Hamilton Bancorp, Inc.
Form 10-Q
August 14, 2017
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UNITED STATES

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 June 30, 2017

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]
Emerging growth company [X]	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

YES [ ] NO [X]

The Registrant's common stock, par value $0.01 per share, consisted of 3,411,075 shares issued and outstanding as of August 14, 2017.

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Hamilton Bancorp, Inc. and Subsidiaries

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Part I. – Financial Information

Item 1. Financial Statements

HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Financial Condition

June 30, 2017 and March 31, 2017

	June 30, 2017 (Unaudited)	March 31, 2017 (Audited)
Assets		
Assets		
Cash and due from banks	**$13,714,789**	$24,436,793
Federal funds sold	**6,511,500**	4,917,128
Cash and cash equivalents	**20,226,289**	29,353,921
Certificates of deposit held as investment	**499,257**	499,280
Securities available for sale, at fair value	**98,613,783**	102,429,128
Federal Home Loan Bank stock, at cost	**2,020,200**	2,020,200
Loans	**353,668,253**	338,933,198
Allowance for loan losses	**(2,357,528)**	(2,194,815)
Net loans and leases	**351,310,725**	336,738,383
Premises and equipment, net	**3,716,412**	3,674,280
Premises and equipment held for sale	**547,884**	547,884
Foreclosed real estate	**520,399**	503,094
Accrued interest receivable	**1,418,449**	1,310,080
Bank-owned life insurance	**18,375,924**	18,253,348
Deferred income taxes	**7,688,634**	7,976,850
Goodwill and other intangible assets	**9,271,312**	9,302,828
Other assets	**1,691,276**	1,920,740
Total Assets	**$515,900,544**	$514,530,016
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	**$32,424,766**	$30,401,454
Interest-bearing deposits	**379,877,477**	382,454,320
Total deposits	**412,302,243**	412,855,774
Borrowings	**35,975,228**	36,124,899
Advances by borrowers for taxes and insurance	**2,842,724**	1,868,110

Other liabilities	**4,192,376**	3,890,003
Total liabilities	**455,312,571**	454,738,786
Commitments and contingencies	**-**	-
Shareholders' Equity		
Common stock, $.01 par value, 100,000,000 shares authorized. Issued and outstanding: 3,411,075 shares at June 30, 2017 and March 31, 2017	**34,111**	34,111
Additional paid in capital	**31,771,446**	31,656,235
Retained earnings	**32,123,050**	31,730,673
Unearned ESOP shares	**(2,221,800)**	(2,221,800)
Accumulated other comprehensive income (loss)	**(1,118,834)**	(1,407,989)
Total shareholders' equity	**60,587,973**	59,791,230
Total Liabilities and Shareholders' Equity	**$515,900,544**	$514,530,016

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Operations (Unaudited)

Three Months Ended June 30, 2017 and 2016

	Three Months Ended June 30,	
	2017	2016
Interest revenue		
Loans, including fees	**$3,848,013**	$3,316,673
U.S. treasuries, government agencies and FHLB stock	**32,684**	86,574
Municipal and corporate bonds	**113,969**	49,026
Mortgage-backed securities	**338,906**	231,497
Federal funds sold and other bank deposits	**54,408**	66,706
Total interest revenue	**4,387,980**	3,750,476
Interest expense		
Deposits	**660,458**	611,812
Borrowed funds	**134,270**	42,072
Total interest expense	**794,728**	653,884
Net interest income	**3,593,252**	3,096,592
Provision for loan losses	**160,000**	210,000
Net interest income after provision for loan losses	**3,433,252**	2,886,592
Noninterest revenue		
Service charges	**119,199**	95,120
Gain on sale of loans held for sale	**-**	11,172
Earnings on bank-owned life insurance	**122,576**	112,526
Other	**24,717**	50,680
Total noninterest revenue	**266,492**	269,498
Noninterest expenses		
Salaries	**1,459,998**	1,382,606
Employee benefits	**393,174**	349,334
Occupancy	**260,838**	215,900
Advertising	**27,028**	31,351
Furniture and equipment	**83,984**	98,323
Data processing	**164,850**	185,723
Legal services	**101,890**	50,263
Other professional services	**180,302**	196,764
Merger related expenses	**-**	188,151
Branch consolidation expense	**-**	437,424
Deposit insurance premiums	**57,128**	77,200

Foreclosed real estate expense and losses	**1,186**	8,108
Other operating	**422,647**	487,952
Total noninterest expense	**3,153,025**	3,709,099
Income (loss) before income taxes	**546,719**	(553,009)
Income tax expense (benefit)	**154,342**	(217,801)
Net income (loss)	**$392,377**	$(335,208)
Net income (loss) per common share:		
Basic	**$0.12**	$(0.11)
Diluted	**$0.12**	$(0.11)

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Comprehensive Income (Unaudited)

Three Months Ended June 30, 2017 and 2016

	Three Months Ended June 30,	
	2017	**2016**
Net income (loss)	**$392,377**	$(335,208)
Other comprehensive income (loss):		
Unrealized gain on investment securities available for sale	**549,343**	570,123
Reclassification adjustment for realized gain on investment securities available for sale included in net income	**-**	-
Total unrealized gain on investment securities available for sale	**549,343**	570,123
Unrealized loss on derivative transactions	**(209,948)**	-
Income tax expense relating to investment securities available for sale and derivative transactions	**133,874**	224,886
Other comprehensive income	**205,521**	345,237
Total comprehensive income	**$597,898**	$10,029

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Three Months Ended June 30, 2017 and 2016

	Common stock	**Additional paid-in capital**	**Retained earnings**	**Unearned ESOP shares**	**Accumulated other comprehensive income (loss)**	**Total shareholders' equity**
Balances April 1, 2016	$ 34,136	$ 31,242,731	$ 32,659,455	$ (2,369,920)	$ (21,819)	$ 61,544,583
Net loss	-	-	(335,208)	-	-	(335,208)
Unrealized gain on available for sale securities, net of tax effect of $224,886	-	-	-	-	345,237	345,237
Stock based compensation - options	-	52,302	-	-	-	52,302
Stock based compensation - restricted stock	-	56,426	-	-	-	56,426
Balances June 30, 2016	**$ 34,136**	**$ 31,351,459**	**$ 32,324,247**	**$ (2,369,920)**	**$ 323,418**	**$ 61,663,340**
Balances April 1, 2017	**$ 34,111**	**$ 31,656,235**	**$ 31,730,673**	**$ (2,221,800)**	**$ (1,407,989)**	**$ 59,791,230**
Net income	-	-	392,377	-	-	392,377
Unrealized gain on available for sale securities, net of tax effect of $216,688	-	-	-	-	332,655	332,655
Unrealized loss on derivative transactions, net of tax effect of $(82,814)	-	-	-	-	(43,500)	(43,500)
Stock based compensation - options	-	57,392	-	-	-	57,392
Stock based compensation - restricted stock	-	57,819	-	-	-	57,819
Balances June 30, 2017	**$ 34,111**	**$ 31,771,446**	**$ 32,123,050**	**$ (2,221,800)**	**$ (1,118,834)**	**$ 60,587,973**

