date. In determining the fair value for each individually evaluated impaired loan, we considered a number of factors including the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral and net present value of cash flows we expect to receive, among others.

We established a credit risk related non-accretable difference of $314,484 relating to these acquired, credit impaired loans, reflected in the recorded net fair value. We further estimated the timing and amount of expected cash flows in excess of the estimated fair value and established an accretable discount adjustment of $55,046 at acquisition relating to these impaired loans.

Fairmount Bancorp, Inc.

On September 11, 2015, Hamilton Bancorp acquired Fairmount Bancorp, Inc. (“Fairmount”), the parent company of Fairmount Bank. Under the terms of the Merger Agreement, shareholders of Fairmount received a cash payment equal to thirty dollars ($30.00) for each share of Fairmount common stock. The total merger consideration was $14.2 million.

In connection with the acquisition, Fairmount Bank was merged with and into Hamilton Bank, with Hamilton Bank as the surviving bank. The results of the Fairmount acquisition are included with Hamilton’s results as of and from September 11, 2015.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

As required by the acquisition method of accounting, we have adjusted the acquired assets and liabilities of Fairmount to their estimated fair value on the date of acquisition and added them to those of Hamilton Bancorp. Based on management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, which we have based on level 3 valuation estimates and assumptions that are subject to change, we have allocated the preliminary purchase price for Fairmount as follows:

	As recorded by Fairmount Bancorp, Inc.	Fair Value Adjustments		As recorded by Hamilton Bancorp, Inc.
Identifiable assets:				
Cash and cash equivalents	$1,468,499	$-		$1,468,499
Certificates of deposit	4,467,825	27,772	A	4,495,597
Investment securities available for sale	9,729,405	-		9,729,405
Loans	55,454,414	(1,876,502)	B	53,577,912
Allowance For Loan Loss	(591,070)	591,070	B	-
Premises and equipment	2,975,587	(726,997)	C	2,248,590
Core Deposit Intangible	22,802	(22,802)	D	-
Deferred income taxes	965,256	596,675	E	1,561,931
Other assets	1,031,755	-		1,031,755
Total identifiable assets	$75,524,473	$(1,410,784)		$74,113,689
Identifiable liabilities:				
Non-interest bearing deposits	909,669	-		909,669
Interest bearing deposits	52,123,868	433,429	F	52,557,297
Borrowings	10,500,000	389,147	G	10,889,147
Other liabilities	120,351	-		120,351
Total identifiable liabilities	$63,653,888	$822,576		$64,476,464
Net tangible assets acquired	11,870,585	(2,233,360)		9,637,225
Definite lived intangible assets acquired	-	542,540		542,540
Goodwill	-	4,012,605		4,012,605
Net intangible assets acquired	-	4,555,145		4,555,145
Total cash consideration	$11,870,585	$2,321,785		$14,192,370

Explanation of fair value adjustments:

A - Adjustment reflects marking the certificates of deposit portfolio to fair value as of the acquisition date.

B - Adjustment reflects the fair value adjustments based on Hamilton Bancorp's evaluation of the acquired loan portfolio and excludes the allowance for losses recorded by Fairmount Bancorp, Inc.

C - Adjustment reflects the fair value adjustments based on Hamilton Bancorp's evaluation of the acquired premises and equipment.

D - Adjustment reflects the elimination of core deposit intangible recorded by Fairmount Bancorp, Inc. from an acquisition prior.

E - Adjustment to record deferred tax asset related to fair value adjustments at 39.45% income tax rate.

F - Adjustment arises since the rates on interest-bearing deposits are higher than rates available on similar deposits as of the acquisition date.

G - Adjustment reflects the fair value of Fraternity's borrowings acquired on acquisition date.

Prior to the end of the September 11, 2016 measurement period, if information became available which indicated the purchase price allocations require adjustments, we included such adjustments in the purchase price allocation retrospectively. During this measurement period, we made a net adjustment of $215,000 in the purchase price allocations. These adjustments included items relating to the valuation of loans, property and equipment, payables and deferred taxes.

Of the total estimated purchase price, we have allocated an estimate of $9.6 million to net tangible assets acquired and we have allocated approximately $543,000 to the core deposit intangible which is a definite lived intangible asset. We have allocated the remaining purchase price to goodwill, which is deductible for income tax purposes. We will amortize the core deposit intangible on a straight-line basis over its estimated useful life of eight years. We will evaluate goodwill annually for impairment.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Pro forma Condensed Combined Financial Information. The following schedule includes consolidated statements of operations data for the unaudited pro forma results for the nine month periods ended December 31, 2016 and 2015 as if the Fairmount acquisition had occurred as of the beginning of the periods presented.

	Nine Months Ended December 31,	
	2016	2015
Net interest income	**$10,258,714**	$8,323,913
Other non-interest revenue	**840,079**	1,214,209
Total revenue	**11,098,793**	9,538,122
Provision expense	**1,040,006**	180,000
Other non-interest expense	**10,076,607**	7,662,302
Income before income taxes	**(17,820)**	1,695,820
Income tax expense	**(65,466)**	624,593
Net income	**$47,646**	$1,071,226
Basic earnings per share	**$0.01**	$0.34
Diluted earnings per share	**$0.01**	$0.34

The pro forma condensed financial information in the table above for the nine months ending December 31, 2016, includes the revenue and expenses associated with the acquisition of Fraternity Community Bancorp, Inc. on May 13, 2016 through the end of the period, including $1.1 million in acquisition related and branch consolidation expenses.

We have not included any provision for loan losses during the period for loans acquired from Fairmount. In accordance with accounting for business combinations, we included the credit losses evident in the loans in the determination of the fair value of loans at the date of acquisition and eliminated the allowance for loan losses maintained by Fairmount at acquisition date. Also excluded are an estimated $3.1 million in merger related expenses associated with completing the actual acquisition. This expense includes expenses incurred by both the buyer and the seller.

We have presented the pro forma financial information for illustrative purposes only and it is not necessarily indicative of the financial results of the combined companies had we actually completed the acquisition at the beginning of the periods presented, nor does it indicate future results for any other interim or full year period. Pro forma basic and diluted earnings per common share were calculated using Hamilton Bancorp’s actual weighted average shares outstanding for the periods presented, assuming the acquisition occurred at the beginning of the periods presented.

Fraternity and Fairmount acquisition expenses. In connection with the acquisition of Fraternity and Fairmount, the Company incurred merger related costs. These expenses were primarily related to legal, other professional services and system conversions. The following table details the expenses included in the consolidated statements of operations for the periods shown.

	Three months ended December 31,		Nine Months Ended December 31,	
	2016	2015	**2016**	2015
Legal	**$-**	$68,528	**$55,500**	$433,051
Professional services	**-**	128,117	**157,567**	316,959
Advertising	**-**	-	**-**	2,779
Data processing	**-**	-	**-**	48,745
Other	**-**	-	**6,350**	26,691
Total meger related expenses	**$-**	$196,645	**$219,417**	$828,225

In addition, included in other professional service expense in the Statement of Operations for the three and nine months ended December 31, 2016 is $145,000 and $387,000 relating to non-compete agreements and $26,800 and $80,400 in consulting expense that has been paid to former executives in the acquisitions, respectively. The non-compete agreements are for a term of one and two years for various former executives, while the consulting contract was for a six-month period that ended November 2016.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Note 4: Earnings per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Weighted average shares exclude unallocated ESOP shares. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Both the basic and diluted earnings per share for the three and nine months ended December 31, 2016 and 2015 are summarized below:

	Three months ended December 31,		Nine Months Ended December 31,	
	2016	2015	**2016**	2015
Net income (loss)	**$59,369**	$(127,181)	**$47,646**	$(209,861)
Weighted average common shares outstanding - basic	**3,176,815**	3,166,470	**3,176,708**	3,166,230
Weighted average common shares outstanding - diluted	**3,179,281**	N/A	**3,179,174**	N/A
Income (loss) per common share - basic and diluted	**$0.02**	$(0.04)	**$0.01**	$(0.07)
Anti-dilutive shares	**85,394**	43,930	85,394	43,930

During the three and nine months ending December 31, 2015, none of the common stock equivalents were dilutive due to the loss reported during that period.

Note 5: Investment Securities Available for Sale

The amortized cost and fair value of securities at December 31, 2016 and March 31, 2016, are summarized as follows:

December 31, 2016	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government agencies	**$3,529,287**	**$ 442**	**$20,324**	**$3,509,405**
Municipal bonds	**17,141,022**	**2,503**	**994,563**	**16,148,962**
Corporate bonds	**2,000,000**	**-**	**86,472**	**1,913,528**
Mortgage-backed securities	**86,523,845**	**53,349**	**1,394,726**	**85,182,468**
	$109,194,154	**$ 56,294**	**$2,496,085**	**$106,754,363**

March 31, 2016	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government agencies	$10,519,126	$20,622	$6,752	$10,532,996
Municipal bonds	4,061,599	51,105	140	4,112,564
Corporate bonds	2,000,000	-	101,360	1,898,640
Mortgage-backed securities	53,939,706	300,731	300,237	53,940,200
	$70,520,431	$372,458	$408,489	$70,484,400

Proceeds from sales of investment securities were $4,273,234 and $4,957,280 during the three months ended December 31, 2016 and 2015, respectively, with gains of $36,131 and losses of $12,411 for the three months ended December 31, 2016 and gains of $23,197 and losses of $2,700 for the three months ended December 31, 2015.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Proceeds from sales of investment securities were $4,273,234 and $9,985,335 during the nine months ended December 31, 2016 and 2015, respectively, with gains of $36,131 and losses of $12,411 for the nine months ended December 31, 2016 and gains of $95,912 and losses of $53,700 for the nine months ended December 31, 2015.

As of December 31, 2016 and March 31, 2016, all mortgage-backed securities are backed by U.S. Government-Sponsored Enterprises (GSE's), except one private label mortgage-backed security that was acquired in the Fraternity acquisition in May 2016 with a book value of $95,489 and fair value of $95,356 as of December 31, 2016.

As of December 31, 2016 and March 31, 2016, the Company had one pledged security to the Federal Reserve Bank with a book value of $744,186 and $2,000,000 and a fair value of $729,816 and $1,993,266, respectively.

The amortized cost and estimated fair value of debt securities by contractual maturity at December 31, 2016 and March 31, 2016 follow. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	Available for Sale			
	December 31, 2016		March 31, 2016	
	Amortized cost	Fair value	Amortized cost	Fair value
Maturing				
Within one year	**$-**	**$-**	$731,217	$731,060
Over one to five years	**4,240,900**	**4,236,036**	3,268,217	3,287,589
Over five to ten years	**4,178,327**	**4,051,550**	9,830,135	9,751,610
Over ten years	**14,251,082**	**13,284,308**	2,751,156	2,773,941
Mortgage-backed securities, in monthly installments	**86,523,845**	**85,182,469**	53,939,706	53,940,200
	$109,194,154	**$106,754,363**	$70,520,431	$70,484,400

The following table presents the Company's investments' gross unrealized losses and the corresponding fair values by investment category and length of time that the securities have been in a continuous unrealized loss position at

December 31, 2016 and March 31, 2016.

	Less than 12 months		12 months or longer		Total	
December 31, 2016	Gross Unrealized losses	Fair value	Gross Unrealized losses	Fair value	Gross Unrealized losses	Fair value
U.S. government agencies	**$20,324**	**$3,004,648**	**$-**	**$-**	**$20,324**	**$3,004,648**
Municipal bonds	**994,563**	**14,805,701**	**-**	**-**	**994,563**	**14,805,701**
Corporate bonds	**-**	**-**	**86,472**	**1,913,528**	**86,472**	**1,913,528**
Mortgage-backed securities	**1,103,455**	**71,475,638**	**291,271**	**7,375,148**	**1,394,726**	**78,850,786**
	$2,118,342	**$89,285,987**	**$377,743**	**$9,288,676**	**$2,496,085**	**$98,574,663**

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

March 31, 2016	Less than 12 months Gross Unrealized losses	Fair value	12 months or longer Gross Unrealized losses	Fair value	Total Gross Unrealized losses	Fair value
U.S. government agencies	$6,752	$2,244,157	$-	$-	$6,752	$2,244,157
Municipal bonds	140	480,168	-	-	140	480,168
Corporate bonds	-	-	101,360	1,898,640	101,360	1,898,640
Mortgage-backed securities	33,080	4,367,962	267,157	20,274,037	300,237	24,641,999
	$39,972	$7,092,287	$368,517	$22,172,677	$408,489	$29,264,964

The gross unrealized losses on debt securities are not considered by management to be other-than-temporary impairments. Management has the intent and ability to hold these securities until recovery of their value. In most cases, temporary impairment is caused by market interest rate fluctuations.

Note 6: Loans Receivable and Allowance for Loan Losses

Loans receivable, excluding loans held for sale, consist of the following at December 31, 2016 and March 31, 2016:

	December 31, 2016				March 31, 2016			
	Legacy (1)	**Acquired**	**Total Loans**	**% of Total**	Legacy (1)	Acquired	Total Loans	% of Total
Real estate loans:								
One-to four-family:								
Residential	**$44,297,741**	**$87,924,992**	**$132,222,733**	**40 %**	$46,263,709	$23,036,569	$69,300,278	31 %
Residential construction	**6,973,282**	**557,310**	**7,530,592**	**2 %**	4,304,189	965,440	5,269,629	2 %
Investor (2)	**9,670,382**	**22,432,236**	**32,102,618**	**10 %**	12,076,911	15,783,008	27,859,919	13 %
Commercial	**94,173,223**	**15,511,630**	**109,684,853**	**33 %**	75,225,984	2,889,219	78,115,203	35 %
Commercial construction	**1,655,899**	**1,620,552**	**3,276,451**	**1 %**	1,982,571	1,274,148	3,256,719	2 %
	156,770,527	**128,046,720**	**284,817,247**	**86 %**	139,853,364	43,948,384	183,801,748	83 %

Total real estate loans								
Commercial business	**19,815,173**	**2,506,890**	**22,322,063**	**7 %**	17,773,967	2,621,625	20,395,592	9 %
Home equity loans	**13,737,121**	**7,948,303**	**21,685,424**	**7 %**	12,222,688	2,168,073	14,390,761	6 %
Consumer	**2,443,559**	**986,293**	**3,429,852**	**1 %**	3,072,677	1,106,434	4,179,111	2 %
Total Loans	**192,766,380**	**139,488,206**	**332,254,586**	**100 %**	172,922,696	49,844,516	222,767,212	100 %
Net deferred loan origination fees and costs	**(194,754)**	**-**	**(194,754)**		(139,321)	-	(139,321)	
Loan premium (discount)	**50,670**	**(712,233)**	**(661,563)**		77,983	(846,818)	(768,835)	
	$192,622,296	**$138,775,973**	**$331,398,269**		$172,861,358	$48,997,698	$221,859,056	

(1) As a result of the acquisition of Fraternity Community Bancorp, Inc., the parent company of Fraternity Federal Savings and Loan, in May 2016 and Fairmount Bancorp, Inc., the parent company of Fairmount Bank, in September 2015, we have segmented the portfolio into two components, loans originated by Hamilton Bank "Legacy" and loans acquired from Fraternity Community Bancorp, Inc. and Fairmount Bancorp, Inc. "Acquired".

(2) "Investor" loans are residential mortgage loans secured by non-owner occupied one-to four-family properties.

Residential lending is generally considered to involve less risk than other forms of lending, although payment experience on these loans is dependent on economic and market conditions in the Bank's lending area. Construction loan repayments are generally dependent on the related properties or the financial condition of its borrower or guarantor. Accordingly, repayment of such loans can be more susceptible to adverse conditions in the real estate market and the regional economy.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

A substantial portion of the Bank's loan portfolio is real estate loans secured by residential and commercial real estate properties located in the Baltimore metropolitan area. Loans are extended only after evaluation of a customer's creditworthiness and other relevant factors on a case-by-case basis. The Bank generally does not lend more than 90% of the appraised value of a property and requires private mortgage insurance on residential mortgages with loan-to-value ratios in excess of 80%. In addition, the Bank generally obtains personal guarantees of repayment from borrowers and/or others for commercial construction loans and disburses the proceeds of those and similar loans only as work progresses on the related projects.

The following table details activity in the allowance for loan losses by portfolio segment for both the nine months ended December 31, 2016 and 2015 and for the year ended March 31, 2016. The allowance for loan losses allocated to each portfolio segment is not necessarily indicative of future losses in any particular portfolio segment and does not restrict the use of the allowance to absorb losses in other portfolio segments.