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

Three Months Ended June 30, 2017 and 2016

	Three Months Ended June 30, 2017	2016
Cash flows from operating activities		
Interest received	**$4,515,279**	$3,520,057
Fees and commissions received	**143,916**	145,801
Interest paid	**(1,066,546)**	(742,098)
Cash paid to suppliers and employees	**(2,393,508)**	(2,422,853)
Origination of loans held for sale	**-**	(675,000)
Proceeds from sale of loans held for sale	**-**	945,622
Increase in deferred tax asset	**-**	(1,735,421)
Net cash provided (used) by operating activities	**1,199,141**	(963,892)
Cash flows from investing activities		
Acqusition, net of cash acquired	**-**	(11,006,813)
Proceeds from maturing and called securities available for sale, including principal pay downs	**4,126,059**	7,968,235
Proceeds from maturing and called certificates of deposit	**-**	735,000
Purchase of Federal Home Loan Bank stock	**-**	185,000
Loans made, net of principal repayments	**(14,747,850)**	(1,121,745)
Purchase of premises and equipment	**(121,649)**	(75,953)
Proceeds from sale of premises and equipment	**-**	35,000
Proceeds from sale of foreclosed real estate	**-**	-
Net cash used by investing activities	**(10,743,440)**	(3,281,276)
Cash flows from financing activities		
Net increase (decrease) in		
Deposits	**(428,522)**	1,643,762
Advances by borrowers for taxes and insurance	**974,614**	1,989,623
Proceeds from borrowings	**11,550,000**	-
Payments of borrowings	**(11,553,111)**	(2,000,000)
Interest rate swap on FHLB borrowings	**(126,314)**	-
Net cash provided by financing activities	**416,667**	1,633,385
Net decrease in cash and cash equivalents	**(9,127,632)**	(2,611,783)
Cash and cash equivalents at beginning of period	**29,353,921**	67,448,536

Cash and cash equivalents at end of period	**$20,226,289**	$64,836,753
Supplemental Disclosures of Cash Flow Information:		
Total cash consideration paid for Fraternity Acquisition	**$-**	$25,704,871
Less cash acquired	**-**	14,698,058
Acquisition, net of cash acquired	**$-**	$11,006,813

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

(Continued)

	Three Months Ended June 30, 2017	2016
Reconciliation of net income (loss) to net cash provided (used) by operating activities		
Net income (loss)	**$392,377**	$(335,208)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Amortization of premiums on certificates of deposit	**23**	5,162
Amortization of premiums on securities	**238,628**	133,622
Loan discount accretion	**(450)**	38,352
Deposit premium amortization	**(125,009)**	(102,183)
Borrowing premium amortization	**(146,560)**	(111,647)
Core deposit intangible asset amortization	**31,516**	26,474
Premises and equipment depreciation and amortization	**79,517**	81,906
Write-down of foreclosed real estate	**1,186**	-
Stock based compensation	**115,212**	108,729
Provision for loan losses	**160,000**	210,000
Decrease (increase) in:		
Accrued interest receivable	**(108,369)**	(440,149)
Loans held for sale	**-**	259,450
Cash surrender value of life insurance	**(122,576)**	(112,525)
Income taxes refundable and deferred income taxes	**154,342**	(1,953,222)
Other assets	**229,464**	2,446,605
Increase (decrease) in:		
Accrued interest payable	**(249)**	125,616
Deferred loan origination fees	**(2,533)**	32,594
Other liabilities	**302,622**	(1,377,468)
Net cash (used) provided by operating activities	**$1,199,141**	$(963,892)
Noncash investing activity		
Real estate acquired through foreclosure	**$17,305**	$-

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

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Notes to Consolidated Financial Statements (Unaudited)

June 30, 2017

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

Nature of Operations

Hamilton Bancorp, Inc. (the "Company") was incorporated on June 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 the 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 Bancorp”) through the merger of Fairmount Bancorp, 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 Bancorp. As a result of the merger, each shareholder of Fairmount Bancorp received a cash payment equal to thirty dollars ($30.00) for each share of Fairmount Bancorp common stock, or an aggregate of approximately $15.4 million. Immediately following the merger of Fairmount Bancorp 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 businesses and middle-income individuals.

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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, 2017 from audited financial statements. Operating results for the three months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2018, 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, 2017. 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 accounting principles generally accepted in the United States of America (“U.S. 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 U.S. 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 than temporary impairment of investment securities.

Investment Securities. Management determines the appropriate classification of investment securities at the time of purchase. Securities that may be sold before maturity are classified as available for sale and carried at fair value. Investment securities that management has the intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. All investment securities held by Hamilton at June 30, 2017 and March 31, 2017 are classified as available for sale.

Investment securities designated as available for sale are stated at estimated fair value based on quoted market prices. They represent those securities which management may sell as part of its asset/liability strategy or that may be sold in response to changing interest rates or liquidity needs. Changes in unrealized gains and losses, net of related deferred taxes, for available-for-sale securities are recorded in other comprehensive income. Realized gains (losses) on available-for-sale securities are included in noninterest revenue and, when applicable, are reported as a reclassification adjustment in other comprehensive income. Realized gains and losses on the sale of available-for-sale securities are recorded on the trade date and are determined by the specific identification method. The amortization of premiums and the accretion of discounts are recognized in interest revenue using methods approximating the interest method over the term of the security.

In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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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 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, an 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 and Fairmount on September 11, 2015 (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.

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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.

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, the date of the change, as compared to the prior methodology.

Derivative Financial Instruments and Hedging Activities. Derivatives are initially recognized at fair value on the date the derivative contract is entered into and subsequently re-measured at their fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

For derivatives qualifying as cash flow hedges, the Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the consolidated statement of comprehensive income (loss). The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of operations as a gain or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated statement of operations. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of operations as a gain or loss to income.

For derivative instruments designated as fair-value hedges, the change in fair value of the derivative is recognized in the consolidated statement of operations under the same heading as the change in fair value of the hedged item for the portion attributable to the hedged risk. For accounting purposes, if the derivative is highly effective, the change in fair values relating to the asset or liability and the hedged item will offset one another and result in no impact to overall income.

Gains (losses) on derivatives representing either hedge components excluded from the assessment of effectiveness or hedge ineffectiveness are recognized in earnings.

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. 2017-09, Compensation – Stock Compensation (Topic 718). The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the following are met: 1.) The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification, 2.) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified and, 3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this. This guidance is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

ASU 2017-04, Simplifying the Test for Goodwill Impairment. This update removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under the ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

ASU No. 2017-01, Business Combinations (Topic 805):Clarifying the definition of a business. This guidance clarifies the definition of a business and assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under this guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or group of similar assets), the assets acquired would not represent a business. In addition, in order to be considered a business, an acquisition would have to include at a minimum an input and a substantive process that together significantly contribute to the ability to create an output. The amended guidance also narrows the definition of outputs by more closely aligning it with how outputs are described in FASB guidance for revenue recognition. This guidance is effective for interim and annual periods beginning on January 1, 2018, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

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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 consolidated financial statements.

ASU 2016-13, Financial Instruments – Credit Losses. The main objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the guidance in this update replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The guidance in this update is effective for fiscal years beginning after December 15, 2019 or earlier upon election, including interim periods within those fiscal years. The Company is currently evaluating this guidance to determine the impact on its consolidated financial statements.

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 became effective for fiscal years beginning after December 15, 2016, and was not material to the 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.

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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. The guidance in this update is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, but not before the original effective date of December 15, 2016. The Company is evaluating the guidance in this update but does not believe it will have a material impact on its consolidated financial statements.

Note 3: Acquisition

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.

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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 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	(67,858)	A	108,804,183
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	$1,150,476		$153,392,169
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	(741,192)		23,585,608
Definite lived intangible assets acquired	-	242,020		242,020
Goodwill	-	1,877,243		1,877,243
Net intangible assets acquired	-	2,119,263		2,119,263
Total cash consideration	$24,326,800	$1,378,071		$25,704,871

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 May 13, 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.

Of the total estimated purchase price, we have allocated $23.6 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.

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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	$ 301,672	$107,776,665
Impaired loans acquired	1,397,048	(314,484)	1,082,564	(55,046)	1,027,518
Total	**$108,872,041**	**$ (314,484)**	**$108,557,557**	**$ 246,626**	**$108,804,183**

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 assist us to 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 $301,672 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.

Fraternity Pro forma Condensed Combined Financial Information. The consolidated statements of operations data for the unaudited pro forma results for the three month periods ended June 30, 2017 and 2016 as if the Fraternity acquisition had occurred as of the beginning of fiscal 2017 and 2018 are deemed immaterial and not presented. Due to the fact the acquisition of Fraternity occurred on May 13, 2016, the three month periods ending June 30, 2016 and 2017, as reported in this 10-Q, already includes or includes a significant portion of the impact of Fraternity in the consolidated statements of operations as though the acquisition occurred at the beginning of fiscal 2017 and 2018. The three month period ending June 30, 2016 does not reflect the full impact to the consolidated statements of operations for those three months since the acquisition occurred in the middle of that quarter, however, that amount is deemed to be immaterial to the consolidated statement of operations for that period.

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Fraternity acquisition expenses. In connection with the acquisition of Fraternity, 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 June 30,	
	2017	2016
Legal	$ -	$ 46,419
Professional services	-	87,050
Other	-	54,682
Total merger related expenses	$ -	$ 188,151

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 months ended June 30, 2017 and 2016 are summarized below:

	Three Months ended June 30, 2017	Three Months ended June 30, 2016
Net income (loss)	**$ 392,377**	$ (335,208)
Weighted average common shares outstanding - basic	**3,188,895**	3,176,654
Weighted average common shares outstanding - diluted	**3,198,999**	3,176,654
Income (loss) per common share - basic and diluted	**$ 0.12**	$ (0.11)
Anti-dilutive shares	**121,686**	87,481

During the three months ending June 30, 2016, 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 June 30, 2017 and March 31, 2017, are summarized as follows:

June 30, 2017	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government agencies	**$3,521,460**	**$310**	**$13,142**	**$3,508,628**
Municipal bonds	**17,051,933**	**30,894**	**618,977**	**16,463,850**
Corporate bonds	**2,000,000**	**-**	**80,504**	**1,919,496**
Mortgage-backed securities	**77,678,074**	**74,001**	**1,030,266**	**76,721,809**
	$100,251,467	**$105,205**	**$1,742,889**	**$98,613,783**

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March 31, 2017	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government agencies	$3,525,373	$ 323	$13,393	$3,512,303
Municipal bonds	17,096,477	21,858	950,496	16,167,839
Corporate bonds	2,000,000	-	83,478	1,916,522
Mortgage-backed securities	81,994,305	65,094	1,226,935	80,832,464
	$104,616,155	$ 87,275	$2,274,302	$102,429,128

There were no sales of investment securities during the three months ended June 30, 2017 or 2016.

As of June 30, 2017 and March 31, 2017, 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 $93,282 and fair value of $98,333 as of June 30, 2017.

As of June 30, 2017 and March 31, 2017, the Company had one pledged security to the Federal Reserve Bank with a book value of $744,186 and a fair value of $739,203 and $736,412, respectively.

The amortized cost and estimated fair value of debt securities by contractual maturity at June 30, 2017 and March 31, 2017 follow. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	Available for Sale			
	June 30, 2017		March 31, 2017	
	Amortized cost	Fair value	Amortized cost	Fair value
Maturing				
Within one year	**$-**	**$-**	$-	$-
Over one to five years	**4,228,385**	**4,238,868**	4,234,642	4,240,740
Over five to ten years	**5,216,084**	**5,098,347**	5,538,313	5,404,810
Over ten years	**13,128,924**	**12,554,759**	12,848,895	11,951,114
Mortgage-backed, in monthly installments	**77,678,074**	**76,721,809**	81,994,305	80,832,464
	$100,251,467	**$98,613,783**	$104,616,155	$102,429,128

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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 June 30, 2017 and March 31, 2017.

June 30, 2017	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	**$13,142**	**$2,749,979**	**$-**	**$-**	**$13,142**	**$2,749,979**
Municipal bonds	**618,977**	**14,273,701**	**-**	**-**	**618,977**	**14,273,701**
Corporate bonds	**-**	**-**	**80,504**	**1,919,496**	**80,504**	**1,919,496**
Mortgage-backed securities	**761,162**	**57,857,120**	**269,104**	**7,075,161**	**1,030,266**	**64,932,281**
	$1,393,281	**$74,880,800**	**$349,608**	**$8,994,657**	**$1,742,889**	**$83,875,457**

March 31, 2017	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	$13,393	$3,256,964	$-	$-	$13,393	$3,256,964
Municipal bonds	950,496	13,982,251	-	-	950,496	13,982,251
Corporate bonds	-	-	83,478	1,916,522	83,478	1,916,522
Mortgage-backed securities	941,183	66,953,532	285,752	7,016,746	1,226,935	73,970,278
	$1,905,072	$84,192,747	$369,230	$8,933,268	$2,274,302	$93,126,015

The unrealized losses that exist are a result of market changes in interest rates since the original purchase. Management systematically evaluates investment securities for other-than-temporary declines in fair value on an annual basis from the date of purchase if the respective security is in a loss position. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers and (3) structure of the security.

An impairment loss is recognized in earnings if any of the following are true: (1) the Company intends to sell the debt security; (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis; or (3) the Company does not expect to recover the entire amortized cost basis of the security. In situations where the Company intends to sell or when it is more likely than not that the Company will be required to sell the security, the entire impairment loss must be recognized in earnings. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining portion being recognized in shareholders' equity as a component of other comprehensive income, net of deferred tax.