	Legacy					**Acquired**				
Nine months ended: December 31, 2016	Allowance 3/31/2016	Provision for loan losses	Charge offs	Recoveries	Allowance 12/31/2016	Allowance 3/31/2016	Provision for loan losses	Charge offs	Recoveries	Allowance 12/31/2016
Real estate loans:										
One-to four-family	**$428,027**	**$118,357**	**$-**	**$2,482**	**$548,866**	**$-**	**$90,949**	**$97,509**	**$6,560**	**$ -**
Commercial	**901,768**	**953,050**	**621,741**	**-**	**1,233,077**	**-**	**-**	**-**	**-**	**-**
Commercial construction	**42,377**	**345**	**-**	**-**	**42,722**	**-**	**-**	**-**	**-**	**-**
Commercial business	**228,199**	**(108,182)**	**1,521**	**28,827**	**147,323**	**-**	**-**	**-**	**-**	**-**
Home equity loans	**82,012**	**8,209**	**-**	**-**	**90,221**	**-**	**-**	**-**	**-**	**-**
Consumer	**19,982**	**(21,819)**	**4,073**	**7,270**	**1,360**	**-**	**(903)**	**-**	**903**	**-**
	$1,702,365	**$949,960**	**$627,335**	**$38,579**	**$2,063,569**	**$-**	**$90,046**	**$97,509**	**$7,463**	**$ -**

Legacy Acquired

Nine months ended: December 31, 2015	Allowance 3/31/2015	Provision for loan losses	Charge offs	Recoveries	Allowance 12/31/2015	Allowance 3/31/2015	Provision for loan losses	Charge offs	Recoveries	Allowance 12/31/2015
Real estate loans:										
One-to four-family	$433,570	$179,413	$168,139	$848	$445,692	$-	$61,517	$86,352	$24,835	$ -
Commercial	585,817	529,516	-	-	1,115,333	-	-	-	-	-
Commercial construction	67,835	(218,589)	-	236,906	86,152	-	-	-	-	-
Commercial business	473,127	(353,601)	10,533	150,547	259,540	-	-	-	-	-
Home equity loans	98,983	(9,962)	6,000	-	83,021	-	-	-	-	-
Consumer	727	31,883	7,565	940	25,985	-	-	-	-	-
Unallocated	30,177	(30,177)	-	-	-	-	-	-	-	-
	$1,690,236	$128,483	$192,237	$389,241	$2,015,723	$-	$61,517	$86,352	$24,835	$ -

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

	Legacy					Acquired				
Year Ended: March 31, 2016	Allowance 3/31/2015	Provision for Loan Losses	Charge offs	Recoveries	Allowance 3/31/2016	Allowance 3/31/2016	Provision for Loan Losses	Charge offs	Recoveries	Allowance 3/31/2016
Real estate loans:										
One-to four-family	$433,570	$164,809	$171,200	$848	$428,027	$-	$95,703	$120,538	$24,835	$ -
Commercial	585,817	883,852	567,901	-	901,768	-	-	-	-	-
Commercial construction	67,835	(262,362)	-	236,904	42,377	-	-	-	-	-
Commercial business	473,127	(426,731)	10,533	192,336	228,199	-	-	-	-	-
Home equity loans	98,983	(10,971)	6,000	-	82,012	-	-	-	-	-
Consumer	727	25,877	16,337	9,715	19,982	-	-	-	-	-
Unallocated	30,177	(30,177)	-	-	-	-	-	-	-	-
	$1,690,236	$344,297	$771,971	$439,803	$1,702,365	$-	$95,703	$120,538	$24,835	$ -

The following table provides additional information on the allowance for loan losses and loan balances with respect to evaluation for impairment by segment:

	Legacy				**Acquired**			
	Allowance		Loan Balance		Allowance		Loan Balance	
December 31, 2016	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate loans:								
One-to four-family	**$288,098**	**$260,768**	**$1,787,289**	**$59,154,116**	**$-**	**$ -**	**$1,269,425**	**$109,645,113**
Commercial	**-**	**1,233,077**	**2,036,391**	**92,136,832**	**-**	**-**	**206,463**	**15,305,167**
Commercial construction	**-**	**42,722**	**-**	**1,655,899**	**-**	**-**	**-**	**1,620,552**
Commercial business	**-**	**147,323**	**781,623**	**19,033,550**	**-**	**-**	**-**	**2,506,890**
Home equity loans	**-**	**90,221**	**13,041**	**13,724,080**	**-**	**-**	**7,924**	**7,940,379**

Consumer	**-**	**1,360**	**-**	**2,443,559**	**-**	**-**	**37,576**	**948,717**
	$288,098	**$1,775,471**	**$4,618,344**	**$188,148,036**	**$-**	**$ -**	**$1,521,388**	**$137,966,818**

23

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

	Legacy Allowance		Legacy Loan Balance		Acquired Allowance		Acquired Loan Balance	
December 31, 2015	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate loans:								
One-to four-family	$79,301	$366,391	$1,959,393	$62,421,992	$-	$ -	$1,663,950	$40,033,208
Commercial	-	1,115,333	3,329,058	73,131,183	-	-	-	2,925,586
Commercial construction	-	86,152	-	1,886,203	-	-	-	1,850,747
Commercial business	-	259,540	2,353,249	16,220,992	-	-	212,809	2,471,138
Home equity loans	-	83,021	17,578	12,045,351	-	-	-	2,212,783
Consumer	-	25,985	-	3,367,363	-	-	39,384	1,161,421
	$79,301	$1,936,422	$7,659,278	$169,073,084	$-	$ -	$1,916,143	$50,654,883

	Legacy Allowance		Legacy Loan Balance		Acquired Allowance		Acquired Loan Balance	
March 31, 2016	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate loans:								
One-to four-family	$59,571	$368,456	$1,918,527	$60,726,282	$-	$ -	$1,210,306	$38,574,711
Commercial	-	901,768	2,717,144	72,508,840	-	-	211,239	2,677,980
Commercial construction	-	42,377	-	1,982,571	-	-	-	1,274,148
Commercial business	-	228,199	1,279,233	16,494,734	-	-	-	2,621,625
Home equity loans	-	82,012	59,169	12,163,519	-	-	-	2,168,073
Consumer	-	19,982	-	3,072,677	-	-	42,488	1,063,946
	$59,571	$1,642,794	$5,974,073	$166,948,623	$-	$ -	$1,464,033	$48,380,483

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Past due loans, segregated by age and class of loans, as of and for the nine months ended December 31, 2016 and as of and for the year ended March 31, 2016, were as follows:

December 31, 2016	Loans 30-59 days past due	Loans 60-89 days past due	Loans 90 or more days past due	Total past due loans	Current loans	Totals loans	Accruing loans 90 or more days past due	Nonaccrual loans	Nonaccrual interest not accrued
Legacy Loans:									
Real estate loans:									
One-to four-family	**$825,322**	**$5,713**	**$191,878**	**$1,022,913**	**$59,918,492**	**$60,941,405**	**$-**	**$517,680**	**$17,229**
Commercial	**-**	**-**	**2,036,391**	**2,036,391**	**92,136,832**	**94,173,223**	**-**	**2,036,391**	**68,775**
Commercial construction	**-**	**-**	**-**	**-**	**1,655,899**	**1,655,899**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**19,815,173**	**19,815,173**	**-**	**-**	**-**
Home equity loans	**-**	**-**	**-**	**-**	**13,737,121**	**13,737,121**	**-**	**4,163**	**73**
Consumer	**-**	**-**	**-**	**-**	**2,443,559**	**2,443,559**	**-**	**-**	**-**
	$825,322	**$5,713**	**$2,228,269**	**$3,059,304**	**$189,707,076**	**$192,766,380**	**$-**	**$2,558,234**	**$86,077**

December 31, 2016	Loans 30-59 days past due	Loans 60-89 days past due	Loans 90 or more days past due	Total past due loans	Current loans	Totals loans	Accruing loans 90 or more days past due	Nonaccrual loans	Nonaccrual interest not accrued
Acquired Loans:									

Real estate loans:									
One-to four-family	**$1,243,891**	**$332,907**	**$435,342**	**$2,012,140**	**$108,902,398**	**$110,914,538**	**$-**	**$435,342**	**$56,805**
Commercial	**-**	**20,338**	**11,190**	**31,528**	**15,480,102**	**15,511,630**	**-**	**31,528**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**1,620,552**	**1,620,552**	**-**	**-**	**-**
Commercial business	**-**	**-**	**18,455**	**18,455**	**2,488,435**	**2,506,890**	**-**	**18,455**	**-**
Home equity loans	**-**	**-**	**-**	**-**	**7,948,303**	**7,948,303**	**-**	**30**	**-**
Consumer	**-**	**5,139**	**-**	**5,139**	**981,154**	**986,293**	**-**	**1,047**	**33**
	$1,243,891	**$358,384**	**$464,987**	**$2,067,262**	**$137,420,944**	**$139,488,206**	**$-**	**$486,402**	**$56,838**

March 31, 2016	Loans 30-59 days past due	Loans 60-89 days past due	Loans 90 or more days past due	Total past due loans	Current loans	Totals loans	Accruing loans 90 or more days past due	Nonaccrual loans	Nonacc interest not accrued
Legacy Loans:									
Real estate loans:									
One-to four-family	$468,887	$99,360	$388,104	$956,351	$61,688,458	$62,644,809	$165,701	$511,939	$18,494
Commercial	-	-	2,717,144	2,717,144	72,508,840	75,225,984	-	2,717,144	-
Commercial construction	-	-	-	-	1,982,571	1,982,571	-	-	-
Commercial business	-	-	121,760	121,760	17,652,207	17,773,967	-	121,760	47,646
Home equity loans	20,753	-	43,073	63,826	12,158,862	12,222,688	-	49,462	1,007
Consumer	-	-	-	-	3,072,677	3,072,677	-	-	-
	$489,640	$99,360	$3,270,081	$3,859,081	$169,063,615	$172,922,696	$165,701	$3,400,305	$67,147

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

March 31, 2016	Loans 30-59 days past due	Loans 60-89 days past due	Loans 90 or more days past due	Total past due loans	Current loans	Totals loans	Accruing loans 90 or more days past due	Nonaccrual loans	Nonaccrual interest not accrued
Acquired Loans:									
Real estate loans:									
One-to four-family	$42,800	$-	$1,480,508	$1,523,308	$38,261,709	$39,785,017	$542,236	$938,272	$118,381
Commercial	-	-	-	-	2,889,219	2,889,219	-	-	-
Commercial construction	-	-	-	-	1,274,148	1,274,148	-	-	-
Commercial business	-	-	-	-	2,621,625	2,621,625	-	-	-
Home equity loans	-	-	-	-	2,168,073	2,168,073	-	-	-
Consumer	-	-	3,535	3,535	1,102,899	1,106,434	-	3,535	178
	$42,800	$-	$1,484,043	$1,526,843	$48,317,673	$49,844,516	$542,236	$941,807	$118,559

Impaired Loans as of and for the nine months ended December 31, 2016 and as of and for the year ended March 31, 2016, was as follows:

December 31, 2016	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
Legacy Loans:							
Real estate loans:							
One-to four-family	**$2,048,417**	**$394,759**	**$1,392,530**	**$1,787,289**	**$288,098**	**$1,792,551**	**$46,819**
Commercial	**3,433,621**	**2,036,391**	**-**	**2,036,391**	**-**	**2,610,661**	**987**
Commercial construction	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial business	**1,216,028**	**781,623**	**-**	**781,623**	**-**	**824,690**	**80,538**
Home equity loans	**37,916**	**13,041**	**-**	**13,041**	**-**	**14,628**	**188**
Consumer	**-**	**-**	**-**	**-**	**-**	**-**	**-**

	$6,735,982	**$3,225,814**	**$1,392,530**	**$4,618,344**	**$288,098**	**$5,242,530**	**$128,532**

December 31, 2016	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
<u>Acquired Loans:</u>							
Real estate loans:							
One-to four-family	**$1,734,058**	**$1,269,425**	**$ -**	**$1,269,425**	**$ -**	**$1,148,691**	**$ 40,076**
Commercial	**256,463**	**206,463**	**-**	**206,463**	**-**	**208,859**	**5,848**
Commercial construction	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Home equity loans	**57,116**	**7,924**	**-**	**7,924**	**-**	**7,712**	**2,663**
Consumer	**68,230**	**37,576**	**-**	**37,576**	**-**	**40,396**	**4,228**
	$2,115,867	**$1,521,388**	**$ -**	**$1,521,388**	**$ -**	**$1,405,658**	**$ 52,815**

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

March 31, 2016	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
Legacy Loans:							
Real estate loans:							
One-to four-family	$2,116,820	$626,719	$1,291,808	$1,918,527	$ 59,571	$1,865,000	$ 63,498
Commercial	3,433,621	2,717,144	-	2,717,144	-	3,298,855	99,599
Commercial construction	-	-	-	-	-	-	-
Commercial business	1,884,258	1,279,233	-	1,279,233	-	1,557,871	147,101
Home equity loans	82,740	59,169	-	59,169	-	18,817	331
Consumer	-	-	-	-	-	-	-
	$7,517,439	$4,682,265	$1,291,808	$5,974,073	$ 59,571	$6,740,543	$ 310,529

March 31, 2016	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
Acquired Loans:							
Real estate loans:							
One-to four-family	$2,444,002	$1,210,306	$ -	$1,210,306	$ -	$1,387,353	$ 86,587
Commercial	261,239	211,239	-	211,239	-	212,806	9,978
Commercial construction	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-	-
Consumer	72,358	42,488	-	42,488	-	43,233	7,086
	$2,777,599	$1,464,033	$ -	$1,464,033	$ -	$1,643,392	$ 103,651

The following table documents changes in the carrying amount of acquired impaired loans (Purchased Credit Impaired or “PCI”) for the nine months ended December 31, along with the outstanding balance at the end of the period:

	December 31, 2016	December 31, 2015
Recorded investment at beginning of period	$919,729	$-
Fair value of loans acquired during the year	1,027,518	980,943
Accretion	20,738	-

Reductions of payments	(501,432)	(22,608)
Recorded investment at end of period	$1,466,553	$958,335
Outstanding principal balance at end of period	$1,907,842	1,324,972

A summary of changes in the accretable yield for PCI loans for the nine months ended December 31, 2016 and 2015 is as follows:

	December 31, 2016	December 31, 2015
Accretable yield at beginning of period	**$ 32,629**	$ -
Addition from acquisition	**55,046**	59,142
Accretion	**(20,738)**	-
Reclassification from nonaccretable difference	**-**	-
Accretable yield at end of period	**$ 66,937**	$ 59,142

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Impaired loans also include certain loans that have been modified in troubled debt restructurings (TDRs) where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Generally, nonaccrual loans that are modified and considered TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

A summary of TDRs at December 31, 2016 and March 31, 2016 follows:

December 31, 2016	Number of contracts	Performing	Nonperforming	Total
Real estate loans:				
One-to four-family	**12**	**$1,269,267**	**$ 271,208**	**$1,540,475**
Commercial	**2**	**-**	**2,036,391**	**2,036,391**
Commercial construction	**-**	**-**	**-**	**-**
Commercial business	**1**	**612,357**	**-**	**612,357**
Home equity loans	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**
	15	**$1,881,624**	**$ 2,307,599**	**$4,189,223**

March 31, 2016	Number of contracts	Performing	Nonperforming	Total
Real estate loans:				
One-to four-family	12	$1,457,552	$ 101,449	$1,559,001
Commercial	2	-	2,717,144	2,717,144
Commercial construction	-	-	-	-
Commercial business	2	647,654	-	647,654
Home equity loans	-	-	-	-
Consumer	-	-	-	-
	16	$2,105,206	$ 2,818,593	$4,923,799

The following table presents the number of contracts and the dollar amount of TDR's that were added during the three and nine-month periods ended December 31, 2016 and 2015. The amount shown reflects the outstanding loan balance at the time of the modification.

	Loans Modified as a TDR for the three months ended			
	December 31, 2016		December 31, 2015	
Troubled Debt Restructurings	**Number of contracts**	**Outstanding recorded investment**	Number of contracts	Outstanding recorded investment
Real estate loans:				
One-to four-family	**1**	**52,649**	**-**	**-**

	Loans Modified as a TDR for the nine months ended			
	December 31, 2016		December 31, 2015	
Troubled Debt Restructurings	**Number of contracts**	**Outstanding recorded investment**	Number of contracts	Outstanding recorded investment
Real estate loans:				
One-to four-family	**1**	**52,649**	**2**	**20,816**

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

There were no TDRs that defaulted in the three months ended December 31, 2016 and 2015 or the nine months ended December 31, 2016 and 2015. Earlier in fiscal 2017, there were 11 newly added TDR loans to one borrower for non-owner occupied residential real estate properties that had subsequently defaulted within twelve months. However, these loans have since been sold as part of a larger pool of loans in October 2016 and are no longer being reflected in the these financial statements. Payment default under a TDR is defined as any TDR that is 90 days or more past due following the time that the loan was modified or the inability of the TDR to make the required payment subsequent to the modification.

Credit quality indicators

As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, management tracks certain credit quality indicators including trends related to the risk grade of loans, the level of classified loans, net charge offs, nonperforming loans, and the general economic conditions in the Bank's market.

The Bank utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of loans characterized as watch list or classified is as follows:

Pass

A pass loan is considered of sufficient quality to preclude a special mention or an adverse rating. Pass assets generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral.

Special Mention

A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Loans that would primarily fall into this notational category could have been previously classified adversely, but the deficiencies have since been corrected. Management should closely monitor recent payment history of the loan and value of the collateral.

Borrowers may exhibit poor liquidity and leverage positions resulting from generally negative cash flow or negative trends in earnings. Access to alternative financing may be limited to finance companies for business borrowers and may be unavailable for commercial real estate borrowers.

Substandard

A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well defined weakness, or weaknesses, that jeopardize the collection or liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. This will be the measurement for determining if a loan is impaired.

Borrowers may exhibit recent or unexpected unprofitable operations, an inadequate debt service coverage ratio, or marginal liquidity and capitalization. These loans require more intense supervision by Bank management.

Doubtful

A doubtful loan has all the weaknesses inherent as a substandard loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. A loan classified as doubtful exhibits loss potential. However, there is still sufficient reason to permit the loan to remain on the books. A doubtful classification could reflect the deterioration of the primary source of repayment and serious doubt exists as to the quality of the secondary source of repayment.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Doubtful classifications should be used only when a distinct and known possibility of loss exists. When identified, adequate loss should be recorded for the specific assets. The entire asset should not be classified as doubtful if a partial recovery is expected, such as liquidation of the collateral or the probability of a private mortgage insurance payment is likely.

Loss

Loans classified as loss are considered uncollectable and of such little value that their continuance as loans is unjustified. A loss classification does not mean a loan has absolutely no value; partial recoveries may be received in the future. When loans or portions of a loan are considered a loss, it will be the policy of the Bank to write-off the amount designated as a loss. Recoveries will be treated as additions to the allowance for loan losses.

The following tables present the December 31, 2016 and March 31, 2016, balances of classified loans based on the risk grade. Classified loans include Special Mention, Substandard, and Doubtful loans. The Bank had no loans classified as Doubtful or Loss as of December 31, 2016 or March 31, 2016.