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Note 6: Loans Receivable and Allowance for Loan Losses

Loans receivable, excluding loans held for sale, consist of the following at June 30, 2017 and March 31, 2017:

	June 30, 2017				March 31, 2017			
	Legacy (1)	**Acquired**	**Total Loans**	**% of Total**	Legacy (1)	Acquired	Total Loans	% of Total
Real estate loans:								
One-to four-family:								
Residential (2)	**$68,615,099**	**$80,296,553**	**$148,911,652**	**42 %**	$67,126,677	$83,892,389	$151,019,066	44 %
Residential construction	**6,803,657**	**-**	**6,803,657**	**2 %**	6,426,076	-	6,426,076	2 %
Investor (3)	**7,811,461**	**18,433,397**	**26,244,858**	**7 %**	6,742,469	18,779,644	25,522,113	8 %
Commercial	**92,628,423**	**14,399,402**	**107,027,825**	**30 %**	92,665,689	14,898,523	107,564,212	32 %
Commercial construction	**2,326,457**	**1,191,507**	**3,517,964**	**1 %**	1,881,541	1,308,652	3,190,193	1 %
Total real estate loans	**178,185,097**	**114,320,859**	**292,505,956**	**83 %**	174,842,452	118,879,208	293,721,660	87 %
Commercial business (4)	**35,339,083**	**2,037,264**	**37,376,347**	**11 %**	19,518,029	2,019,337	21,537,366	6 %
Home equity loans	**14,116,647**	**6,668,685**	**20,785,332**	**6 %**	13,278,229	7,266,141	20,544,370	6 %
Consumer	**2,135,569**	**928,700**	**3,064,269**	**1 %**	2,258,836	937,600	3,196,436	1 %
Total Loans	**229,776,396**	**123,955,508**	**353,731,904**	**100 %**	209,897,546	129,102,286	338,999,832	100 %
Net deferred loan origination fees and costs	**(140,537)**	**-**	**(140,537)**		(143,070)	-	(143,070)	
Loan premium (discount)	**586,024**	**(509,138)**	**76,886**		619,846	(543,410)	76,436	
	$230,221,883	**$123,446,370**	**$353,668,253**		$210,374,322	$128,558,876	$338,933,198	

(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) "Legacy" one-to four-family residential real estate loans at March 31, 2017 includes $23.4 million of loans purchased in March 2017.

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

(4) "Legacy" commercial business loans at June 30, 2017 includes $15.4 million of loans purchased in June 2017.

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.

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 75% - 95% of the appraised value of a property, depending on the type of loan, 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 construction loans and disburses the proceeds of those and similar loans only as work progresses on the related projects.

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Commercial business loans are made to provide funds for equipment and general corporate needs. Repayment of a loan primarily uses the funds obtained from the operation of the borrower's business. Commercial loans also include lines of credit that are utilized to finance a borrower's short-term credit needs and/or to finance a percentage of eligible receivables and inventory. The Company's loan portfolio also includes equipment leases, which consists of leases for essential commercial equipment used by small to medium sized businesses.

The home equity loans consist of both conforming loans and revolving lines of credit to consumers which are secured by residential real estate. These loans are typically secured with second mortgages on the homes. Consumer loans include share loans, installment loans and, to a lesser extent, personal lines of credit. Share loans represent loans that are collateralized by a certificate of deposit or other deposit product. Installment loans are used by customers to purchase primarily automobiles, but may be used to also purchase boats and recreational vehicles.

The following table details activity in the allowance for loan losses by portfolio segment for the three months ended June 30, 2017 and 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.

	June 30, 2017							
	Residential Real Estate	**Investor Real Estate**	**Commercial Real Estate**	**Commercial Construction**	**Commercial Business**	**Home Equity**	**Consumer**	**Total**
Allowance for credit losses:								
Beginning balance	**$553,539**	**$35,275**	**$1,375,894**	**$9,031**	**$149,461**	**$70,071**	**$1,544**	**$2,194,815**
Charge-offs	**-**	**(4,078)**	**-**	**-**	**-**	**-**	**-**	**(4,078**
Recoveries	**-**	**5,307**	**-**	**-**	**175**	**-**	**1,309**	**6,791**
Provision for credit losses	**(8,982)**	**27,967**	**(63,736)**	**17,956**	**193,458**	**(5,410)**	**(1,253)**	**160,000**
Ending balance	**$544,557**	**$64,471**	**$1,312,158**	**$26,987**	**$343,094**	**$64,661**	**$1,600**	**$2,357,528**
Allowance allocated to:								
Legacy Loans:								
Individually evaluated	**$278,573**	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**	**$278,573**

for impairment								
Collectively evaluated for impairment	**265,984**	**64,471**	**1,312,158**	**26,987**	**343,094**	**64,661**	**1,600**	**2,078,955**
Acquired Loans:								
Individually evaluated for impairment	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**
Collectively evaluated for impairment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans:								
Legacy Loans:								
Individually evaluated for impairment	**$1,762,599**	**$7,772**	**$1,546,811**	**$-**	**$723,753**	**$10,980**	**$-**	**$4,051,915**
Collectively evaluated for impairment	**73,656,157**	**7,803,689**	**91,081,612**	**2,326,457**	**34,615,330**	**14,105,667**	**2,135,569**	**225,724,48**
Ending balance	**$75,418,756**	**$7,811,461**	**$92,628,423**	**$2,326,457**	**$35,339,083**	**$14,116,647**	**$2,135,569**	**$229,776,39**
Acquired Loans:								
Individually evaluated for impairment	**$1,177,729**	**$183,728**	**$203,215**	**$-**	**$-**	**$-**	**$68,772**	**$1,633,444**
Collectively evaluated for impairment	**79,118,824**	**18,249,669**	**14,196,187**	**1,191,507**	**2,037,264**	**6,668,685**	**859,928**	**122,322,06**
Ending balance	**$80,296,553**	**$18,433,397**	**$14,399,402**	**$1,191,507**	**$2,037,264**	**$6,668,685**	**$928,700**	**$123,955,50**