	Legacy				**Acquired**			
December 31, 2016	Pass	Special Mention	Substandard	Total	Pass	Special Mention	Substandard	T
Real estate loans:								
One-to four-family	$57,925,687	$2,550,162	$465,556	$60,941,405	$105,301,053	$4,344,061	$1,269,424	$
Commercial	85,771,988	6,364,843	2,036,391	94,173,222	13,957,708	1,315,931	237,991	
Commercial construction	1,655,899	-	-	1,655,899	1,620,552	-	-	
Commercial business	18,954,943	690,965	169,266	19,815,174	2,488,434	18,455	-	
Home equity loans	13,724,080	-	13,041	13,737,121	7,804,424	135,956	7,924	
Consumer	2,443,559	-	-	2,443,559	943,578	5,139	37,576	
	$180,476,156	$9,605,970	$2,684,254	$192,766,380	$132,115,749	$5,819,542	$1,552,915	$

Percentage of total loans	93.6 %	5.0 %	1.4 %	100 %	94.7 %	4.2 %	1.1 %

	Legacy				Acquired			
March 31, 2016	Pass	Special Mention	Substandard	Total	Pass	Special Mention	Substandard	Tot
Real estate loans:								
One-to four-family	$59,969,105	$2,272,150	$403,554	$62,644,809	$38,039,563	$535,148	$1,210,306	$39
Commercial	66,824,956	5,683,884	2,717,144	75,225,984	2,677,980	-	211,239	2,
Commercial construction	1,982,571	-	-	1,982,571	1,274,148	-	-	1,
Commercial business	13,629,957	3,477,579	666,431	17,773,967	2,621,625	-	-	2,
Home equity loans	12,163,519	-	59,169	12,222,688	2,168,073	-	-	2,
Consumer	3,072,677	-	-	3,072,677	1,063,946	-	42,488	1,
	$157,642,785	$11,433,613	$3,846,298	$172,922,696	$47,845,335	$535,148	$1,464,033	$49
Percentage of total loans	91.2 %	6.6 %	2.2 %	100 %	96.0 %	1.1 %	2.9 %	10

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

In the normal course of business, the Bank has various outstanding commitments and contingent liabilities that are not reflected in the accompanying financial statements. Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Mortgage loan commitments generally have fixed interest rates, fixed expiration dates, and may require payment of a fee. Other loan commitments generally have fixed interest rates. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time.

The Bank's maximum exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the credit commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. Management is not aware of any accounting loss to be incurred by funding these loan commitments.

The Bank had the following outstanding commitments and unused lines of credit as of December 31, 2016 and March 31, 2016:

	December 31, 2016	March 31, 2016
Unused commercial lines of credit	**$11,521,792**	$9,845,571
Unused home equity lines of credit	**23,032,210**	16,004,725
Unused consumer lines of credit	**36,223**	29,656
Residential construction loan commitments	**6,864,779**	8,166,473
Commercial construction loan commitments	**5,308,584**	1,384,932
Home equity loan commitments	**-**	536,000
Commercial loan commitments	**-**	411,500
Standby letters of credit	**558,189**	273,981

Note 7: Goodwill and Other Intangible Asset

The Company's intangible assets (goodwill and core deposit intangible) at December 31, 2016 consist of assets recorded in December 2009 associated with the acquisition of a branch office in Pasadena, Maryland, the acquisition of Fairmount in September 2015, and the acquisition of Fraternity in May 2016. The goodwill is deductible for tax purposes. We evaluate goodwill and other intangible assets for impairment on an annual basis. The core deposit intangible asset is being amortized straight-line over a life of eight years.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

The following table presents the changes in the net book value of intangible assets for the nine months ended December 31, 2016 and 2015:

	Goodwill	Core deposit intangible
Balance March 31, 2015	$2,664,432	$138,333
Additions (1)	3,814,428	542,540
Amortization expense	-	(38,619)
Balance December 31, 2015	$6,478,860	$642,254

	Goodwill	Core deposit intangible
Balance March 31, 2016	$6,767,811	$618,300
Additions (2)	1,936,142	242,020
Post acquisition adjustments	(81,524)	-
Amortization expense	-	(89,506)
Balance December 31, 2016	**$8,622,429**	**$770,814**

(1) - Additions to intangibles are related to the acquisition of Fairmount Bancorp, Inc.
(2) - Addition to intangibles are related to the acquisition of Fraternity Community.

The post acquisition adjustment to goodwill shown in the table above was recorded in the first quarter of fiscal 2017. The adjustment represents a $451,000 write-down of several owner-occupied residential investor loans to one borrower that were acquired in the Fairmount acquisition and recording of an increase to the deferred tax asset related to a $533,000 net operating loss (NOL) from Fairmount’s final tax return. With regards to the investor loans, information we were not aware of at the time of the acquisition became available during the quarter ended June 30, 2016. Had we known this information at the time of the acquisition, we would have deemed these loans as impaired and valued them accordingly.

At December 31, 2016, future expected annual amortization associated with the core deposit intangible is as follows:

Year ending March 31,	Amount
2017	$31,518
2018	126,070
2019	126,070
2020	123,737
2021	98,070
2022	98,070
2023	98,070
2024	64,167
2025	5,042
	$770,814

Note 8: Derivative – Interest Rate Swap Agreement

Derivative instruments are entered into primarily as a risk management tool of the Company. The derivative position relates to a transaction in which the Bank entered into an interest rate swap with another financial institution using a fixed rate commercial real estate loan as an offset. The Bank agrees to pay the other financial institution a fixed interest rate on a notional amount based upon the commercial real estate loan and in return receive a variable interest rate on the same notional amount. This transaction allows the Bank to effectively convert a fixed rate loan to a variable rate. Because the terms of the swap with the other financial institution and the commercial real estate loan offset each other, with the only difference being credit risk associated with the loan, changes in the fair value of the underlying derivative contract and the commercial real estate loan are not materially different and do not significantly impact the Bank's results of operations.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

During the second quarter of fiscal 2016, the Company entered into the interest rate swap agreement with a $3.3 million notional amount to convert a fixed rate commercial real estate loan at 3.99% into a variable rate for a term of approximately 10 years. The notional amounts of the interest rate swap and the offsetting commercial real estate loan were $3.2 million at December 31, 2016. The derivative is designated as a fair value hedge.

Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. The Bank's exposure is limited to the replacement value of the contract rather than the notional amount, principal, or contract amount. There are provisions in the agreement with the counterparty that allow for certain unsecured credit exposure up to an agreed threshold. Exposures in excess of the agreed threshold are collateralized. In addition, the Bank minimizes credit risk through credit approvals, limits, and monitoring procedures.

The fair value hedge is summarized below:

	December 31, 2016		
	Notional Amount	Principal Amount	Fair Value
Included in Loans and Leases:			
Commercial real estate loan	$-	$3,195,752	$3,234,383
Included in Other Liabilities:			
Interest Rate Swap	$3,195,752	$-	$38,631

No gain or loss was recognized in earnings for the nine months ending December 31, 2016 related to the interest rate swap. The Company posted $391,000 under collateral arrangements as of December 31, 2016 to satisfy collateral requirements associated with the credit risk exposure.

Note 9: Deposits

The following table details the composition of deposits and the related percentage mix of total deposits, respectively:

	December 31, 2016		March 31, 2016	
	Amount	% of Total	Amount	% of Total
Savings	**$45,524,702**	**11 %**	$33,010,962	11 %
Noninterest-bearing checking	**22,397,875**	**5 %**	19,747,437	6 %
Interest-bearing checking	**19,307,358**	**5 %**	13,298,677	4 %
Money market accounts	**61,467,590**	**15 %**	52,576,567	17 %
Time deposits	**258,655,797**	**63 %**	195,031,411	62 %
	$407,353,322	**100 %**	$313,665,054	100 %
Premium on deposits assumed	**971,620**		328,597	
Total deposits	**$408,324,942**		$313,993,651	

Note 10: Lines of Credit and Federal Home Loan Bank Advances

The Bank may borrow up to $5,000,000 from a correspondent bank under a secured federal funds line of credit and $1,000,000 under an unsecured federal funds line of credit. The Bank would be required to pledge investment securities to draw upon the secured line of credit. There were no borrowings under these lines of credit at December 31, 2016 and March 31, 2016.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Borrowings consist of advances from the Federal Home Loan Bank (FHLB). The Bank may borrow up to 25 percent of its assets under a line of credit agreement with the FHLB. Advances under the line of credit are secured by investments and certain loans owned by the Bank. As of December 31, 2016 and March 31, 2016, the Bank had $102.1 million and $58.0 million, respectively, of available credit from the FHLB. Advances would be limited by the balance of investment securities and loans available for pledge. As a condition of obtaining the line of credit from the FHLB, the FHLB also requires the Bank purchase shares of capital stock in the FHLB. Information relating to borrowings at December 31, 2016 and March 31, 2016 is presented below.

	December 31, 2016			March 31, 2016		
	Amount	**Rate**	**Maturity Date**	Amount	Rate	Maturity Date
FHLB advance	$-			$2,000,000	0.43%	6/3/2016
FHLB advance	-			2,000,000	0.60%	9/3/2016
FHLB advance	1,500,000	**0.75%**	**3/31/2017**	1,500,000	0.75%	3/31/2017
FHLB advance	1,000,000	**4.24%**	**7/31/2017**	1,000,000	4.24%	7/31/2017
FHLB advance	1,000,000	**4.01%**	**8/21/2017**	1,000,000	4.01%	8/21/2017
FHLB advance	1,000,000	**0.91%**	**8/31/2017**	1,000,000	0.91%	8/31/2017
FHLB advance	1,500,000	**3.23%**	**11/24/2017**	1,500,000	3.23%	11/24/2017
FHLB advance	1,500,000	**3.40%**	**11/27/2017**	1,500,000	3.40%	11/27/2017
FHLB advance	1,000,000	**2.60%**	**7/2/2018**	1,000,000	2.60%	7/2/2018
FHLB advance	1,000,000	**3.05%**	**7/3/2018**	1,000,000	3.05%	7/3/2018
FHLB advance	1,000,000	**2.60%**	**10/2/2018**	1,000,000	2.60%	10/2/2018
FHLB advance	5,000,000	**3.94%**	**7/23/2018**	-		
FHLB advance	5,000,000	**4.28%**	**7/31/2017**	-		
FHLB advance	5,000,000	**3.38%**	**9/19/2018**	-		
	25,500,000			14,500,000		
Premium on borrowings assumed	694,142			305,237		
Total borrowings	$26,194,142			$14,805,237		

Note 11: Regulatory Capital Ratios

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Basel III Capital Rules became effective for Hamilton Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

In connection with the adoption of the Basel III Capital Rules, we elected to opt-out of the requirement to include accumulated other comprehensive income in Common Equity Tier 1. Common Equity Tier 1 for Hamilton Bank is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities and subject to transition provisions.

Under the revised prompt corrective action requirements, as of January 1, 2015, insured depository institutions are required to meet the following in order to qualify as "well capitalized:" (1) a common equity Tier 1 risk-based capital ratio of 6.5%; (2) a Tier 1 risk-based capital ratio of 8%; (3) a total risk-based capital ratio of 10% and (4) a Tier 1 leverage ratio of 5%. As of December 31, 2016, the Bank met all capital adequacy requirements under the Basel III Capital Rules to be considered "well capitalized" under prompt corrective action rules.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and is being phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a “countercyclical capital buffer” that is applicable to only certain covered institutions and does not have any current applicability to Hamilton Bank.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of December 31, 2016 and March 31, 2016 for Hamilton Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of January 1, 2016 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

	Actual		Minimum Capital Required - Basel III Phase-In Schedule		Minimum Capital Required - Basel III Fully Phased-In		To be well capitalized (1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)		*(dollars in thousands)*			
December 31, 2016								
Common equity tier 1 capital (to risk-weighted assets)	**$41,748**	**12.73 %**	**$16,813**	**5.125 %**	**$22,964**	**7.00 %**	**$21,324**	**6.50 %**
Total risk-based capital (to risk-weighted assets)	**43,861**	**13.37 %**	**28,295**	**8.625 %**	**34,446**	**10.50 %**	**32,805**	**10.00 %**
	41,748	**12.73 %**	**21,734**	**6.625 %**	**27,885**	**8.50 %**	**26,244**	**8.00 %**

Tier 1 capital (to risk-weighted assets)								
Tier 1 capital (to adjusted total assets)	**41,748**	**8.51 %**	**19,615**	**4.000 %**	**19,615**	**4.00 %**	**24,518**	**5.00 %**
March 31, 2016								
Common equity tier 1 capital (to risk-weighted assets)	$44,518	19.06%	$11,971	5.125%	$16,350	7.00 %	$15,182	6.50 %
Total risk-based capital (to risk-weighted assets)	46,262	19.81%	20,146	8.625%	24,525	10.50%	23,357	10.00%
Tier 1 capital (to risk-weighted assets)	44,518	19.06%	15,474	6.625%	19,854	8.50 %	18,686	8.00 %
Tier 1 capital (to adjusted total assets)	44,518	11.78%	15,114	4.000%	15,114	4.00 %	18,892	5.00 %

(1) - Under prompt corrective action

Tier 1 capital consists of total shareholders’ equity less goodwill and intangible assets. Total capital includes a limited amount of the allowance for loan losses and a portion of any unrealized gain on equity securities. In calculating risk-weighted assets, specified risk percentages are applied to each category of asset and off-balance-sheet items.

Failure to meet the capital requirements could affect, among other things, the Bank's ability to accept brokered deposits and may significantly affect the operations of the Bank. During the quarter ending December 31, 2016, the Company moved $3.0 million in cash down to the Bank as capital to increase the Bank’s lending capacity and enhance the Bank’s capital ratios after falling below the Bank’s self-imposed internal minimum capital level in the prior quarter.

In its regulatory report filed as of December 31, 2016, the Bank exceeded all regulatory capital requirements and was considered “well capitalized” under regulatory guidelines. Management is not aware of any events that would have caused this classification to change. Management has no plans that should change the classification of the capital adequacy.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Note 12: Stock Based Compensation

In November 2013, the Company's shareholders approved a new Equity Incentive Plan (the "2013 Equity Incentive Plan''). The 2013 Equity Incentive Plan allows for up to 148,120 shares to be issued to employees, executive officers or Directors in the form of restricted stock, and up to 370,300 shares to be issued to employees, executive officers or Directors in the form of stock options. At December 31, 2016, there were 75,000 restricted stock awards issued and outstanding and 219,650 stock option awards granted under the 2013 Equity Incentive Plan.

Stock Options:

Under the above plan, the exercise price for stock options is the market price at date of grant. The maximum option term is ten years and the options granted shall vest in five equal annual installments of 20% with the first installment becoming exercisable on the first anniversary of the date of grant, or February 3, 2015, and succeeding installments on each anniversary thereafter, through February 3, 2019. The Company plans to issue new shares to satisfy share option exercises. The total expense that has been incurred for the stock option plan was $52,302 and $156,907 for the three and nine months ended December 31, 2016 and $52,302 and $156,907 for the three and nine months ended December 31, 2015, respectively.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical data. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury rate equal to the expected term of the option in effect at the time of the grant.

The fair value of options granted during the fiscal year ended March 31, 2014 was determined using the following weighted-average assumptions as of grant date.

	February 3, 2014

	(Grant Date)
Risk free interest rate	2.07%
Expected term (in years)	7.0
Expected stock price volatility	27.30%
Dividend yield	0.00%

The fair value of the options granted at grant date was $4.65

A summary of stock option activity for the nine months ended December 31, 2016 is as follows:

Nine Months Ended December 31, 2016:	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at beginning of period	219,650	$ 13.85	7.1
Granted	-	-	-
Exercised	-	-	-
Forfeited, exchanged or expired	-	-	-
Outstanding at December 31, 2016	219,650	$ 13.85	7.1
Vested at December 31, 2016	87,860	$ 13.85	7.1

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

As of December 31, 2016 there was $435,853 of total unrecognized compensation expense related to nonvested stock options granted under the Plan. The expense is expected to be recognized over a weighted-average period of 2.1 years. The intrinsic value of a stock option is the amount that the market value of the underlying stock exceeds the exercise price of the option. Based upon a fair market value of $14.25 at December 31, 2016, the options outstanding had an intrinsic value of $87,860.

Restricted Stock:

The specific terms of each restricted stock award are determined by the Compensation Committee at the date of the grant. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at the grant date. Restricted stock awards granted shall vest in five equal annual installments of 20% with the first installment becoming vested on the first anniversary of the date of grant and succeeding installments on each anniversary thereafter.

A summary of changes in the Company's nonvested shares for the nine months ended December 31, 2016 is as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested shares at March 31, 2016	**50,600**	**$ 13.76**
Granted	**-**	**-**
Vested	**(80)**	**14.00**
Forfeited	**-**	**-**
Nonvested shares at December 31, 2016	**50,520**	**$ 13.76**
Fair Value of shares vested at December 31, 2016	**$447,165**	

The Company recorded restricted stock awards expense of $56,426 and $169,279 during the three and nine months ended December 31, 2016 and $56,427 and $168,999 during the three and nine months ended December 31, 2015, respectively. As of December 31, 2016, there was $487,238 of total unrecognized compensation expense related to nonvested shares granted under the 2013 stock incentive plan. The cost is expected to be recognized over a weighted-average period of 2.2 years.

Note 13: Fair Value Measurements

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a hierarchy for determining fair value measurement. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follows:

Level 1: Valuation is based on quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2: Valuation is determined from quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market; and

Level 3: Valuation is derived from model-based techniques in which at least one significant input is unobservable and based on the Company’s own estimates about the assumptions that market participants would use to value the asset or liability.

The following is a description of the valuation methods used for instruments measured at fair value as well as the general classification of such instruments pursuant to the applicable valuation method.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Fair value measurements on a recurring basis

Securities available for sale – If quoted prices are available in an active market for identical assets, securities are classified within Level 1 of the hierarchy. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. As of December 31, 2016 and March 31, 2016, the Bank has categorized its investment securities available for sale as follows:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
December 31, 2016				
U.S. government agencies	**$ -**	**$3,509,405**	**$-**	**$3,509,405**
Municipal bonds	**-**	**16,148,962**	**-**	**16,148,962**
Corporate bonds	**-**	**-**	**1,913,528**	**1,913,528**
Mortgage-backed securities	**-**	**85,182,468**	**-**	**85,182,468**
Total investment securities available for sale	**$ -**	**$104,840,835**	**$1,913,528**	**$106,754,363**

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
March 31, 2016				
U.S. government agencies	$ -	$10,532,996	$-	$10,532,996
Municipal bonds		4,112,564		4,112,564
Corporate bonds	-	-	1,898,640	1,898,640
Mortgage-backed securities	-	53,940,200	-	53,940,200
Total investment securities available for sale	$ -	$68,585,760	$1,898,640	$70,484,400

Derivative – Interest rate swap agreement – Our methodology consists of a discounted cash flow model where all future floating cash flows are projected and both floating and fixed cash flows are discounted to the valuation date. The curve utilized for discounting and projecting is built by obtaining publicly available third party market quotes. As of December 31, 2016, the bank has categorized its interest rate swap and related loan as follows:

December 31, 2016	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Loans - Commercial real estate loan	$ -	$3,234,383	$ -	$3,234,383
Derivative - Interest rate swap agreement	$ -	$(38,631)	$ -	$(38,631)

The following table presents the valuation and unobservable inputs for Level 3 assets measured at fair value on a recurring basis at December 31, 2016:

Description	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
Corporate bonds	$ 1,913,528	3rd party valuation	Discount to reflect current market conditions	0.00% - 10.00%

Fair value measurements on a nonrecurring basis

Impaired Loans - The Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values. At December 31, 2016 and March 31, 2016, the fair values consist of loan balances of $6,139,732 and $7,438,106 that have been written down by $288,098 and $59,571, respectively, as a result of specific loan loss allowances.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Foreclosed real estate – The Bank's foreclosed real estate is measured at fair value less estimated cost to sell. As of December 31, 2016 and March 31, 2016, the fair value of foreclosed real estate was estimated to be $460,220 and $443,015, respectively. Fair value was determined based on offers and/or appraisals. Cost to sell the assets was based on standard market factors. The Company has categorized its foreclosed assets as Level 3.

December 31, 2016	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Impaired loans	**$ -**	**$ -**	**$5,851,634**	**$5,851,634**
Foreclosed real estate	**-**	**-**	**460,220**	**460,220**
Total impaired loans and foreclosed real estate	**$ -**	**$ -**	**$6,311,854**	**$6,311,854**

March 31, 2016	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Impaired loans	$ -	$-	$7,378,535	$7,378,535
Foreclosed real estate	-	-	443,015	443,015
Premesis and equipment held for sale			405,000	405,000
Loans held for sale	-	266,176	-	266,176
Total fair value of assets on a nonrecurring basis	$ -	$266,176	$8,226,550	$8,492,726

The following table presents the valuation and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis at December 31, 2016:

Description	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs		
Impaired loans, net of allowance	$ 5,851,634	Appraised value	Discount to reflect current market conditions	0.00%	-	25.00%
			Discount rates	2.63%	-	7.25%

			Discounted cash flows			
Foreclosed real estate	$	460,220	Appraised value	Discount to reflect current market conditions	0.00% -	25.00%

The following table summarizes changes in foreclosed real estate for the nine months ended December 31, 2016, which is measured on a nonrecurring basis using significant unobservable, level 3, inputs.

Balance, March 31, 2016	**$443,015**
Transfer to foreclosed real estate	**17,205**
Proceeds from sale of foreclosed real estate	**-**
Loss on sale of foreclosed real estate	**-**
Balance, December 31, 2016	**$460,220**

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

The remaining financial assets and liabilities are not reported on the balance sheets at fair value on a recurring basis. The calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

	December 31, 2016		March 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Level 1 inputs:				
Cash and cash equivalents	**$18,315,750**	**$18,315,750**	$67,448,536	$67,448,536
Level 2 inputs:				
Loans held for sale	**-**	**-**	259,450	266,176
Federal Home Loan Bank stock	**1,640,100**	**1,640,100**	1,042,500	1,042,500
Bank-owned life insurance	**18,132,876**	**18,132,876**	12,709,908	12,709,908
Level 3 inputs:				
Certificates of deposit held as investment	**499,303**	**501,394**	3,968,229	3,911,474
Loans receivable, net	**328,202,517**	**330,775,927**	218,604,150	220,671,409
Financial liabilities				
Level 3 inputs:				
Deposits	**408,324,942**	**408,859,890**	313,993,651	314,095,055
Advance payments by borrowers for taxes and insurance	**1,112,278**	**1,112,278**	1,079,794	1,079,794
Borrowings	**26,194,142**	**26,822,718**	14,805,237	15,146,307

The fair values of cash and cash equivalents and advances by borrowers for taxes and insurance are estimated to equal the carrying amount.

The fair value of loans held for sale is based on commitments from investors.

The fair value of Federal Home Loan Bank stock and bank-owned life insurance are estimated to equal carrying amounts, which are based on repurchase prices of the FHLB stock and the insurance company.

The fair value of fixed-rate loans is estimated to be the present value of scheduled payments discounted using interest rates currently in effect. The fair value of variable-rate loans, including loans with a demand feature, is estimated to equal the carrying amount. The valuation of loans is adjusted for estimated loan losses.

The fair value of certificates of deposit held as investments is estimated based on interest rates currently offered for borrowings of similar remaining maturities.

The fair value of interest-bearing checking, savings, and money market deposit accounts is equal to the carrying amount. The fair value of fixed-maturity time deposits is estimated based on interest rates currently offered for deposits of similar remaining maturities.

The fair value of borrowings is estimated based on interest rates currently offered for borrowings of similar remaining maturities.

The fair value of outstanding loan commitments and unused lines of credit are considered to be the same as the contractual amounts, and are not included in the table above. These commitments generate fees that approximate those currently charged to originate similar commitment.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Statements included in this management's discussion and analysis include non-GAAP financial measures and should be read along with the accompanying tables which provide a reconciliation of non-GAAP financial measures to GAAP financial measures. The Company's management uses these non-GAAP financial measures, including: (i) net income pre-acquisition related expenses; and (ii) tangible common equity, in its analysis of the Company's performance. The net income pre-acquisition related expenses and tangible common equity non-GAAP reconciliations, which include tangible book value per share, are presented within the “Summary of Recent Performance and Other Activities” section below.

Management believes that non-GAAP financial measures provide additional useful information that allows readers to evaluate the ongoing performance of the Company without regard to transactional activities. Non-GAAP financial measures should not be considered as an alternative to any measure of performance or financial condition as promulgated under GAAP, and investors should consider the Company's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the Company. Non-GAAP financial measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the Company's results or financial condition as reported under GAAP.

Safe Harbor Statement for Forward-Looking Statements

This report may contain forward-looking statements within the meaning of the federal securities laws. These statements are not historical facts; rather they are statements based on the Company’s current expectations regarding its business strategies and their intended results and its future performance. Forward-looking statements are preceded by terms such as “expects”, “believes”, “anticipates”, “intends”, and similar expressions.

Forward-looking statements are not guarantees of future performance. Numerous risks and uncertainties could cause or contribute to the Company’s actual results, performance, and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government, legislative and regulatory changes, the quality and composition of the loan and investment securities portfolio, loan demand, deposit flows, competition, and changes in accounting principles and guidelines. Additional factors that may affect our results are discussed in Part II, Item 1A of this form 10-Q and Item 1A of Hamilton Bancorp, Inc.’s Annual Report on Form 10-K filed June 29, 2016 with the Securities and Exchange Commission under the sections titled *“Risk Factors”*. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

General

Hamilton Bancorp, Inc. (the “Company”) is a Maryland corporation incorporated on June 7, 2012 by Hamilton Bank (the “Bank”) to be its holding company following the Bank’s conversion from the mutual to the stock form of organization (the “Conversion”). The Conversion was completed on October 10, 2012. On that same date, the Company completed its public stock offering and issued 3,703,000 shares of its common stock for aggregate proceeds of $37,030,000, and net proceeds of $35,580,000. The Company’s business is the ownership of the outstanding capital stock of the Bank. The Company does not own or lease any property but instead uses the premises, equipment and other property of the Bank.

Founded in 1915 and recently celebrating its 100th year anniversary, the Bank is a community-oriented financial institution, dedicated to serving the financial service needs of consumers and businesses within its market area, which is considered greater Maryland, southern Pennsylvania, Washington D.C., and northern Virginia. We offer a variety of deposit products and provide loans secured by real estate located in our market area. Our real estate loans consist primarily of one-to four-family mortgage loans, as well as commercial real estate loans, and home equity loans and lines of credit. We also offer commercial term and line of credit loans and, to a limited extent, consumer loans. We currently operate out of our corporate headquarters in Towson, Maryland and our seven full-service branch offices located in Baltimore City, Cockeysville, Towson, Rosedale, Ellicott City and Pasadena, Maryland. The Bank is subject to extensive regulation, examination and supervision by the Office of the Comptroller of the Currency, its primary federal regulator, and the Federal Deposit Insurance Corporation, its deposit insurer. The Company is subject to regulation and supervision by the Board of Governors of the Federal Reserve System.

Table of Contents

On May 13, 2016, the Company acquired Fraternity Community Bancorp, Inc. ("Fraternity"), the parent company of Fraternity Federal Savings and Loan in an all cash transaction for $25.7 million. In addition, the Company acquired Fairmount Bancorp, Inc. ("Fairmount"), the parent company of Fairmount Bank on September 11, 2015 in an all cash transaction for $14.2 million. Both acquisitions combined added three branches to our branch structure in the Baltimore area. (See Note 3 – "*Acquisitions*" of the consolidated financial statements for additional discussion about each acquisition.)

The Company and the Bank maintain an Internet website at http://www.hamilton-bank.com. Information on our website should not be considered a part of this Quarterly Report on Form 10-Q.

Summary of Recent Performance and Other Activities

The Company and its wholly owned subsidiary, Hamilton Bank, continue to show improvement in net interest income, as well as loan growth and consistent asset quality during the nine months ending December 31, 2016 compared to the same period a year ago. Net interest income improved $3.4 million to $10.3 million during the first nine months of fiscal 2017 compared to the same period a year ago as the Company continued to show strong loan demand, closed on its acquisition of Fraternity and integrated the operations of Fairmount after its acquisition in September 2015. Non-interest expense increased $2.4 million in the nine months ending December 31, 2016 compared to the same period a year ago. Included in non-interest expense for the nine months ending December 31, 2016 is $1.1 million in expenses relating to the acquisition of Fraternity, including merger related expenses and costs associated with non-compete agreements, consulting expense, and branch consolidation. Along with these expenses, there were additional expenses associated with operating as a larger institution. Management has diligently worked at monitoring and improving efficiencies to reduce our overall operating expenses and improve our efficiency ratio going forward.

The following highlights contain additional financial data and events that have occurred during the three and nine months ended December 31, 2016:

Successfully completed the acquisition of Fraternity in May 2016. As a result of the acquisition, total assets grew to $499.8 million at December 31, 2016, representing growth of $106.9 million or 27% compared to $392.9 million in assets at March 31, 2016.

Gross loans grew to $332.3 million at December 31, 2016, up $109.5 million, or 49%, compared to $222.8 million at March 31, 2016. Growth in loans was attributable to both the acquisition of Fraternity and organic loan growth. Total deposits grew to $408.3 million, up $94.3 million, or 30%, compared to $314.0 million over that same period. This growth included $108.9 million in acquired Fraternity deposits.

A pool of performing and non-performing loans obtained through our recent acquisitions was sold during the quarter resulting in a reduced level of non-performing loans. The pool of loans had a contractual balance of $3.2 million compared to a book balance of $1.4 million. The loans were identified as “held for sale” and written-down by $15,000 to their fair value in the second quarter of fiscal 2017 based upon the estimated sales price.

Net interest income for the three months ended December 31, 2016 was $3.6 million, an increase of $886,000, or 33%, compared to $2.7 million for the same period a year ago. For the nine months ended December 31, 2016, net interest income increased $3.4 million, or 50%, to $10.3 million compared to $6.9 million for the same nine month period a year ago.

Table of Contents

For the three and nine months ended December 31, 2016, the Company reported a net profit of $59,000 and $48,000, respectively, compared to net losses of $127,000 and $210,000 for the same respective periods a year ago. The comparative results were impacted by the acquisition, non-compete and consulting agreements relating to the acquisition, and branch consolidation related expenses in the current period and the sale of our Towson branch in the first quarter of last year. Excluding these factors would result in adjusted net income and earnings per share as follows:

	Three month period ended December 31,			Nine month period ended December 31,		
	2016	2015	Difference	**2016**	2015	Difference
	(dollars in thousands)			(dollars in thousands)		
Reported net income (loss)	**$59**	$(127)	$ 186	**$48**	$(210)	$ 258
Add: Reported tax expense (benefit)	**(58)**	234	(292)	**(66)**	325	(391)
Reported pre-tax income (loss)	**1**	107	(106)	**(18)**	115	(133)
Add: Non-deductible merger related expenses	**-**	197	(197)	**219**	828	(609)
Add: Non-compete and consulting expenses	**172**	-	172	**467**	-	467
Add: Branch consolidation expense	**-**	-	-	**437**	-	437
Less: Gain on sale of branch	**-**	-	-	**-**	(407)	407
Adjusted pre-tax income - (Non-GAAP)	**173**	304	(131)	**1,105**	536	569
Estimated tax expense (benefit)	**10**	234	(224)	**291**	164	127
Adjusted net income - (Non-GAAP)	**$163**	$70	$ 93	**$813**	$372	$ 442
Adjusted basic earnings per common share - (Non-GAAP)	**$0.05**	$0.02	$ 0.03	**$0.26**	$0.12	$ 0.14

- The non-GAAP financial measures shown above should not be viewed as a substitute for net income (loss) or earnings (loss) per share in accordance with GAAP. The Company's management believes that the presentation of net income on a non-GAAP basis, excluding acquisition related and other non-recurring expenses and gains, along with recurring non-compete and consulting expenses, provides useful information for evaluating the Company's operating results and any related trends that may be affecting the Company's business.

Nonperforming loans as a percentage of gross loans declined to 0.92% at December 31, 2016 from 2.27% at March 31, 2016. This decrease is due in part to several non-performing loans that were sold as part of a pool of loans, as discussed earlier, and the growth of our loan portfolio through acquisitions.

The allowance for loan losses as a percentage of nonperforming loans increased to 67.8% at December 31, 2016 from 33.7% at March 31, 2016.

Net charge-offs over the first nine months ended December 31, 2016 were $678,000 or 0.28% of average loans, on an annualized basis, compared to 0.22% of average loans on $428,000 in net charge-offs for the twelve months ended March 31, 2016.

As a result of the acquisition of Fraternity, the Company acquired one branch in Cockeysville, Maryland that serviced the same area as an existing Hamilton branch. Based upon due diligence and the expense savings forecasted out, management chose to close the existing Hamilton branch in Cockeysville and maintain the acquired Fraternity branch. As part of closing the existing Hamilton branch, the Company recognized a $437,000 expense in the first quarter that reflected the remaining term of the lease. This expense is reported as branch consolidation expense for the nine months ending December 31, 2016.

Table of Contents

The Company ended December 31, 2016 with a book value of $17.77 per common share and a tangible book value of $15.02 per common share compared to $18.03 and $15.87, respectively, at March 31, 2016. Tangible book value declined as a result of the goodwill and other intangible assets created in the Fraternity acquisition. Tangible book value, a non-GAAP measure, was determined as follows:

	December 31, 2016	March 31, 2016
Tangible book value per common share:		
Total shareholders' equity	**$60,673,890**	$61,544,583
Less: Goodwill and other intangible assets	**(9,393,243)**	(7,386,111)
Tangible common equity (Non-GAAP)	**$51,280,647**	$54,158,472
Outstanding common shares	**3,413,646**	3,413,646
Book value per common share (GAAP)	**$17.77**	$18.03
Tangible book value per common share (Non-GAAP)	**$15.02**	$15.87

The Company maintained strong liquidity and at December 31, 2016 the Bank was deemed “well capitalized” under federal regulations.

Strategic Plan

We have based our 2017-2019 strategic plan, which includes the current fiscal year, on the objective of improving stockholder value and growth through creating sustainable and profitable growth given the current and expected economic and competitive environment in the financial industry. Our short-term goals include continuing the growth of our loan portfolio, changing the mix of our deposits base to be more concentrated in lower costing core deposits, collecting payments on non-accrual and past due loans, enhancing and improving credit quality, expanding fee income, maintaining a sensible branch network, and using technology to improve efficiencies and enhance the customer experience.

We identified several strategic priorities in our three-year Strategic Plan. Those priorities included focusing on the following core areas:

Efficient Operating Revenue Growth – Generating sustainable and profitable revenue driven by smart growth of earning assets that are funded by low-cost core deposits and growth of noninterest income. In addition, focus on efficient utilization of the Bank’s assets. This strategic priority includes prudent loan growth, sales strategies to attract and grow small business deposits and other fee income services, strategic marketing campaigns, studying and benchmarking efficiency and productivity, and focusing on ways to utilize technology to drive earnings.

Well-defined and integrated delivery channels – Create and support both delivery channels and branch strategy that leverage technology and optimize efficiencies.

Acquisition strategy and planning - It is expected that the banking industry will continue to consolidate over the coming years due to a competitive market and the cost of regulatory compliance. Hamilton Bancorp is well positioned to take advantage of strategic opportunities that present themselves through mergers or acquisitions in our marketplace. This may include other financial institutions, individual branches, or loan purchases. The focus will be on proactive evaluation and contact with potential targets and the implementation of a capital strategy to fund such acquisitions, including investor relations. These opportunities, however, will be aligned with our strategic vision and goal of creating shareholder value and growth. We currently have no agreements or arrangements relating to any merger or acquisition.

Although the current economic climate continues to present significant challenges for the financial industry, management feels that based on our strategic initiatives we have positioned the Company to capitalize on opportunities that may become available in the current economy, as well as a healthier economy going forward.