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	June 30, 2016 Residential Real Estate	Investor Real Estate	Commercial Real Estate	Commercial Construction	Commercial Business	Home Equity	Consumer	Total
Allowance for credit losses:								
Beginning balance	$259,895	$168,132	$901,768	$42,377	$228,199	$82,012	$19,982	$1,702,365
Charge-offs	-	(28,700)	-	-	(1,521)	-	(1,280)	(31,501
Recoveries	-	-	-	-	15,319	-	789	16,108
Provision for credit losses	223,997	64,784	8,992	(14,544)	(54,562)	(954)	(17,713)	210,000
Ending balance	$483,892	$204,216	$910,760	$27,833	$187,435	$81,058	$1,778	$1,896,972
Allowance allocated to:								
Legacy Loans:								
Individually evaluated for impairment	$293,992	$-	$-	$-	$9,657	$-	$-	$303,649
Collectively evaluated for impairment	189,900	204,216	910,760	27,833	177,778	81,058	1,778	1,593,323
Acquired Loans:								
Individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-	$-
Collectively evaluated for impairment	-	-	-	-	-	-	-	-
Loans:								
Legacy Loans:								
Individually evaluated	$2,153,753	$321,215	$2,673,131	$-	$1,000,250	$56,977	$-	$6,205,326

for impairment								
Collectively evaluated for impairment	**48,813,333**	**11,504,219**	**78,482,502**	**2,348,741**	**14,985,423**	**12,236,608**	**2,875,534**	**171,246,36**
Ending balance	**$50,967,086**	**$11,825,434**	**$81,155,633**	**$2,348,741**	**$15,985,673**	**$12,293,585**	**$2,875,534**	**$177,451,68**
<u>Acquired Loans:</u>								
Individually evaluated for impairment	**$1,155,227**	**$1,469,259**	**$369,422**	**$-**	**$-**	**$10,663**	**$73,835**	**$3,078,406**
Collectively evaluated for impairment	**97,389,613**	**22,137,498**	**17,506,436**	**1,615,922**	**2,714,738**	**9,484,671**	**957,681**	**151,806,55**
Ending balance	**$98,544,840**	**$23,606,757**	**$17,875,858**	**$1,615,922**	**$2,714,738**	**$9,495,334**	**$1,031,516**	**$154,884,96**

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Past due loans, segregated by age and class of loans, as of and for the three months ended June 30, 2017 and as of and for the year ended March 31, 2017, were as follows:

	June 30, 2017			March 31, 2017		
	Legacy	Acquired	Total	Legacy	Acquired	Total
Current	$224,251,862	$123,098,395	$347,350,257	$207,328,184	$128,769,860	$336,098,044
Accruing past due loans:						
30-59 days past due:						
Real estate loans:						
Residential	75,992	131,204	207,196	69,618	-	69,618
Investor	-	72,885	72,885	320,971	-	320,971
Commercial	3,160,843	-	3,160,843	-	-	-
Commercial construction	-	73,500	73,500	113,603	-	113,603
Commercial business	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-
Consumer	-	4,089	4,089	-	-	-
Total 30-59 days past due	3,236,835	281,678	3,518,513	504,192	-	504,192
60-89 days past due:						
Real estate loans:						
Residential	92,545	139,263	231,808	74,631	-	74,631
Investor	-	78,009	78,009	-	-	-
Commercial	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total 60-89 days past due	92,545	217,272	309,817	74,631	-	74,631
90 or more days past due:						
Real estate loans:						
Residential	-	-	-	-	-	-
Investor	221,731	109,403	331,134	-	21,030	21,030
Commercial	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-
Consumer	-	-	-	-	-	-

Total 90 or more days past due	**221,731**	**109,403**	**331,134**	**-**	**21,030**	**21,030**
Total accruing past due loans	**3,551,111**	**608,353**	**4,159,464**	**578,823**	**21,030**	**599,853**
Non-accruing loans:						
Real estate loans:						
Residential	**416,194**	**221,721**	**637,915**	**426,354**	**248,663**	**675,017**
Investor	**7,772**	**27,039**	**34,811**	**13,976**	**57,131**	**71,107**
Commercial	**1,546,811**	**-**	**1,546,811**	**1,546,812**	**-**	**1,546,812**
Commercial construction	**-**	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**	**-**
Home equity loans	**2,646**	**-**	**2,646**	**3,397**	**-**	**3,397**
Consumer	**-**	**-**	**-**	**-**	**5,602**	**5,602**
Non-accruing loans:	**1,973,423**	**248,760**	**2,222,183**	**1,990,539**	**311,396**	**2,301,935**
Total Loans	**$229,776,396**	**$123,955,508**	**$353,731,904**	**$209,897,546**	**$129,102,286**	**$338,999,832**

Nonaccrual interest not accrued:						
Real estate loans:						
Residential	**$6,039**	**$31,864**	**$37,903**	**$6,460**	**$35,177**	**$41,637**
Investor	**6,256**	**8,301**	**14,557**	**6,982**	**23,293**	**30,275**
Commercial	**-**	**-**	**-**	**109,818**	**-**	**109,818**
Commercial construction	**-**	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**	**-**
Home equity loans	**63**	**-**	**63**	**66**	**-**	**66**
Consumer	**-**	**-**	**-**	**-**	**317**	**317**
Total nonaccrual interest not accrued	**$12,358**	**$40,165**	**$52,523**	**$123,326**	**$58,787**	**$182,113**

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Impaired Loans as of and for the three months ended June 30, 2017 and as of and for the year ended March 31, 2017, was as follows:

	Impaired Loans at June 30, 2017				
Legacy:	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate loans:					
Residential	**$581,380**	**$449,473**	**$-**	**$453,305**	**$ 288**
Investor	**50,947**	**7,772**		**7,847**	**-**
Commercial	**3,433,621**	**1,546,811**	**-**	**1,546,812**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Commercial business	**1,138,939**	**723,753**	**-**	**740,966**	**25,151**
Home equity loans	**36,734**	**10,980**	**-**	**11,510**	**93**
Consumer	**-**	**-**	**-**	**-**	**-**
With an allowance recorded:					
Real estate loans:					
Residential	**1,340,394**	**1,313,126**	**278,573**	**1,317,495**	**12,802**
Investor	**-**	**-**	**-**	**-**	**-**
Commercial	**-**	**-**	**-**	**-**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**
Home equity loans	**-**	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**	**-**
Total legacy impaired	**6,582,015**	**4,051,915**	**278,573**	**4,077,935**	**38,334**
Acquired (1):					
With no related allowance recorded:					
Real estate loans:					
Residential	**1,370,261**	**1,177,729**	**-**	**1,184,445**	**11,221**
Investor	**333,362**	**183,728**	**-**	**168,815**	**3,102**
Commercial	**253,215**	**203,215**	**-**	**203,870**	**1,912**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**
Home equity loans	**44,852**	**-**	**-**	**-**	**288**
Consumer	**107,670**	**68,772**	**-**	**70,988**	**1,927**
With an allowance recorded:					
Real estate loans:					
Residential	**-**	**-**	**-**	**-**	**-**
Investor	**-**	**-**	**-**	**-**	**-**
Commercial	**-**	**-**	**-**	**-**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**

Home equity loans	-	-	-	-	-
Consumer	-	-	-	-	-
Total acquired impaired	**2,109,360**	**1,633,444**	**-**	**1,628,118**	**18,450**
Total impaired	**$8,691,375**	**$5,685,359**	**$278,573**	**$5,706,053**	**$ 56,784**

(1) Generally accepted accounting principles require that we record acquired loans at fair value at acquisition, which includes a discount for loans with credit impairment. These purchased credit impaired loans are not performing according to their contractual terms and meet the definition of an impaired loan. Although we do not accrue interest income at the contractual rate on these loans, we do recognize an accretable yield as interest income to the extent such yield is supported by cash flow analysis of the underlying loans.

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	Impaired Loans at March 31, 2017				
Legacy:	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate loans:					
Residential	**$491,249**	**$360,590**	**$ -**	**$373,618**	**$ 11,901**
Investor	**107,710**	**16,919**		**16,306**	**-**
Commercial	**3,433,621**	**1,546,812**	**-**	**2,485,299**	**987**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Commercial business	**1,177,632**	**753,375**	**-**	**832,437**	**107,063**
Home equity loans	**37,365**	**12,040**	**-**	**14,102**	**257**
Consumer	**-**	**-**	**-**	**-**	**-**
With an allowance recorded:					
Real estate loans:					
Residential	**1,432,212**	**1,401,827**	**284,177**	**1,428,128**	**54,121**
Investor	**-**	**-**	**-**	**-**	**-**
Commercial	**-**	**-**	**-**	**-**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**
Home equity loans	**-**	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**	**-**
Total legacy impaired	**6,679,789**	**4,091,563**	**284,177**	**5,149,890**	**174,329**
Acquired (1):					
With no related allowance recorded:					
Real estate loans:					
Residential	**1,320,985**	**1,133,646**	**-**	**1,017,399**	**51,442**
Investor	**503,920**	**148,506**	**-**	**230,757**	**12,229**
Commercial	**254,844**	**204,844**	**-**	**208,057**	**7,770**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**
Home equity loans	**-**	**-**	**-**	**-**	**-**
Consumer	**88,276**	**40,107**	**-**	**44,079**	**6,049**
With an allowance recorded:					
Real estate loans:					
Residential	**-**	**-**	**-**	**-**	**-**
Investor	**66,446**	**38,382**	**1,182**	**34,448**	**-**
Commercial	**-**	**-**	**-**	**-**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**
Home equity loans	**-**	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**	**-**
Total acquired impaired	**2,234,471**	**1,565,485**	**1,182**	**1,534,740**	**77,490**

Total impaired	**$8,914,260**	**$5,657,048**	**$285,359**	**$6,684,630**	**$251,819**

(1) Generally accepted accounting principles require that we record acquired loans at fair value at acquisition, which includes a discount for loans with credit impairment. These purchased credit impaired loans are not performing according to their contractual terms and meet the definition of an impaired loan. Although we do not accrue interest income at the contractual rate on these loans, we do recognize an accretable yield as interest income to the extent such yield is supported by cash flow analysis of the underlying loans.

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The following table documents changes in the carrying amount of acquired impaired loans (Purchased Credit Impaired or "PCI") for the three months ended June 30, 2017 and 2016, along with the outstanding balance at the end of the period:

	June 30, 2017	June 30, 2016
Recorded investment at beginning of period	$1,341,935	$919,729
Fair value of loans acquired during the year	-	1,027,518
Accretion	(360)	6,527
Reductions of payments	(46,664)	(11,670)
Recorded investment at end of period	$1,294,911	$1,942,104
Outstanding principal balance at end of period	$1,630,658	$2,643,930

A summary of changes in the accretable yield for PCI loans for the three months ended June 30, 2017 and 2016 is as follows:

	June 30, 2017	June 30, 2016
Accretable yield at beginning of period	$59,639	$32,629
Addition from acquisition	-	55,046
Accretion	360	(6,527)
Reclassification from nonaccretable difference	-	-
Accretable yield at end of period	$59,999	$81,148

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 June 30, 2017 and March 31, 2017 follows:

June 30, 2017	Number of contracts	Performing	Nonperforming	Total
Real estate loans:				
Residential	**14**	**$1,253,861**	**$ 289,565**	**$1,543,426**
Investor	**-**	**-**	**-**	**-**
Commercial	**2**	**-**	**1,546,812**	**1,546,812**
Commercial construction	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**
Home equity loans	**-**	**-**	**-**	**-**
Consumer	**1**	**610,003**	**-**	**610,003**
	17	**$1,863,864**	**$ 1,836,377**	**$3,700,241**

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March 31, 2017	Number of contracts	Performing	Nonperforming	Total
Real estate loans:				
Residential	**13**	**$1,261,603**	**$ 294,968**	**$1,556,571**
Investor	**-**	**-**	**-**	**-**
Commercial	**2**	**-**	**1,546,812**	**1,546,812**
Commercial construction	**-**	**-**	**-**	**-**
Commercial business	**1**	**643,999**	**-**	**643,999**
Home equity loans	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**
	16	**$1,905,602**	**$ 1,841,780**	**$3,747,382**

The following table presents the number of contracts and the dollar amount of TDRs that were added during the three-month period ended June 30, 2017 and 2016. The amount shown reflects the outstanding loan balance at the time of the modification. There are no commitments to extend credit under existing TDRs as of March 31, 2017.

	Loans Modified as a TDR for the three months ended			
	June 30, 2017		June 30, 2016	
Troubled Debt Restructurings	**Number of contracts**	**Outstanding recorded investment**	Number of contracts	Outstanding recorded investment
Real estate loans:				
One-to four-family	**1**	**$ 1,931**	**11**	**$ 712,786**

The following table represents loans that were modified as TDRs within the previous 12 months and have subsequently defaulted in the three months ended June 30, 2017 and 2016. Payment default under a TDR is defined as any TDR that is 90 days or more past due since the loan was modified or the inability of the TDR to make the required payment subsequent to the modification.

	Defaulted During the Three	Defaulted During the Three Months

	Months Ended June 30, 2017		Ended June 30, 2016	
TDR Loan Type	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
One-to four-family	**-**	**$ -**	**11**	$ 261,563

The one-to four-family TDR loans that defaulted as of June 30, 2016 represent several loans to one borrower for non-owner occupied residential real estate properties. The recorded investment reflects a write-down of the recorded investment amounts of $451,223 during the quarter ended June 30, 2016. This write-down was recorded through an adjustment to goodwill based upon information that we were unaware of at time of acquisition. Had we been aware of the information at acquisition, we would have identified these loans as impaired at the time of acquisition.

In calculating the allowance for loan losses, individual TDRs are evaluated for impairment. TDRs are evaluated for impairment based upon either the present value of cash flows or, if collateral dependent, the lower of cost or fair value of the underlying collateral. If it is determined that the cash flows or underlying collateral is less than the carrying amount of the loan, the difference in value will be charged-off through earnings, unless the TDR is performing, in which case a specific reserve may be set-up for that TDR.

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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.

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.

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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 June 30, 2017 and March 31, 2017, balances of classified loans based on the risk grade. Classified loans include Special Mention, Substandard, Doubtful, and Loss loans. The Bank had no loans classified as Doubtful or Loss as of June 30, 2017 or March 31, 2017.