Table of Contents

Critical Accounting Policies

The discussion and analysis of the financial condition and results of operations are based on our consolidated financial statements, which are prepared in conformity with GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. We consider the accounting policies discussed below to be critical accounting policies. The estimates and assumptions that we use are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

For a discussion of significant accounting policies, *see Note 1—Nature of Operations and Summary of Significant Accounting Policies* in the Notes to our Consolidated Financial Statements. The following are the accounting policies that we believe require the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available:

Allowance for Loan Losses. The allowance for loan losses is the estimated amount considered necessary to cover inherent credit losses in the loan portfolio at the balance sheet date. The allowance is established through the provision for losses on loans which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of our most critical accounting policies.

Management, at a minimum, performs a quarterly evaluation of the allowance for loan losses. Consideration is given to historical losses in conjunction with a variety of other factors including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change.

The analysis has two components, specific and general allocations. Specific allocations can be made for estimated losses related to loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. If the fair value of the loan is less than the loan’s carrying value, a charge is recorded for the difference. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general reserve.

We cannot predict with certainty the amount of loan charge-offs that we will incur. Our regulatory agencies, as an integral part of their examination processes, periodically review our allowance for credit losses. Such agencies may require that we recognize additions to the allowance for credit losses based on their judgments about information available to them at the time of their examination. To the extent that actual outcomes differ from management's estimates, additional provisions to the allowance for credit losses may be required that would adversely impact earnings in future periods.

Securities Valuation and Impairment. We classify our investments in debt and equity securities as either held to maturity or available for sale. Securities classified as held to maturity are recorded at cost or amortized cost. Available-for-sale securities are carried at fair value. We obtain our fair values from a third-party service. This service's fair value calculations are based on quoted market prices when such prices are available. If quoted market prices are not available, estimates of fair value are computed using a variety of techniques, including extrapolation from the quoted prices of similar instruments or recent trades for thinly traded securities, fundamental analysis, or through obtaining purchase quotes. Due to the subjective nature of the valuation process, it is possible that the actual fair values of these investments could differ from the estimated amounts, thereby affecting our financial position, results of operations and cash flows.

If the estimated value of investments is less than the cost or amortized cost, we evaluate whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of the investment. If such an event or change has occurred and we determine that the impairment is other-than-temporary, we record the impairment of the investment in the period in which the event or change occurred. We also consider how long a security has been in a loss position in determining if it is other than temporarily impaired. Management also assesses the nature of the unrealized losses taking into consideration factors such as changes in risk-free interest rates, general credit spread widening, market supply and demand, creditworthiness of the issuer, and quality of the underlying collateral. At December 31, 2016, all of our securities, except one which was a private label mortgage-backed security, were either issued by U.S. government agencies, U.S. government-sponsored enterprises, municipalities, or corporations.

Goodwill Impairment. Goodwill represents the excess purchase price paid for Fraternity, Fairmount and our Pasadena branch over the fair value of the net assets acquired. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company is considered the Reporting Unit for purposes of impairment testing. Impairment testing requires that the fair value of the Company be compared to the carrying amount of the Company's net assets, including goodwill. If the fair value of the Company exceeds the book value, no write-down of recorded goodwill is required. If the fair value of the Company is less than book value, an expense may be required to write-down the related goodwill to the proper carrying value. We test for impairment of goodwill at the end of February each year. We estimate the fair value of the Company utilizing four valuation methods including the Comparable Transactions Approach, the Control Premium Approach, the Public Market Peers Approach, and the Discounted Cash Flow Approach.

Based on our impairment testing as of February 2016, there was no evidence of impairment of the Company's goodwill or intangible assets.

Business Combinations. GAAP requires that the acquisition method of accounting, formerly referred to as purchase method, be used for all business combinations and that an acquirer be identified for each business combination. Under GAAP, the acquirer is the entity that obtains control of one or more businesses in the business combination, and the acquisition date is the date the acquirer achieves control. GAAP requires that the acquirer recognize the fair value of assets acquired, liabilities assumed, and any non-controlling interest in the acquired entity at the acquisition date

Income Taxes. We account for income taxes under the asset/liability method. We recognize deferred tax assets for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as operating loss and tax credit carry-forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period indicated by the enactment date. We establish a valuation allowance for deferred tax assets when, in the judgment of management, it is more likely than not that such deferred tax assets will not become realizable. The judgment about the level of future taxable income is dependent to a great extent on matters that may, at least in part, be beyond our control. It is at least reasonably possible that management's judgment about the need for a valuation allowance for deferred tax assets could change in the near term.

Comparison of Financial Condition at December 31, 2016 and March 31, 2016

Assets. Total assets increased $106.9 million, or 27.2%, to $499.8 million at December 31, 2016 from $392.9 million at March 31, 2016. The increase is primarily attributable to $153.3 million in identifiable assets acquired in the Fraternity acquisition, along with $2.2 million in intangible assets that were created.

Cash and Cash Equivalents. Cash and cash equivalents decreased by $49.1 million, or 72.8%, to $18.3 million at December 31, 2016 from $67.4 million at March 31, 2016. The decrease in cash is a result of the $25.7 million in cash paid in the Fraternity acquisition, an $18.7 million increase in the overall investment portfolio, and a $19.8 million increase in our legacy loan portfolio, partially offset by the $15.2 million in cash acquired in the Fraternity transaction along with an estimated $19.1 million in principal reduction from the acquired loan portfolio.

Certificates of Deposit Held as Investment. Certificates of deposit ("CDs") declined $3.5 million from $4.0 million at March 31, 2016 to $499,000 at December 31, 2016. The decline resulted from $1.7 million in CDs that matured and $2.2 million that were sold, partially offset by $498,000 in CDs that were acquired in the Fraternity acquisition and being held as an investment. The $2.2 million in CDs were sold at a loss of $2,000 and re-invested into a higher yielding security. The CDs held consist of individual amounts that are equal to or less than $250,000 and are fully insured by the FDIC. The weighted average rate and term of the portfolio is 2.28% and 4.8 years, respectively.

Table of Contents

Investment Securities. Our investment portfolio consists primarily of investment grade securities including U.S. government agency and government-sponsored entity securities, securities issued by states, counties and municipalities, corporate bonds, and mortgage-backed securities. At December 31, 2016, all securities are classified as available for sale. While we usually intend to hold investment securities until maturity, this classification provides us the opportunity to divest of securities that may no longer meet our liquidity objectives.

Investment securities increased $36.3 million, or 51.5%, to $106.8 million at December 31, 2016, from $70.5 million at March 31, 2016. The increase is attributable to $17.6 million in securities acquired in the Fraternity acquisition, along with the purchase of $50.6 million in municipal and collateralized mortgage obligations and mortgage-backed securities. Purchases and acquisitions were partially offset by $10.0 million in agency and municipal securities that were called and $14.2 million in monthly principal pay-downs associated with collateralized mortgage obligations and mortgage-backed securities issued by GSEs (Government Sponsored Enterprise). There were $4.3 million in securities sold in the quarter ended December 31, 2016 at a gain of $24,000. The fair value of the investment portfolio decreased $2.4 million from an unrealized loss position of $36,000 at March 31, 2016 to an unrealized loss position of $2.4 million at December 31, 2016. The decrease in fair value of the investment portfolio is a result of the increase in interest rates, specifically since the beginning of November 2016.

We have evaluated securities with unrealized losses for an extended period of time and determined that these losses are temporary because, at this point in time, we have the ability to hold them until maturity. Currently, we have no intent to sell these securities, however, if market conditions or funding needs change, we may sell securities if needed. As the maturity date moves closer and/or interest rates decline, we expect that any unrealized losses for individual securities in the portfolio will decline or dissipate. As a result, we have not identified any portion of the unrecorded loss as being attributed to credit deterioration in the issuer of the security.

Loans. Excluding loans held for sale and loan origination fees and costs, gross loans receivable increased by $109.5 million, or 49.1%, to $332.3 million at December 31, 2016 from $222.8 million at March 31, 2016. Included in loans and leases at December 31, 2016 is $108.7 million in loans associated with the Fraternity acquisition (included in the “acquired” loan column of the table below, along with loans acquired from the Fairmount acquisition). At December 31, 2016, gross loans receivable represented 66.5% of total assets compared to 56.7% of total assets at March 31, 2016.

Table of Contents

The following table details the composition of loans, excluding loans held for sale, and the related percentage mix and growth of total loans:

	December 31, 2016				March 31, 2016				Ye Gr
	Legacy	**Acquired**	**Total**	**Percent of Total**	Legacy	Acquired	Total	Percent of Total	An
Real estate loans:									
One-to four-family:									
Residential	**$44,297,741**	**$87,924,992**	**$132,222,733**	**40 %**	$46,263,709	$23,036,569	$69,300,278	31 %	$6
Residential construction	**6,973,282**	**557,310**	**7,530,592**	**2 %**	4,304,189	965,440	5,269,629	2 %	2
Investor	**9,670,382**	**22,432,236**	**32,102,618**	**10 %**	12,076,911	15,783,008	27,859,919	13 %	4
Commercial	**94,173,223**	**15,511,630**	**109,684,853**	**33 %**	75,225,984	2,889,219	78,115,203	35 %	3
Commercial construction	**1,655,899**	**1,620,552**	**3,276,451**	**1 %**	1,982,571	1,274,148	3,256,719	2 %	1
Total real estate loans	**156,770,527**	**128,046,720**	**284,817,247**	**86 %**	139,853,364	43,948,384	183,801,748	83 %	1
Commercial business	**19,815,173**	**2,506,890**	**22,322,063**	**7 %**	17,773,967	2,621,625	20,395,592	9 %	1
Home equity loans	**13,737,121**	**7,948,303**	**21,685,424**	**7 %**	12,222,688	2,168,073	14,390,761	6 %	7
Consumer	**2,443,559**	**986,293**	**3,429,852**	**1 %**	3,072,677	1,106,434	4,179,111	2 %	(
Total loans	**$192,766,380**	**$139,488,206**	**$332,254,586**	**100 %**	$172,922,696	$49,844,516	$222,767,212	100 %	$1

Approximately $74.9 million, or 69%, of the $108.7 million in loans acquired in the Fraternity acquisition consisted of one-to four-family residential loans, while $9.2 million, or 8.5%, consisted of investor real estate loans. Investor real estate loans represent funds advanced to borrowers for the purchase or refinance of non-owner occupied one- to four-family properties. Investor real estate loans make up $22.4 million, or 16.1%, of the $139.5 million in acquired loans as of December 31, 2016. In addition, $14.2 million, or 13.1%, in commercial real estate loans and $7.4 million, or 6.8%, in home equity loans were also acquired from Fraternity.

During the quarter ended December 31, 2016, management sold a pool of performing and non-performing loans that consisted primarily of acquired investor loans. The pool of loans had a contractual balance $3.2 million and a book balance of $1.4 million. In the prior quarter, these loans were identified as loans held for sale and were written-down by $15,000 to their estimated fair value based upon an estimated sales price. Management determined it was prudent to sell these loans, especially the non-performing investor loans, as the costs associated with these properties, including maintenance and tax bills were accumulating and the borrowers did not have the funds to properly maintain the properties.

Organically, the Bank continues to focus on growing both commercial real estate and commercial business loans as these loans offer higher rates of return and shorter maturity periods than typical retail lending. The largest increase organically in loans over the past nine months of fiscal 2017, as shown in the previous table above under “legacy”, is an $18.9 million, or 25.2%, increase in commercial real estate loans from $75.2 million at March 31, 2016 to $94.2 million at December 31, 2016. Commercial business loans also increased $2.0 million, or 11.5%, to $19.8 million at December 31, 2016 from $17.8 million at March 31, 2016. A large part of the increase in commercial business loans has occurred in the quarter ended December 31, 2016. Management has focused on diversifying the commercial loan portfolio and seeking more asset-based type lending relationships. The Bank continues to see the benefits of our commercial lending platform that was restructured in the first half of fiscal 2016, with new personnel and improved underwriting and monitoring procedures, from both an origination and credit quality perspective.

The Bank continues to originate traditional one-to four-family residential loans and sell them in the secondary market at a premium in order to manage interest rate risk in a rising rate environment. Beginning in fiscal 2015, the Bank began to promote its one-to four-family residential construction lending program. During the nine months of fiscal 2017, the Bank has originated roughly $13.8 million in residential construction loans. As a result, at December 31, 2016 we had $13.6 million in residential construction commitments, of which $7.1 million in funds have been advanced; compared to $7.9 million in residential construction commitments at March 31, 2016 of which $2.6 million in funds had been advanced. The construction period on residential homes is typically nine to twelve months, at which time Hamilton Bank is often repaid through permanent financing by a third party.

Table of Contents

Deposits. Total deposits (excluding premiums on acquired deposits) increased $93.7 million, or 29.9%, to $407.4 million at December 31, 2016 from $313.7 million at March 31, 2016, including $110.0 million in deposits assumed in the Fraternity acquisition. Approximately $22.4 million, or 20.4%, of the acquired deposits from Fraternity were core deposits (which we consider to be all deposits other than certificates of deposit). The Company continues to focus on changing its deposit mix to rely less on time deposits as a primary funding source and attract lower costing core deposits, including money market accounts. Money market accounts have increased the most with respect to core deposits based upon a money market promotion that was run from May through June 2016. With the Fraternity acquisition, core deposits have increased $30.1 million, or 25.3%, to $148.7 million at December 31, 2016 compared to $118.6 million at March 31, 2016.

The following table details the composition of deposits and the related percentage mix and growth of total deposits.

	December 31, 2016			March 31, 2016			Year-To-Date Growth		
	Total	**Percent of Total**		Total	Percent of Total		Amount	Growth Percent	
Savings	**$45,524,702**	**11**	**%**	$33,010,962	11	%	$12,513,740	38	%
Noninterest-bearing checking	**22,397,875**	**5**	**%**	19,747,437	6	%	2,650,438	13	%
Interest-bearing checking	**19,307,358**	**5**	**%**	13,298,677	4	%	6,008,681	45	%
Money market accounts	**61,467,590**	**15**	**%**	52,576,567	17	%	8,891,023	17	%
Time deposits	**258,655,797**	**63**	**%**	195,031,411	62	%	63,624,386	33	%
	$407,353,322	**100**	**%**	$313,665,054	100	%	$93,688,268	30	%
Premium on deposits asssumed	**971,620**			328,597			643,023		
Total deposits	**$408,324,942**			$313,993,651			$94,331,291		

Our strategy with respect to deposits has been to maintain or shrink our current certificates of deposit base, based upon liquidity needs, and focus on growing our core deposits at a faster pace to reduce our overall cost of funds.

Borrowings. Borrowings consist of both short and long-term advances from the Federal Home Loan Bank (FHLB). At December 31, 2016, the Company had $26.2 million in FHLB borrowings outstanding compared to $14.8 million at the beginning of the year. The increase over the first nine months of fiscal 2017 is attributable to $15.0 million in FHLB advances assumed in the Fraternity acquisition. These borrowings were longer term borrowings and are maturing in one to three years and carry rates of 3.4% to 4.3%. As a result of these higher stated rates, the Company recorded a discount of $794,000 when accounting for the borrowings at fair value at acquisition. At December 31, 2016, the remaining discount is at $515,000. The accretion of this discount will offset the higher stated rate of these borrowings. Partially offsetting the increase in advances is $4.0 million in advances that matured over the past nine months with an average stated interest rate of 0.52%.

At December 31, 2016, $7.5 million of the total advances are considered short-term, meaning they mature in less than one year, while the remaining $18.0 million are considered long-term; maturing in a year or more. The longest outstanding borrowing is for $1.0 million and matures in October 2018.

The FHLB borrowings provide an alternative means to support the cash outflow needed to fund new loan originations in coordination with deposit growth. FHLB borrowings can provide a less expensive means to support cash outflow when compared to selling higher yielding investment securities. These obligations are secured by our residential and home equity loan portfolios. At December 31, 2016, we had the ability to borrow approximately $102.1 million in additional funds from the FHLB, subject to our pledging sufficient assets. These obligations will be repaid as our cash position strengthens.

Equity. Total equity decreased $871,000, or 1.41%, to $60.7 million at December 31, 2016 from $61.5 million at March 31, 2016. Overall equity was not materially impacted by the acquisition of Fraternity due to the acquisition being an all cash transaction. The change in equity is primarily attributable to the $1.5 million decline in accumulated other comprehensive loss associated with the decrease in the fair value of the investment portfolio. The fair value of the investment portfolio declined as a result of the increase interest rates since the beginning of November 2016. The decrease was partially offset by a $389,000 increase in additional paid in capital resulting from the expense derived from equity awards granted in prior periods and the allocation of 14,812 common shares under the Employee Stock Ownership Program. In addition, the decrease was partially offset by net income of $48,000 that was recorded for the nine months ended December 31, 2016. The Company’s book value per share was $17.77 at December 31, 2016 compared to $18.03 at March 31, 2016.

Table of Contents

Comparison of Asset Quality at December 31, 2016 and March 31, 2016

The Bank's asset quality remains a primary focus of management and the Board of Directors. Nonperforming assets at December 31, 2016, were $3.5 million, a decrease of $2.0 million from March 31, 2016 and a $1.0 million decrease from September 30, 2016. Nonperforming assets to total assets decreased from 1.40% at March 31, 2016 to 0.70% at December 31, 2016. Nonperforming assets for the respective periods were as follows:

	At December 31, 2016	At March 31, 2016	At December 31, 2015
	(dollars in thousands)		
Nonaccruing loans	**$3,045**	$4,342	$ 5,168
Accruing loans delinquent more than 90 days	**-**	708	-
Foreclosed real estate	**460**	443	443
Total nonperforming assets	**$3,505**	$5,493	$ 5,611
Asset Quality Ratios:			
Nonperforming loans to gross loans	**0.92 %**	2.27 %	2.25 %
Nonperforming assets to total assets	**0.70 %**	1.40 %	1.52 %
Net charge-offs (annualized) to average loans	**0.28 %**	0.22 %	-0.09 %

Included in nonperforming loans are accruing loans delinquent more than 90 days. These loans represent loans that are on accrual status and paying under the contractually agreed upon terms of the note, however, such loans are 90 days past their contractual maturity date, and therefore reported as nonperforming. At March 31, 2016 these loan balances were elevated as they related too many smaller investor (residential non-owner occupied) loans that matured at the same time. The Bank's credit department has diligently worked through many of these loans and have either renewed or extended them accordingly.