	June 30, 2017			March 31, 2017		
	LEGACY	**ACQUIRED**	**TOTAL**	LEGACY	ACQUIRED	TOTAL
Risk Rating:						
Rating - Pass:						
Real estate loans:						
Residential	**$73,580,895**	**$78,192,680**	**$151,773,575**	$71,721,341	$81,228,457	$152,949,798
Investor	**7,803,689**	**17,924,246**	**25,727,935**	6,728,493	18,151,533	24,880,026
Commercial	**84,786,588**	**12,900,861**	**97,687,449**	84,789,748	13,387,987	98,177,735
Commercial construction	**2,326,457**	**1,191,507**	**3,517,964**	1,881,541	1,308,652	3,190,193
Commercial Business	**35,226,272**	**2,037,264**	**37,263,536**	19,376,763	2,019,337	21,396,100
Home Equity	**14,105,667**	**6,539,178**	**20,644,845**	13,269,478	7,133,164	20,402,642
Consumer	**2,135,569**	**889,891**	**3,025,460**	2,258,836	896,022	3,154,858
Total Pass	**219,965,137**	**119,675,627**	**339,640,764**	200,026,200	124,125,152	324,151,352
Rating - Special Mention:						
Real estate loans:						
Residential	**1,486,142**	**1,119,496**	**2,605,638**	1,499,436	1,724,987	3,224,423
Investor	**-**	**325,422**	**325,422**	-	408,803	408,803
Commercial	**6,295,024**	**1,295,327**	**7,590,351**	6,329,129	1,305,692	7,634,821
Commercial construction	**-**	**-**	**-**	-	-	-
Commercial Business	**-**	**-**	**-**	-	-	-
Home Equity	**-**	**129,507**	**129,507**	-	132,977	132,977
Consumer	**-**	**-**	**-**	-	788	788
Total Special Mention	**7,781,166**	**2,869,752**	**10,650,918**	7,828,565	3,573,247	11,401,812
Rating - Substandard:						
Real estate loans:						

Residential	**351,718**	**984,377**	**1,336,095**	331,976	938,945	1,270,921
Investor	**7,772**	**183,728**	**191,500**	13,976	219,308	233,284
Commercial	**1,546,812**	**203,215**	**1,750,027**	1,546,812	204,844	1,751,656
Commercial construction	**-**	**-**	**-**	-	-	-
Commercial Business	**112,811**	**-**	**112,811**	141,266	-	141,266
Home Equity	**10,980**	**-**	**10,980**	8,751	-	8,751
Consumer	**-**	**38,809**	**38,809**	-	40,790	40,790
Total - Substandard	**2,030,093**	**1,410,129**	**3,440,222**	2,042,781	1,403,887	3,446,668
Rating - Doubtful	**-**	**-**	**-**	-	-	-
Rating - Loss	**-**	**-**	**-**	-	-	-
TOTAL LOANS	**$229,776,396**	**$123,955,508**	**$353,731,904**	$209,897,546	$129,102,286	$338,999,832

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.

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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. The Bank has established an off-balance sheet reserve for potential losses associated with any outstanding commitment or unused line of credit. The off balance sheet reserve is a percentage of the outstanding commitment or unused line of credit that is based upon a discounted charge-off history associated with each respective loan segment. The reserve at June 30, 2017 and March 31, 2017 totaled $63,000 and $55,000, respectively. At June 30, 2017, management is not aware of any accounting loss to be incurred by funding these loan commitments at this time.

The Bank had the following outstanding commitments and unused lines of credit as of June 30, 2017 and March 31, 2017:

	June 30, 2017	March 31, 2017
Unused commercial lines of credit	**$13,942,528**	$10,733,345
Unused home equity lines of credit	**22,566,463**	22,993,289
Unused consumer lines of credit	**30,760**	1,110,155
Residential mortgage loan commitments	**-**	-
Residential construction loan commitments	**8,435,236**	8,047,156
Commercial construction loan commitments	**6,812,988**	7,091,564
Home equity loan commitments	**-**	84,000
Commercial loan commitments	**360,000**	1,089,218
Standby letters of credit	**206,367**	472,354

Note 7: Goodwill and Other Intangible Asset

The Company's intangible assets (goodwill and core deposit intangible) at March 31, 2017 consists of assets recorded in December 2009 associated with the acquisition of a branch office in Pasadena, Maryland and the acquisition of Fairmount and Fraternity in September 2015 and May 2016, respectively. Only the goodwill related to the branch office acquisition in the amount of $2.7 million 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.

The following table presents the changes in the net book value of intangible assets for the three months ended June 30, 2017 and 2016:

	Goodwill	Core deposit intangible
Balance March 31, 2016	$6,767,811	$618,300
Additions (1)	3,147,441	242,020
Post acquisition adjustments	(93,226)	-
Amortization expense	-	(26,473)
Balance June 30, 2016	$9,822,026	$833,847

	Goodwill	Core deposit intangible
Balance March 31, 2017	$8,563,530	$739,298
Amortization expense	-	(31,516)
Balance June 30, 2017	**$8,563,530**	**$707,782**

(1) - Additions to intangible assets are related to acquisition of Fraternity Community.

The post acquisition adjustment to goodwill shown in the table above for the prior year period 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 a deferred tax asset of $544,000 for the 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.

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At June 30, 2017, future expected annual amortization associated with the core deposit intangible is as follows:

Year ending March 31,	Amount
2018	$94,553
2019	126,070
2020	123,737
2021	98,070
2022	98,070
2023	98,070
2024	64,169
2025	5,043
	$707,782

Note 8: Derivative – Interest Rate Swap Agreement

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. The Company posted $743,771 and $392,266 under collateral arrangements as of June 30, 2017 and March 31, 2017, respectively, to satisfy collateral requirements associated with the risk exposure associated with all interest rate swap agreements.

Interest Rate SWAPS Designated as Cash Flow Hedges

During fiscal 2017, the Company entered into several interest rate swaps that were designated as cash flow hedges. The interest rate swaps have notional amounts totaling $11.6 million as of June 30, 2017 and were designated as cash flow hedges of certain Federal Home Loan Bank advances. The purpose of the cash flow hedges is to match-fund longer-term assets with longer-term borrowings to reduce potential interest rate risk and cost by swapping a variable rate borrowing for a fixed rate borrowing. The cash flow hedges were determined to be fully effective during all periods presented. As such, no amount of ineffectiveness has been included in net income (loss). Therefore, the aggregate fair value of the swaps is recorded in other assets (liabilities) with changes in fair value recorded in other comprehensive income (loss). The amount included in accumulated other comprehensive income (loss) would be reclassified to current earnings should the hedges no longer be considered effective. The Company expects the hedges to remain fully effective during the remaining terms of the hedge transaction.