Nonaccrual loans decreased to $3.0 million at December 31, 2016 compared to $4.3 million at March 31, 2016. A large portion of the non-accrual loans reported at December 31, 2016 and March 31, 2016 consist of two commercial real estate loans that are related. Together these loans have a contractual principal balance of $3.4 million and a recorded investment balance of $2.0 million, including a $567,000 charge-off taken at the end of the prior fiscal year and another $622,000 charge-off taken during this quarter. The most recent write-down was based upon the value of an "as is" appraisal. The loans were placed on non-accrual in October 2015 due to legal issues and the concern of collectability. The borrower is classified as a Troubled Debt Restructure ("TDR") and continued to make interest only payments through July 2016, which were applied by the Bank as a principal reduction to the loans. The property is being listed for sale by a broker. Management is also actively exploring other options to resolve this problem credit that may or may not result in additional write-downs. As of December 31, 2016, there was an additional $50,000 in nonaccrual commercial real estate and business loans combined.

Nonaccrual loans included $223,000 in non-owner occupied investor loans as of December 31, 2016, the majority of which were acquired through the acquisition of Fairmount Bank. The balance of non-accrual investor loans has decreased by $707,000 from $930,000 at June 30, 2016. This decrease is due to a pool of these loans, with a book balance of $768,000 that were classified as loans held for sale during the quarter ended September 30, 2016 and then subsequently sold at the end of October 2016. Once the decision to sell was made, these loans were written down $15,000 to their fair value based upon an outside offering price. The $223,000 in non-owner occupied investor loans at December 31, 2016 primarily consists of one separate borrower that has individual loans on multiple properties. The remaining balance of nonaccrual loans at December 31, 2016 consist of traditional one-to four-family residential mortgages. Nonaccrual loans attributable to the acquisition of Fraternity included eight loans totaling $26,000.

Delinquencies 30-89 days past due associated with the acquired one-to four-family loan portfolio have increased $1.5 million since March 31, 2016. A large portion of this increase is attributable to two borrowing relationships concerning non-owner occupied residential investor loans. Management is closely monitoring these relationships and working with the borrowers to prevent further deterioration, while also exploring other options to resolve these credits that may or may not result in write-downs.

Foreclosed real estate increased $17,000 from $443,000 at March 31, 2016 to $460,000 at December 31, 2016 and consists of two properties. The first property represents semi-developed land in the amount of $443,000. The property is listed for sale and is participated with another financial institution, with Hamilton being the lead lender. The second property was added to foreclosed real estate during the first quarter of fiscal 2017 in the amount of $17,000. This property is residential real estate that represented a participation bought by Hamilton. Hamilton participated in 20% of the original loan amount with another financial institution, who was the lead lender at that time.

The Bank recorded a $1.0 million provision for loan loss during the first nine months of fiscal 2017 compared to a provision for loan loss of $190,000 for the same period a year ago. The provision for loan loss for the nine months ended December 31, 2016 was a result of a $622,000 charge-off taken in the most recent quarter that pertained to two commercial real estate loans to the same borrower, as discussed earlier. The remaining amount of the provision is a result of an increase in organic loan growth and the granting of a concession to two already existing one-to four-family residential TDRs. The allowance for loan losses at December 31, 2016 totaled $2.1 million, or 0.62% of gross loans, compared to $1.7 million, or 0.76% of total gross loans, at March 31, 2016. This decrease in percentage is related to the increase in overall loan balances associated with the Fraternity acquisition in May 2016. As outlined in note 3 to our consolidated financial statements, loans acquired in an acquisition are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. We continue to monitor and manage the acquired loan portfolio to determine whether any provision is necessary.

The activity in the allowance for loan losses for the nine-month period ended December 31, 2016 includes $724,000 in charge-offs, offset by $46,000 in recoveries and a $1.0 million provision for loan losses. We currently review the adequacy of the allowance for loan losses on a monthly basis and are proactively managing problem assets. Based upon our analysis, we believe this allowance appropriately reflects the inherent risk of loss in our loan portfolio at December 31, 2016. We estimate the allowance for loan losses within a range based upon our historical charge-off history and certain environmental factors.

Results of Operations for the Three Months Ended December 30, 2016 and 2015 (unaudited)

General. Net income was $59,000 or $0.02 per basic and diluted common share for the three-month period ended December 31, 2016 compared to a net loss of $127,000 or $(0.04) per basic and diluted common share for the same period in fiscal 2016, a period-over-period increase of $186,000. The increase in net results of operations resulted primarily from an $866,000 increase in net interest income, a $54,000 increase in noninterest income, and a $292,000 decrease in tax expense, partially offset by a $710,000 increase in the provision for loan losses and a $336,000 increase in noninterest expense.

Net Interest Income. Net interest income increased $866,000, or 32.5%, to $3.6 million for the three months ended December 31, 2016 compared to $2.7 million for the three months ended December 31, 2015. The increase in net interest income was due to a $1.1 million increase in interest revenue, partially offset by a $251,000 increase in interest expense. The increase in interest revenue was due to an increase in the average balance of interest-earning assets, particularly higher yielding loans, partially offset by a slight decrease in the average yield on interest-earning assets. The average balance in interest-earning assets increased $130.5 million, or 38.8%, for the quarter ended December 31, 2016 compared to the same period in fiscal 2016, while the average yield decreased 10 basis points to 3.73% from 3.83%, respectively. The average balances increased quarter-over-quarter due to the acquisitions of Fraternity. Over this period, the Bank was able to also increase organically the average balance of higher interest-earning assets, particularly loans, which grew a net of $16.0 million, excluding the effect of our acquisition.

The increase in the average balance of interest-earning assets for the quarter ended December 31, 2016 was offset by a $135.5 million increase in the average balance of interest-bearing liabilities for the same period. The increase is attributable to deposits and borrowings acquired in the Fraternity acquisition, as well as management’s focus on increasing our deposit base to fund organic loan growth. The average cost of interest-bearing liabilities for the comparative period increased 1 basis point from 0.70% for the quarter ended December 31, 2015 to 0.71% for the quarter ended December 31, 2016. Our net interest margin decreased 15 basis point from 3.24% for the three months ended December 31, 2015 to 3.09%% for the three months ended December 31, 2016.

Interest Revenue. Interest revenue increased $1.1 million, or 35.3% to $4.4 million during the three months ended December 31, 2016 compared to the three months ended December 31, 2015, as a result of increases in interest and fees on loans and revenue from investment securities and bank deposits.

Interest and fees on loans increased $1.1 million, or 38.2%, to $3.9 million for the three months ended December 31, 2016, compared to $2.8 million for the three months ended December 31, 2015. The increase in interest and fees on loans is due to a $104.2 million increase in the average balance of net loans from $223.1 million to $327.3 million quarter-over-quarter. The increase in average loans is attributable to the loans acquired in the Fraternity acquisition, as well as our new commercial lending platform and staff that was put in place at the beginning of fiscal 2015. The average yield earned on loans decreased 29 basis point from 5.03% for the three months ended December 31, 2015 to 4.74% for the three months ended December 31, 2016. The yield on average loans continues to be impacted by the extended low interest rate environment and the competitive pressure relating to pricing.

Interest revenue on investment securities increased $55,000 to $451,000 during the three months ended December 31, 2016 from $396,000 during the three months ended December 31, 2015. The average balance of investment securities increased by $20.3 million, or 24.3%, to $103.9 million for the three months ended December 31, 2016 from $83.6 million during the same period last year, while the average yield decreased 16 basis points to 1.74% from 1.90%, respectively. The largest increase in average investment securities was in mortgage-backed securities, which increased $18.5 million to $79.7 million for the three months ended December 31, 2016 from $61.2 million for the same period last year. The average balance of investment securities also increased quarter-over-quarter by $12.4 million. The increase in average investments is attributable to the Fraternity acquisition, along with utilizing the excess cash acquired in the Fraternity acquisition and from principal reductions to purchase new investment securities.

Interest Expense. Interest expense increased $251,000, or 50.7%, to $748,000 for the three months ended December 31, 2016 compared to $496,000 for the same period in fiscal 2016, due to the increase in the average balance of both interest-bearing deposits and borrowings. Average interest-bearing deposits increased $126.0 million, or 47.3%, to $392.4 million for the three months ended December 31, 2016 from $266.4 million for the three months ended December 31, 2015. The average cost of deposits remained unchanged at 0.69% over those same periods. A significant portion of our time deposits have already repriced in today’s low interest rate environment, as a result, the change in interest expense is mainly attributable to the increase in average balances than to interest rates.

For the three-month period ended December 31, 2016, average interest-bearing deposit balances increased for all types of deposits when compared to the same period last year as a result of the Fraternity acquisition, as well as promotional efforts to raise funds for new loan growth. We remain focused on changing the mix of our deposit portfolio by maintaining our maturing certificates of deposits and growing lower cost core deposits, including savings, interest-bearing checking and money market accounts. The average balance of time deposits increased $77.2 million, or 41.0%, to $265.4 million for the quarter ended December 31, 2016 compared to $188.2 million for the quarter ended December 31, 2015. Over this same period, the average balance of core interest bearing deposits increased $48.8 million, or 62.5%, to $127.0 million for the three months ended December 31, 2016 compared to $78.1 million for the three months ended December 31, 2015. The growth in core deposits was primarily a result of the continued efforts by our cash management and financial service teams, as well as those core deposits assumed in the Fraternity acquisition.

Noninterest-bearing deposits allow us to fund growth in interest-earning assets at minimal cost. As a result of the growth generated from the efforts of our cash management personnel, commercial loan officers working with commercial clients to move their deposit relationship to Hamilton Bank and the acquisitions of Fraternity, average noninterest-bearing deposits increased $5.7 million, or 28.8%, to $25.3 million for the three months ended December 31, 2016, compared to $19.6 million for the three months ended December 31, 2015.

Table of Contents

For the three-month period ended December 31, 2016, average interest-bearing borrowings were $26.3 million compared to an average balance of $16.9 million for the same period a year ago. The borrowings consisted entirely of advances from the Federal Home Loan Bank ("FHLB"). At December 31, 2016, the Bank had $25.5 million in outstanding advances from the FHLB, all of which were assumed through the Fraternity and Fairmount acquisitions. These borrowings carried an average rate of 1.1% for the three months ended December 31, 2016. Borrowing from the FHLB in today's low interest rate environment can be a more cost effective means to obtain funds if deposits are not growing compared to selling investment securities that are earning a higher yield.

Average Balances, Interest and Yields. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest revenue from average interest-earning assets, the dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing revenue or expense by the average balances of assets or liabilities, respectively, for the periods presented. Average balances have been calculated using average daily balances. No tax-equivalent adjustments were made. Nonaccrual loans have been included in the table as loans carrying a zero yield.

	Three Months Ended December 31, (dollars in thousands)					
	2016			**2015**		
	Average Balance	**Interest**	**Yield/ Cost**	**Average Balance**	**Interest**	**Yield/ Cost**
Interest-earning assets:						
Cash and cash equivalents	**$35,824**	**$28**	**0.31 %**	$29,871	$18	0.24 %
Investment securities (1)	**24,145**	**140**	**2.32 %**	22,370	123	2.20 %
Mortgage-backed securities	**79,744**	**311**	**1.56 %**	61,203	273	1.78 %
Loans receivable, net (2)	**327,336**	**3,878**	**4.74 %**	223,125	2,806	5.03 %
Total interest-earning assets	**467,049**	**4,357**	**3.73 %**	336,569	3,220	3.83 %
Noninterest-earning assets	**42,425**			29,417		
Total assets	**$509,474**			$365,986		
Interest-bearing liabilities:						
Certificates of deposit	**$265,448**	**$593**	**0.89 %**	$188,240	$434	0.92 %
Money Market	**64,848**	**62**	**0.38 %**	32,403	14	0.17 %
Statement savings	**44,806**	**17**	**0.15 %**	32,754	9	0.11 %
NOW accounts	**17,315**	**1**	**0.02 %**	12,977	1	0.03 %
Total interest-bearing deposits	**392,417**	**673**	**0.69 %**	266,374	458	0.69 %
Borrowings	**26,280**	**74**	**1.13 %**	16,865	38	0.90 %
Total interest-bearing liabilities	**418,697**	**747**	**0.71 %**	283,239	496	0.70 %
Noninterest-bearing liabilities and equity:						
Noninterest-bearing deposits	**25,274**			19,617		
Other noninterest-bearing liabilities	**7,080**			2,377		
Total liabilities	**451,051**			305,233		

Total shareholders’ equity	**58,423**			60,753		
Total liabilities and shareholders’ equity	**$509,474**			$365,986		
Net interest income		**$3,610**			$2,724	
Net interest rate spread (3)			**3.02 %**			3.13 %
Net interest-earning assets (4)	**$48,352**			$53,330		
Net interest margin (5)			**3.09 %**			3.24 %
Average interest-earning assets to average interest-bearing liabilities	**111.55 %**			118.83 %		

(1) Includes U.S agency and treasury securities, municipal and corporate bonds and to a much lesser extent, Federal Home Loan Bank equity securities.
(2) Loans on non-accrual status are included in average loans carrying a zero yield.
(3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing libilities.
(4) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(5) Net interest margin represents net interest income divided by average total interest-earning assets.

Table of Contents

Provision for Loan Losses. We establish provisions for loan losses that are charged to operations in order to maintain the allowance for loan losses at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. There was $780,000 charged to the provision for loan losses for the three months ended December 31, 2016 compared to a provision for loan losses of $70,000 for the three months ended December 31, 2015. In the current quarter, $700,000 of the provision for loan loss was related to one legacy loan charge-off for $622,000 and the impact of that charge-off to our historical charge-off history used in calculating the allowance for loan loss. The remaining $80,000 charged to provision for loan loss is related to organic loan growth. Management identified probable losses in the loan portfolio and recorded net charge-offs of $658,000 for the three months ended December 31, 2016, compared to net recoveries of $212,000 for the comparable period a year ago.

The allowance for loan losses was $2.1 million, or 67.8% of non-performing loans at December 31, 2016 compared to $2.0 million, or 39.0% of non-performing loans at December 31, 2015. The increase in the percentage is a result of the decrease in our non-performing loans as compared to the period ending December 31, 2015. Since December 2015, we have reduced non-performing loans by charging-off $1.2 million relating to two commercial real estate loans placed on non-accrual in October 2015 having a contractual balance of $3.4 million and selling a pool of loans in October 2016 that included $768,000 in non-performing loans.

During the three months ended December 31, 2016, loan charge offs totaled $677,000, including the one charge-off of $622,000, with recoveries of $19,000, compared to $92,000 in charge offs and $304,000 in recoveries during the three months ended December 31, 2015. In the prior year quarter we had a recovery of $237,000 on one commercial construction loan. During fiscal year 2017, we expect that we will continue our emphasis in growing commercial real estate and commercial business loans, which have higher interest rates than one-to four-family mortgage loans, but are generally considered to bear higher risk than one-to four-family mortgage loans and could contribute to higher provisions going forward.

Summary of Allowance for Loan Losses Activity. The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	Three Months Ended December 31,	
	2016	**2015**
	(dollars in thousands)	
Allowance for loan losses at beginning of period	**$1,942**	$1,734
Charge-offs:		
Real estate loans:		
One-to four-family	**52**	92

Commercial	**622**	-
Construction	**-**	-
Commercial business	**-**	-
Home equity	**-**	-
Consumer	**3**	-
Total charge-offs	**677**	92
Recoveries	**19**	304
Net charge-offs	**658**	(212)
Provision for loan losses	**780**	70
Allowance for loan losses at end of period	**$2,064**	$2,016
Allowance for loan losses to non-performing loans	**67.78 %**	39.00 %
Allowance for loan losses to total loans outstanding at the end of the period	**0.62 %**	0.88 %
Net charge-offs to average loans outstanding during the period (annualized)	**0.80 %**	-0.38 %

Table of Contents

Noninterest Revenue. Noninterest revenue increased $54,000, or 23.3%, to $288,000 for the three months ended December 31, 2016, compared to $234,000 for the three months ended December 31, 2015. The following table outlines the changes in components of noninterest revenue for the three-month periods.

	Three months ended December 31,			
	2016	2015	$ Change	% Change
Service charges	**$104,882**	$102,979	$1,903	1.8
Gain on sale of investment securities	**23,720**	20,497	3,223	15.7
Gain on sale of loans held for sale	**1,438**	7,826	(6,388)	(81.6)
(Loss) gain on sale of property and equipment	**(11,043)**	-	(11,043)	N/A
Earnings on bank-owned life insurance	**126,302**	87,616	38,686	44.2
Other fees and commissions	**42,784**	14,675	28,109	191.5
Total noninterest revenue	**$288,083**	$233,593	$54,490	23.3

Noninterest revenue increased for the three months ending December 31, 2016 compared to the same quarter last year in part due to the acquisition of Fraternity, along with management's focus on increasing core deposits which are more typically transactional and fee based oriented.

Service charges associated with retail deposit products increased quarter-over-quarter. We have continued to focus on growing our core deposits, particularly checking accounts, which typically generate more service fee income. We continually review our fee structure on transactional accounts so that we may be more aligned with our market. Customers, however, have become more cost conscious of fees and better manage their deposit relationship with the Bank.

The increase in earnings on bank-owned life insurance (BOLI) is associated with $5.1 million in BOLI assumed by Hamilton in the Fraternity acquisition. The revenue earned from BOLI is generally exempt for tax purposes.

Other fees and commissions include loan fees charged to customers, merchant credit fees, and other smaller fees. Loan fees for the three-months ended December 31, 2016 totaled $30,000 and included charges to customers for loan applications, processing, and /or extensions. Merchant credit card fees represent a revenue sharing agreement the bank has with a credit card processing company for card services used by the Bank's borrowers. Merchant credit card fees amounted to $6,000 for the three months ended December 31, 2016 compared to $5,000 for the comparable period a year ago.

Offsetting the increases in noninterest revenue was a decrease in gains on the sale of loans held for sale and the loss on sale of property and equipment. Gain on sale of loans held for sale represents revenue earned on loans sold in the secondary market and premiums associated with such sales. We sell a majority of our newly originated one-to four-family residential mortgage loans with a maturity greater than 10 years to the secondary market with service released to assist in managing our interest rate risk in anticipation of rising interest rates. The $11,000 loss realized on the sale of property and equipment is in reference to the sale of an unoccupied branch building that was obtained as part of the Company's acquisition of Fairmount Bancorp in 2015. The property was sold for $425,000 with net proceeds of $393,000, excluding closing costs, and a book balance of $405,000.

Table of Contents

Noninterest Expense. Noninterest expense increased $336,000, or 12.1%, to $3.1 million for the three months ended December 31, 2016 compared to $2.8 million for the three months ended December 31, 2015. The following table outlines the changes in components of noninterest expense for the three-month periods.

	Three months ended December 31,			
	2016	2015	$ Change	% Change
Salaries and benefits	**$1,714,314**	$1,395,858	$318,456	22.8
Occupancy	**234,310**	195,155	39,155	20.1
Advertising	**16,305**	43,295	(26,990)	(62.3)
Furniture and equipment	**93,058**	85,077	7,981	9.4
Data processing	**206,596**	154,977	51,619	33.3
Legal services	**47,831**	52,100	(4,269)	(8.2)
Other professional services	**284,979**	131,353	153,626	117.0
Merger related expenses	**-**	196,645	(196,645)	(100.0)
Deposit insurance premiums	**63,571**	63,105	466	0.7
Foreclosed real estate expense and losses	**(1,578)**	3,270	(4,848)	(148.3)
Other operating	**457,466**	459,817	(2,351)	(0.5)
Total noninterest expense	**$3,116,852**	$2,780,652	$336,200	12.1

Overall noninterest expense has increased for both of the periods shown as a result of acquisition related costs pertaining to the Fraternity acquisition that closed in May 2016, as well as the acquisition related costs associated with Fairmount in the prior year quarter. The merger expenses include fees paid to attorneys, investment bankers and accountants, data conversion, as well as other related costs. A breakdown of the acquisition related expenses is shown in the following table.

	Three months ended December 31,	
	2016	2015
Legal	**$-**	$68,528
Professional services	**-**	128,117
Total meger related expenses	**$-**	$196,645

In addition to acquisition related expenses, several other categories, including occupancy, furniture and equipment, and data processing all increased as a result of the Bank operating as a larger institution. Certain costs are inherited after acquiring another financial institution, including additional personnel, branch costs, additional equipment, increased FDIC insurance, and an increase in the core data base resulting from the addition of acquired customers.

The largest increase in noninterest expenses quarter-over-quarter was in salaries and benefits. The Company went from 59 full-time equivalent employees at December 31, 2015 to 73 full-time equivalent employees at December 31, 2016. The additional personnel are related to the retention of certain employees from the Fraternity acquisition and internal growth within our loan and back-office areas. In addition, for the three months ending December 31, 2016 and 2015, $79,000 in expense was recognized relating to equity awards granted to officers under the Company's 2013 Equity Incentive Plan. The equity awards provide for management to have a vested interest in the performance of the company and share in the benefit of an increase in shareholder value. Similarly, other operating expenses for the same periods include $30,000 in expense associated with equity awards granted to Directors.

Legal expense for the quarter ending December 31, 2016 decreased slightly over the same quarter a year ago due to the reduction in problem assets acquired in the Fairmount acquisition, particularly the non-owner occupied residential investor loans. During the current quarter, we sold a pool of non-performing loans relating to the non-owner occupied residential investor loans to reduce costs, including legal expenses, associated with these loans going forward. Management has been diligently working through these problem assets and has engaged legal counsel to assist with the collection and foreclosure process, as well as consult on how to proceed with certain borrowers.

Other professional services increased quarter-over quarter due to payments to the executives of Fraternity under non-compete agreements. The expense associated with these agreements is $860,000 and will be recognized over the two year contractual period of the agreements, including $145,000 that was recognized in the quarter ending December 31, 2016. In addition, we were paying consulting fees over a six month period to the same Fraternity executives to assist in the retaining and transitioning of our newly acquired customer base. Payments under the consulting agreement ended in November 2016.

Deposit insurance premiums remained relatively unchanged in comparing the two quarters, despite overall deposits increasing as a result of the Fraternity acquisition. The rates associated with FDIC insurance premiums were reduced during the quarter ending December 31, 2016 as a result of the deposit insurance fund reaching it is minimum fund balance. It is anticipated that the rates will remain lower as long as the minimum fund balance is maintained and the Bank's overall regulatory rating remains the same.

The decrease in other operating expense consists of several items, including adjustments to the deferral of Director fees associated with loan origination costs, new costs associated with non-owner occupied residential investor loans acquired from Fairmount and the management of those properties, additional amortization expense associated with the core deposit intangible created in the Fraternity acquisition, increased regulatory filing expenses, and other miscellaneous items such telephone and dues and subscriptions.

Management actively explores ways to reduce costs and improve efficiency. We monitor our costs associated with daily operations and review existing vendor contracts for additional savings and/or seek alternative vendors. These actions, along with efficiencies achieved through the acquisitions of Fraternity and Fairmount, continue to improve our efficiency ratio.

Income Tax Expense. We recorded a tax benefit of $58,000 for the three months ended December 31, 2016 after pre-tax income of $1,000, compared to tax expense of $234,000 for the three months ended December 31, 2015 on pre-tax income of $107,000. The tax-benefit reported in the current quarter is a result of tax-exempt income associated with bank-owned life insurance and certain municipal securities; while the higher tax expense for the comparable period a year ago is due to the $197,000 in acquisition-related expenses incurred that is not tax deductible. The resulting effective income tax rates for the three month periods ending December 31, 2016 and 2015 are skewed as a result of the low pre-tax income and the items tax-exempt items discussed. We have used the actual effective tax rate method to calculate taxes for the three-month period ended December 31, 2016. We determined that since a reliable estimate under ASC 740-270-25-2 cannot be made due to recent acquisitions, the actual effective tax rate for the year to date is the best estimate of the annual effective tax rate for the three-month period ended December 31, 2016.

Results of Operations for the Nine Months Ended December 31, 2016 and 2015 (unaudited)

General. Net Income was $48,000 or $0.01 per basic and diluted common share for the nine-month period ended December 31, 2016 compared to a net loss of $210,000 or $(0.07) per basic and diluted common share for the same period in fiscal 2016, an improvement of $258,000 in results of operations period over period. The improvement resulted from a $3.4 million increase in net interest income and $390,000 decrease in tax expense, partially offset by an $850,000 increase in the provision for loan loss, a $271,000 decrease in noninterest income, and a $2.4 million increase in noninterest expense.

Net Interest Income. Net interest income increased $3.4 million, or 49.8%, to $6.9 million for the nine months ended December 31, 2016 compared to $10.3 million for the nine months ended December 31, 2015. The increase in net interest income was due to a $4.3 million increase in interest revenue, partially offset by a $847,000 increase in interest expense. The increase in interest revenue was due to an increase in the average balance of interest-earning assets, particularly higher yielding loans, as well as a slight increase in average yield on interest-earning assets. The average balance in interest-earning assets increased $158.5 million, or 53.2%, for the nine months ended December 31, 2016 compared to the same period in fiscal 2016, while the average yield decreased 3 basis points to 3.62% from 3.65%, respectively. The average balances increased due to the acquisitions of Fairmount and Fraternity. The Fairmount acquisition occurred at the end of September 2015 and had less of an impact on the prior year period. Over this period, the Bank was able to also increase organically the average balance of higher interest-earning assets, particularly loans, which grew a net of $16.0 million, excluding the effect of our acquisitions.

The increase in the average balance of interest-earning assets for the nine months ended December 31, 2016 was offset by a $166.5 million increase in the average balance of interest-bearing liabilities for the same period. The increase is attributable to deposits and borrowings acquired in the Fairmount and Fraternity acquisitions, as well as management's focus on increasing our deposit base to fund organic loan growth. The average cost of interest-bearing liabilities for the comparative period declined 1 basis point from 0.72% for the nine months ended December 31, 2015 to 0.71% for the nine months ended December 31, 2016. Our net interest margin decreased 6 basis point from 3.06% for the nine months ended December 31, 2015 to 3.00% for the nine months ended December 31, 2016.

Table of Contents

Interest Revenue. Interest revenue increased $4.3 million, or 52.2% to $12.4 million during the nine months ended December 31, 2016 compared to the nine months ended December 31, 2015, as a result of increases in interest and fees on loans, interest revenue earned on investment securities, and revenue from federal funds sold and other bank deposits.

Interest and fees on loans increased $4.1 million, or 59.7%, to $11.0 million for the nine months ended December 31, 2016, compared to $6.9 million for the nine months ended December 31, 2015. The increase in interest and fees on loans is due to a $121.9 million increase in the average balance of net loans from $189.0 million to $310.9 million period-over-period. The increase in average loans is attributable to the loans acquired in both the Fairmount and Fraternity acquisitions, as well as our new commercial lending platform and staff that was put in place at the beginning of fiscal 2015. The Fairmount acquisition occurred near the end of September 2015 and had less of an impact on the prior year period. The average yield earned on loans decreased 14 basis point from 4.87% for the nine months ended December 31, 2015 to 4.73% for the nine months ended December 31, 2016. The yield on average loans continues to be impacted by the extended low interest rate environment and the competitive pressure in the market relating to pricing.

Interest revenue on investment securities increased $19,000 to $1.2 million during the nine months ended December 31, 2016 compared to the nine months ended December 31, 2015. The average balance of investment securities increased by $5.2 million, or 6.0%, to $91.3 million for the nine months ended December 31, 2016 from $86.2 million during the same period last year, while the average yield decreased 7 basis points to 1.81% from 1.88%, respectively. The largest increase in average investments was in mortgage-backed securities, which increased $4.1 million to $68.7 million for the nine months ended December 31, 2016 from $64.6 million for the same period last year. The average balance of investment securities increased $1.1 million over that same period.

Interest revenue on cash and cash equivalents also increased $116,000 to $148,000 for the nine months ended December 31, 2016 compared to $32,000 for the nine months ended December 31, 2015. The average balance of cash and cash equivalents increased $31.4 million during the nine months ended December 31, 2016 compared to the same nine months a year ago, while the average yield increased 17 basis points due to the Federal Reserve raising interest rates 25 basis points in December 2015.

Interest Expense. Interest expense increased $847,000, or 64.8%, to $2.2 million for the nine months ended December 31, 2016 compared to $1.3 million for the same period in fiscal 2016, due primarily to the increase in the average balance of both interest-bearing deposits and borrowings. Average interest-bearing deposits increased $151.2 million, or 65.7%, to $381.4 million for the nine months ended December 31, 2016 from $230.2 million for the nine months ended December 31, 2015. The average cost of deposits declined from 0.72% to 0.68% over those same periods, a 4-basis point decline. A significant portion of our time deposits have already repriced in today's low interest rate environment, as a result, the change in interest expense is mainly attributable to the increase in average balances than to the change in interest rates.

For the nine-month period ended December 31, 2016, average interest-bearing deposit balances increased for all types of deposits when compared to the same period last year as a result of both the Fraternity and Fairmount acquisitions, as well as promotional efforts to raise funds for new loan growth. We remain focused on changing the mix of our deposit portfolio by maintaining our maturing certificates of deposits and growing lower cost core deposits, including savings, interest-bearing checking and money market accounts. The average balance of time deposits increased $96.5 million, or 58.6%, to $261.1 million for the nine months ended December 31, 2016 compared to $164.6 million for the nine months ended December 31, 2015. Over this same period, the average balance of core interest bearing deposits increased $54.7 million, or 83.4%, to $120.3 million for the nine months ended December 31, 2016 compared to $65.6 million for the nine months ended December 31, 2015. The growth in core deposits was primarily a result of the continued efforts by our cash management and financial service teams, as well as those core deposits assumed in the Fraternity and Fairmount acquisitions.

Table of Contents

Noninterest-bearing deposits allow us to fund growth in interest-earning assets at minimal cost. As a result of the growth generated from the efforts of our cash management personnel, commercial loan officers working with commercial clients to move their deposit relationship to Hamilton Bank and the acquisitions of Fraternity and Fairmount, average noninterest-bearing deposits increased \$4.3 million, or 22.3%, to \$23.5 million for the nine months ended December 31, 2016, compared to \$19.2 million for the nine months ended December 31, 2015.

For the nine-month period ended December 31, 2016, the average interest-bearing borrowings were \$25.5 million compared to an average balance of \$10.2 million for the same period a year ago. The borrowings consisted entirely of advances from the Federal Home Loan Bank (“FHLB”). At December 31, 2016, the Bank had \$25.5 million in outstanding advances from the FHLB, all of which were assumed through the Fraternity and Fairmount acquisitions. These borrowings carried an average rate of 1.0% for the nine months ended December 31, 2016. Borrowing from the FHLB in today’s low interest rate environment can be a more cost effective means to obtain funds if deposits are not growing compared to selling investment securities that are earning a higher yield.

Table of Contents

Average Balances, Interest and Yields. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest revenue from average interest-earning assets, the dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing revenue or expense by the average balances of assets or liabilities, respectively, for the periods presented. Average balances have been calculated using average daily balances. No tax-equivalent adjustments were made. Nonaccrual loans have been included in the table as loans carrying a zero yield.

	Nine Months Ended December 31, (dollars in thousands)					
	2016			**2015**		
	Average Balance	**Interest**	**Yield/ Cost**	**Average Balance**	**Interest**	**Yield/ Cost**
Interest-earning assets:						
Cash and cash equivalents	**$54,294**	**$148**	**0.36 %**	$22,885	$ 32	0.19 %
Investment securities (1)	**22,607**	**408**	**2.41 %**	21,524	370	2.29 %
Mortgage-backed securities	**68,705**	**829**	**1.61 %**	64,629	848	1.75 %
Loans receivable, net (2)	**310,922**	**11,026**	**4.73 %**	189,033	6,906	4.87 %
Total interest-earning assets	**456,528**	**12,411**	**3.62 %**	298,071	8,156	3.65 %
Noninterest-earning assets	**39,905**			24,372		
Total assets	**$496,433**			$322,443		
Interest-bearing liabilities:						
Certificates of deposit	**$261,096**	**$1,759**	**0.90 %**	$164,608	$ 1,191	0.96 %
Money Market	**60,441**	**148**	**0.33 %**	29,834	33	0.15 %
Statement savings	**42,956**	**49**	**0.15 %**	23,614	14	0.08 %
NOW accounts	**16,910**	**3**	**0.02 %**	12,134	3	0.03 %
Total interest-bearing deposits	**381,403**	**1,959**	**0.68 %**	230,190	1,241	0.72 %
Borrowings	**25,547**	**193**	**1.01 %**	10,227	65	0.85 %
Total interest-bearing liabilities	**406,950**	**2,152**	**0.71 %**	240,417	1,306	0.72 %
Noninterest-bearing liabilities and equity:						
Noninterest-bearing deposits	**23,501**			19,222		
Other noninterest-bearing liabilities	**6,506**			1,935		
Total liabilities	**436,957**			261,574		
Total shareholders’ equity	**59,476**			60,869		
Total liabilities and shareholders’ equity	**$496,433**			$322,443		
Net interest income		**$10,259**			$ 6,850	
Net interest rate spread (3)			**2.92 %**			2.92 %
Net interest-earning assets (4)	**$49,578**			$57,654		
Net interest margin (5)			**3.00 %**			3.06 %
Average interest-earning assets to average interest-bearing liabilities	**112.18 %**			123.98 %		

(1) Includes U.S agency and treasury securities, municipal and corporate bonds and to a much lesser extent, Federal Home Loan Bank equity securities.
(2) Loans on non-accrual status are included in average loans carrying a zero yield.
(3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing libilities.
(4) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(5) Net interest margin represents net interest income divided by average total interest-earning assets.

Table of Contents

Provision for Loan Losses. We establish provisions for loan losses that are charged to operations in order to maintain the allowance for loan losses at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. There was $1.0 million charged to the provision for loan losses for the nine months ended December 31, 2016 compared to a provision for loan losses of $190,000 for the nine months ended December 31, 2015. Approximately $170,000 of the $1.0 million charged to the provision for loan losses is related to two performing TDRs that were charged a risk adjusted rate of interest when their modified rate period expired. Another $700,000 of the provision for loan loss is attributable to two commercial real estate loans to one borrower that were written-down by $622,000 and resulted in an increase in the Bank's charge-off history with respect to commercial real estate loans. The increase charge-off history required another $78,000 be added to the allowance for loan loss. The remaining provision for loan loss is related to organic loan growth. Management identified probable losses in the loan portfolio and recorded net charge-offs of $678,000 for the nine months ended December 31, 2016, compared to net recoveries of $136,000 for the comparable period a year ago.

The allowance for loan losses was $2.1 million, or 67.8% of non-performing loans at December 31, 2016 compared to $2.0 million, or 39.0% of non-performing loans at December 31, 2015. The increase in the percentage is a result of the decrease in our non-performing loans as compared to the period ending December 31, 2015. Since December 2015, we have reduced non-performing loans by charging-off $1.2 million relating to two commercial real estate loans place on non-accrual status in October 2015 having a contractual balance of $3.4 million and selling a pool of loans in October 2016 that included $768,000 in non-performing loans.

During the nine months ended December 31, 2016, loan charge offs totaled $724,000 with recoveries of $46,000, compared to $278,000 in charge offs and $414,000 in recoveries during the nine months ended December 31, 2015. Roughly $622,000 in charge-offs relating to the current year is attributable to one commercial real estate relationship; while in the prior year we had a recovery of $237,000 on one commercial construction loan. During the remainder of fiscal year 2017, we expect that we will continue our emphasis in growing commercial real estate and commercial business loans, which have higher interest rates than one-to four-family mortgage loans, but are generally considered to bear higher risk than one-to four-family mortgage loans and could contribute to higher provisions going forward.

Summary of Allowance for Loan Losses Activity. The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	Nine Months Ended December 31, 2016	2015
	(dollars in thousands)	
Allowance for loan losses at beginning of period	**$1,702**	$1,690
Charge-offs:		

Real estate loans:		
One-to four-family	**96**	254
Commercial	**622**	-
Construction	-	-
Commercial business	**2**	10
Home equity	-	6
Consumer	**4**	8
Total charge-offs	**724**	278
Recoveries	**46**	414
Net charge-offs	**678**	(136)
Provision for loan losses	**1,040**	190
Allowance for loan losses at end of period	**$2,064**	$2,016
Allowance for loan losses to non-performing loans	**67.78 %**	39.00 %
Allowance for loan losses to total loans outstanding at the end of the period	**0.62 %**	0.88 %
Net charge-offs to average loans outstanding during the period (annualized)	**0.28 %**	-0.09 %

Table of Contents

Noninterest Revenue. Noninterest revenue decreased $271,000, or 24.4%, to $840,000 for the nine months ended December 31, 2016, compared to $1.1 million for the nine months ended December 31, 2015. The following table outlines the changes in components of noninterest revenue for the nine-month periods.

	Nine months ended September 30,			
	2016	2015	$ Change	% Change
Service charges	**$319,489**	$304,951	$14,538	4.8
Gain on sale of investment securities	**23,720**	42,212	(18,492)	(43.8)
Gain on sale of loans held for sale	**23,047**	43,395	(20,348)	(46.9)
(Loss) gain on sale of property and equipment	**(11,043)**	407,188	(418,231)	(102.7)
Earnings on bank-owned life insurance	**364,928**	264,062	100,866	38.2
Other fees and commissions	**119,937**	49,194	70,743	143.8
Total noninterest revenue	**$840,078**	$1,111,002	$(270,924)	(24.4)

Noninterest revenue decreased in large part due to a $407,000 gain on the sale of the Towson branch property in the fiscal 2016 period. The branch was closed in early May 2015. Similiarly, the $11,000 loss realized on the sale of property and equipment in the fiscal 2017 period is in reference to the sale of an unoccupied branch building that was obtained as part of the Company's acquisition of Fairmount Bancorp in 2015. The property was sold for $425,000 with net proceeds of $393,000, excluding closing costs, and a book balance of $405,000. Excluding these items, non-interest revenue increased $147,000, or 20.9%, compared to the comparable period last year. This increase is in part attributable to the acquisitions of Fairmount and Fraternity.

Service charges associated with retail deposit products increased during the nine months ended December 31, 2016 compared to the same period a year ago because of the Fairmount and Fraternity acquisitions and management's continued focus on growing core deposits, particularly checking accounts, which typically generate more service fee income. We continually review our fee structure on transactional accounts so that we may be more aligned with our market. Customers, however, have become more cost conscious of fees and better manage their deposit relationship with the Bank.

The increase in earnings on bank-owned life insurance (BOLI) is associated with $5.1 million in BOLI assumed by Hamilton in the Fraternity acquisition. The revenue earned from BOLI is generally exempt for tax purposes.

Other fees and commissions include loan fees charged to customers, merchant credit fees, and other smaller fees. Loan fees for the nine months ended December 31, 2016 totaled $89,000 compared to $43,000 for the same period a year ago. Loan fees include various charges to customers for loan applications, processing, and /or extensions. Merchant credit card fees represent a revenue sharing agreement the bank has with a credit card processing company for card services used by the Bank's borrowers. Merchant credit card fees amounted to $19,000 for the nine months ended December 31, 2016 compared to $13,000 for the comparable period a year ago.

Offsetting the increases in noninterest revenue for the first nine months of fiscal 2017 was a decrease in gains on the sale of loans held for sale and gains from the sale of investment securities. Gain on sale of loans held for sale represents revenue earned on loans sold in the secondary market at a premium. We sell a majority of our newly originated one-to four-family residential mortgage loans with a maturity greater than 10 years to the secondary market with service released to assist in managing our interest rate risk in anticipation of rising interest rates.

Table of Contents

Noninterest Expense. Noninterest expense increased $2.4 million, or 31.6%, to $10.1 million for the nine months ended December 31, 2016 compared to the nine months ended December 31, 2015. The following table outlines the changes in components of noninterest expense for the nine-month periods.

	Nine months ended December 31,			
	2016	2015	$ Change	% Change
Salaries and benefits	**$5,149,222**	$3,827,751	$1,321,471	34.5
Occupancy	**709,081**	548,817	160,264	29.2
Advertising	**91,635**	89,109	2,526	2.8
Furniture and equipment	**290,818**	237,752	53,066	22.3
Data processing	**583,407**	439,989	143,418	32.6
Legal services	**161,278**	110,091	51,187	46.5
Other professional services	**808,309**	291,260	517,049	177.5
Merger related expenses	**219,417**	828,225	(608,808)	(73.5)
Branch consolidation expense	**437,424**	-	437,424	N/A
Deposit insurance premiums	**251,759**	151,970	99,789	65.7
Foreclosed real estate expense and losses	**6,530**	17,157	(10,627)	(61.9)
Other operating	**1,367,726**	1,114,428	253,298	22.7
Total noninterest expense	**$10,076,606**	$7,656,549	$2,420,057	31.6

Overall noninterest expense is elevated for both of the periods shown as a result of acquisition related costs pertaining to the branch consolidation and Fraternity acquisition that closed in May 2016, as well as the acquisition related costs associated with Fairmount in the prior year period. The merger expenses include fees paid to attorneys, investment bankers and accountants, data conversion, as well as other related costs. Branch consolidation expense of $437,000 pertains to the closing of our Cockeysville branch office in May 2016 due to branch overlap from the Fraternity acquisition. A breakdown of the acquisition related expenses is shown in the following table.

	Nine Months Ended December 31,	
	2016	2015
Legal	**$55,500**	$433,051
Professional services	**157,567**	316,959
Advertising	**-**	2,779
Date processing	**-**	48,745
Other	**6,350**	26,691
Total meger related expenses	**$219,417**	$828,225

In addition to acquisition related expenses, several other categories, including occupancy, furniture and equipment, deposit insurance, and data processing all increased as a result of the Bank operating as a larger institution. Certain costs are naturally inherited after acquiring another financial institution, including additional personnel, branch costs, additional equipment, increased FDIC insurance, and an increase in the core data base resulting from the addition of acquired customers.

The largest increase in noninterest expenses for the nine-month period-over-period was in salaries and benefits. The Company went from 59 full-time equivalent employees at December 31, 2015 to 73 full-time equivalent employees at December 31, 2016. The additional personnel are related to the retention of certain employees from the Fraternity acquisition and internal growth within our loan and back-office area. Also, for the nine months ending December 31, 2016 and 2015, $237,000 in expense was recognized relating to equity awards granted to officers under the Company's 2013 Equity Incentive Plan. The equity awards provide for management to have a vested interest in the performance of the Company and share in the benefit of an increase in shareholder value. Similarly, other operating expenses for the same periods include $89,000 in expense associated with equity awards granted to Directors.

Legal expense for the first nine months of fiscal 2017 increased over the same period a year ago. This was due to some of the problem assets acquired in the Fairmount acquisition, particularly the non-owner occupied residential investor loans. Management is diligently working through these problem assets and has engaged legal counsel to assist with the collection and foreclosure process, as well as consult on how to proceed with certain borrowers. During the quarter ending December 31, 2016, we sold, as part of a pool of loans, non-performing loans relating to non-owner occupied residential investor loans. These non-performing loans were sold to reduce costs, including legal expenses, associated with these loans going forward.

Table of Contents

Other professional services increased for the nine-month period on a period-over-period basis due to increased audit fees resulting from an increase in our asset size and consulting on the purchase accounting associated with our acquisitions. Also contributing to the increase are payments to the executives of Fraternity under non-compete agreements. The expense associated with these agreements is $860,000 and will be recognized over the two year contractual period of the agreements, including $387,000 that was recognized for the nine month period ended December 31, 2016. In addition, we paid $80,000 in consulting fees over a six month period to the same Fraternity executives to assist in the retaining and transitioning of our newly acquired customer base. Payments under the consulting agreement ended in November 2016.

The increase in other operating expense consists of several items, including adjustments to the deferral of Director fees associated with loan origination costs, new costs associated with non-owner occupied residential investor loans acquired from Fairmount and the management of those properties, additional amortization expense associated with the core deposit intangible created in the Fraternity and Fairmount acquisitions, increased regulatory filing expenses, and other miscellaneous items such telephone and dues and subscriptions.

Management actively explores ways to reduce costs and improve efficiency. We monitor our costs associated with daily operations and review existing vendor contracts for additional savings and/or seek alternative vendors. These actions, along with efficiencies achieved through the acquisitions of Fraternity and Fairmount, continue to improve our efficiency ratio.

Income Tax Expense. We recorded a tax benefit of $65,000 for the nine months ended December 31, 2016 after pre-tax loss of $18,000, compared to a tax expense of $325,000 for the nine months ended December 31, 2015 after pre-tax income of $115,000. The effective income tax rate was a negative 367.4% for the nine months ending December 31, 2016 due to tax-exempt income associated bank-owned life insurance and certain municipal securities. The tax expense and corresponding effective tax rate for the nine-month period ended December 31, 2015 is higher than the pre-tax income due the acquisition related expenses and tax-exempt revenue. The respective acquisition related costs associated with each period are not tax deductible. We have used the actual effective tax rate method to calculate taxes for the nine-month period ended December 31, 2016. We determined that since a reliable estimate under ASC 740-270-25-2 cannot be made due to recent acquisitions, the actual effective tax rate for the year to date is the best estimate of the annual effective tax rate for the nine-month period ended December 31, 2016.

Liquidity and Capital Resources

Liquidity describes our ability to meet current and future financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, scheduled amortization and prepayments of loan principal and mortgage-backed securities, maturities and calls of investment securities and funds provided by our operations. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions, and competition. We regularly adjust our investments in liquid assets available to meet short-term liquidity needs based upon our assessment of (i) expected loan demand, (ii) expected deposit flows, (iii) yields available on interest-earning deposits and securities, and (iv) the objectives of our asset/liability management policy.

We also have the ability to borrow from the Federal Home Loan Bank Atlanta (FHLB) to meet our liquidity needs. At December 31, 2016, we had $25.5 million in borrowings from the FHLB, all of which were assumed through acquisitions, and the capacity to borrow approximately $102.1 million more, subject to our pledging sufficient assets. Historically we have not used borrowings to fund operations.

Hamilton Bank may also borrow up to $5.0 million from a correspondent bank under a secured federal funds line of credit, and $1.0 million under an unsecured line of credit. We would be required to pledge investment securities to draw upon the secured line of credit.

Table of Contents

We normally carry balances with correspondent banks that exceed the federally insured limit. We currently conduct a quarterly review of each correspondent bank's financial information, including the banks' capital ratios, balance sheet, income statement, allowance for loans losses, and other performance ratios, to determine if the bank is financially stable.

Our most liquid assets are cash and cash equivalents and interest-bearing deposits. The level of these assets depends on our operating, financing, lending, and investing activities during any given period. At December 31, 2016, cash and cash equivalents totaled $18.3 million and securities available for sale amounted to $106.8 million.

Total deposits, excluding those acquired in the Fraternity acquisition, have decreased $14.4 million over the nine months ended December 31, 2016, while increasing $10.5 million since December 31, 2015. The overall increase since December 2015 is due to various deposit promotions that were run prior to March 31, 2016 and $23.0 million in money market funds deposited by one customer. The subsequent decrease over the past nine months is due to the various deposits from the prior promotions coming due and the withdrawal of some of the funds pertaining to the $23 million deposited by one customer. Deposit flows are affected by the level of interest rates, the interest rates and products offered by competitors and other factors. In the second half of fiscal 2016, we made a conscious effort to grow and retain maturing certificates of deposits through various promotions to assist in funding organic loan growth. Certificates of deposit allowed us to lock in those funds for an extended period of time based upon current interest rates. This strategy began to change over the first quarter of fiscal 2017 due to the excess liquidity that had built up in the form of cash from the acquisition of Fraternity. We discontinued our promotional efforts with certificates of deposit in hope of maintaining these deposits as they mature and continued to focus more on generating lower costing core deposits (considered to be all deposits other than certificates of deposit). At December 31, 2016, certificates of deposit scheduled to mature within one year totaled $137.6 million, or 53.2% of certificates of deposit. We believe the large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for longer periods due to the current low interest rate environment and local competitive pressures. Whether we retain these deposits will be determined in part by the interest rates we are willing to pay on such deposits. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on certificates of deposit due on or before December 31, 2017.

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, unused lines of credit and letters of credit. At December 31, 2016, we had $47.3 million in commitments to extend credit outstanding.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Based on our deposit retention experience and current pricing strategy, we anticipate that a significant portion of maturing time deposits will be retained.

At December 31, 2016, we exceeded all of the applicable regulatory capital requirements for the Bank, including the new requirement under Basel III to obtain a minimum common equity core (Tier 1) capital to risk-weighted assets ratio of 5.125%. To be classified as a well-capitalized bank, we must have a common equity core (Tier 1) capital to risk-weighted assets ratio of at least 6.5%. For the period ended December 31, 2016, our common equity to Tier 1 capital was $41.7 million, or 12.73%, of total risk-weighted assets compared to $44.5 million, or 19.06% of total risk-weighted assets for the year ended March 31, 2016.

Our core (Tier 1) capital was $41.7 million and $44.5 million, or 8.51% and 11.78% of adjusted total assets, at December 31, 2016 and March 31, 2016, respectively. In order to be classified as "well-capitalized" under federal banking regulations, we were required to have core capital of at least $24.5 million, or 5.0% of adjusted assets, as of December 31, 2016. To be classified as a well-capitalized bank, we must also have a ratio of total risk-based capital to risk-weighted assets of at least 10.0%, and a Tier 1 risk-based capital to risk-weighted assets of at least 8%. At December 31, 2016 and March 31, 2016, we had total risk-based capital ratios of 13.37% and 19.81%, respectively, and Tier 1 risk-based capital ratios of 12.73% and 19.06%, respectively. Our regulatory risk weighted capital ratios decreased during fiscal 2017 as a result of our risk-weighted assets increasing due to the Fraternity acquisition and to a lesser extent, increases in commercial loans due to organic growth.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a discussion of our market risk, please refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2016 filed on June 29, 2016. The Company's market risk has not changed materially from that disclosed in the annual report.

Item 4. Controls and Procedures

As of the end of the period covered by this report, management of the Company carried out an evaluation, under the supervision and with the participation of the Company's principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures as that term is defined in Rule 13a-15(e). Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

It should be noted that the design of the Company's disclosure controls and procedures is based in part upon certain reasonable assumptions about the likelihood of future events, and there can be no reasonable assurance that any design of disclosure controls and procedures will succeed in achieving its stated goals under all potential future conditions, regardless of how remote, but the Company's principal executive and financial officers have concluded that the Company's disclosure controls and procedures are, in fact, effective at a reasonable assurance level.

During the period covered by this report, there have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Securities and Exchange Commission Rule 13a-15 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

The Bank and Company are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Bank's or the Company's financial condition or results of operations.

Item 1A. Risk Factors

For information regarding the Company's risk factors, see "Risk Factors" in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on June 29, 2016. As of December 31, 2016, except for the additional risk factors set forth below, the risk factors of the Company have not changed materially from those disclosed in the annual report.

Our acquisitions of Fairmount Bancorp, Inc. and Fraternity Community Bancorp, Inc. may not produce the anticipated benefits.

Acquisitions involve a number of risks and challenges including: our ability to integrate the branches and operations we acquire, and the associated internal controls and regulatory functions, into our current operations; our ability to limit the outflow of deposits held by our new customers in the acquired branches and our ability to monitor, manage and properly reserve for the loans we acquire; our ability to attract new deposits and to generate new interest-earning assets in local markets we have not previously served. Additionally, no assurance can be given that the operation of acquired branches and performance of the acquired loan portfolio would not adversely affect our existing profitability; that we would be able to achieve results in the future similar to those achieved by our existing banking business; that we would be able to compete effectively in the market areas served by acquired branches; or that we would be able to manage any growth resulting from the transaction effectively. We face the additional risk that the anticipated benefits of the acquisition may not be realized fully or at all, or within the time period expected.

A new accounting standard will likely require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The Financial Accounting Standards Board has adopted a new accounting standard that will be effective for Hamilton Bancorp, Inc. and Hamilton Bank for our first fiscal year after December 15, 2019. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which would likely require us to increase our allowance for loan losses, and to greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of December 31, 2016 (unaudited) and March 31, 2016; (ii) the Consolidated Statements of Operations for the three and nine months ended December 31, 2016 and 2015 (unaudited); (iii) the Consolidated Statements of Comprehensive Income for the three and nine months ended December 31, 2016 and 2015 (unaudited); (iv) the Consolidated Statements of Equity for the nine months ended December 31, 2016 and 2015 (unaudited); (v) the Consolidated Statement of Cash Flows for the nine months ended December 31, 2016 and 2015 (unaudited); and (vi) Notes to Consolidated Financial Statements (unaudited).

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* This information is furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 unless specifically incorporated therein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HAMILTON BANCORP, INC.

Date: February 14, 2017

/s/ Robert A. DeAlmeida
Robert A. DeAlmeida
President and Chief Executive Officer

Date: February 14, 2017

/s/ John P. Marzullo

John P. Marzullo
Senior Vice President, Chief Financial
Officer and Treasurer