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Summary information about the interest rate swaps designated as cash flow hedges is as follows:

Interest Rate Swap	Notional Amount	Effective Start Date	Maturity Date	Pay Fixed Rate	Receive Floating Rate
FHLB Advance Swap 1	$1,850,000	March 9, 2017	March 9, 2022	2.24 %	3-Month LIBOR
FHLB Advance Swap 2	1,850,000	March 9, 2017	March 9, 2024	2.41 %	3-Month LIBOR
FHLB Advance Swap 3	1,850,000	March 9, 2017	March 9, 2027	2.57 %	3-Month LIBOR
FHLB Advance Swap 4	2,000,000	March 29, 2017	March 29, 2022	2.08 %	3-Month LIBOR
FHLB Advance Swap 5	2,000,000	March 29, 2017	March 29, 2024	2.24 %	3-Month LIBOR
FHLB Advance Swap 6	2,000,000	March 29, 2017	March 29, 2027	2.40 %	3-Month LIBOR
	$11,550,000				

Interest expense recorded on the swap transactions totaled $36,850 for the three months ended June 30, 2017 and is reported as a component of interest expense on FHLB Advances.

The following table reflects cash flow hedges included in the Consolidated Statements of Financial Condition as of June 30, 2017 and March 31, 2017:

	June 30, 2017		March 31, 2017	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in liabilities:				
Interest rate swaps related to FHLB Advances	$11,550,000	$(209,948)	$11,550,000	$(83,634)

Interest Rate SWAPS Designated as Fair Value Hedges

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.

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 amount of the interest rate swap and the offsetting commercial real estate loan were $3.2 million at June 30, 2017. 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.

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The fair value hedge is summarized below:

	June 30, 2017			March 31, 2017		
	Notional Amount	**Principal Amount**	**Fair Value**	Notional Amount	Principal Amount	Fair Value
Included in Loans and Leases:						
Commercial real estate loan	**$-**	**$3,154,828**	**$3,193,349**	$-	$3,175,044	$3,201,691
Included in Other Liabilities:						
Interest Rate Swap	**$3,154,828**	**-**	**$38,521**	$3,175,044	-	$26,647

No gain or loss was recognized in earnings with respect to the interest rate swap for the three months ended June 30, 2017 and 2016 due to the fact the gain or increase in the fair value of the commercial real estate loan was offset by the loss or decrease in the fair value of the interest rate swap.

Note 9: Deposits

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

	June 30, 2017			March 31, 2017		
	Amount	% of Total		Amount	% of Total	
Savings	**$44,008,241**	**11**	**%**	$44,614,415	11	%
Noninterest-bearing checking	**32,424,765**	**8**	**%**	30,401,454	7	%
Interest-bearing checking	**27,319,834**	**6**	**%**	26,415,189	6	%
Money market accounts	**65,153,339**	**16**	**%**	62,962,902	15	%
Time deposits	**242,692,001**	**59**	**%**	247,632,742	60	%
	$411,598,180	**100**	**%**	$412,026,702	100	%
Premium on deposits asssumed	**704,063**			829,072		
Total deposits	**$412,302,243**			$412,855,774		

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 June 30, 2017 and March 31, 2017. The Bank also maintains a note payable on an automobile purchased during fiscal 2017. The original amount of the note was $28,805 with an interest rate of 1.95% for 36 months. The balance of the note at June 30, 2017 and March 31, 2017 is $24,139 and $27,250, respectively.

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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 June 30, 2017 and March 31, 2017, the Bank had $91.9 million and $88.2 million, respectively, of available credit from the FHLB. Advances are limited by the balance of loans available for pledge. The amount of loans that were deemed eligible to pledge as collateral totaled $157.8 million at June 30, 2017 and $159.1 million at March 31, 2017. 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 June 30, 2017 and March 31, 2017 is presented below.

	June 30, 2017			March 31, 2017		
	Amount	**Rate**	**Maturity Date**	Amount	Rate	Maturity Date
FHLB advance (1)	**$5,550,000**	**1.17 %**	**9/11/2017**	$5,550,000	0.94 %	6/9/2017
FHLB advance (2)	**6,000,000**	**1.18 %**	**9/29/2017**	6,000,000	0.93 %	6/29/2017
FHLB advance	**1,000,000**	**4.24 %**	**7/31/2017**	1,000,000	4.24 %	7/31/2017
FHLB advance	**5,000,000**	**4.28 %**	**7/31/2017**	5,000,000	4.28 %	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	**5,000,000**	**3.94 %**	**7/23/2018**	5,000,000	3.94 %	7/23/2018
FHLB advance	**5,000,000**	**3.38 %**	**9/19/2018**	5,000,000	3.38 %	9/19/2018
FHLB advance	**1,000,000**	**2.60 %**	**10/2/2018**	1,000,000	2.60 %	10/2/2018
Note payable - auto	**24,139**	**1.95 %**	**2/17/2020**	27,250	1.95 %	2/17/2020
	35,574,139			35,577,250		
Premium on borrowings assumed	**401,089**			547,649		
Total FHLB borrowings	**$35,975,228**			$36,124,899		

(1) - FHLB Advance is tied to three derivative cash flow hedges in increments of $1.85 million each. The three individual cash flow hedges are for a term of five, seven and ten years, respectively and are tied to the 3-month LIBOR rate. In order for the cash flow hedges to remain effective, the corresponding FHLB Advance will have to be renewed every three months until the respective cash flow hedge matures.

(2) - FHLB Advance is tied to three derivative cash flow hedges in increments of $2.0 million each. The three individual cash flow hedges are for a term of five, seven and ten years, respectively and are tied to the 3-month LIBOR rate. In order for the cash flow hedges to remain effective, the corresponding FHLB Advance will have to be renewed every three months until the respective cash flow hedge matures.

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 June 30, 2017, the Bank met all capital adequacy requirements under the Basel III Capital Rules to be considered “well capitalized” under prompt corrective action rules.

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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 June 30, 2017 and March 31, 2017 for Hamilton Bank and the Company under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of January 1, 2015 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 are 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
June 30, 2017								
(dollars in thousands)								
Common equity tier 1 capital (to risk-weighted assets)								
Hamilton Bank	**$40,722**	**11.97 %**	**$19,568**	**5.750 %**	**$23,822**	**7.00 %**	**$22,120**	**6.50 %**
Hamilton Bancorp	**48,942**	**14.32 %**	**19,648**	**5.750 %**	**23,920**	**7.00 %**	**22,211**	**6.50 %**
Total risk-based capital (to risk-weighted assets)								
Hamilton Bank	**43,142**	**12.68 %**	**31,479**	**9.250 %**	**35,733**	**10.50 %**	**34,031**	**10.00 %**
Hamilton Bancorp	**51,363**	**15.03 %**	**31,608**	**9.250 %**	**35,880**	**10.50 %**	**34,171**	**10.00 %**
Tier 1 capital (to risk-weighted assets)								
Hamilton Bank	**40,722**	**11.97 %**	**24,673**	**7.250 %**	**28,926**	**8.50 %**	**27,225**	**8.00 %**
Hamilton Bancorp	**48,942**	**14.32 %**	**24,774**	**7.250 %**	**29,046**	**8.50 %**	**27,337**	**8.00 %**

Tier 1 capital (to adjusted total assets)												
Hamilton Bank	**40,722**	**8.25**	**%**	**19,745**	**4.000**	**%**	**19,745**	**4.00**	**%**	**24,682**	**5.00**	**%**
Hamilton Bancorp	**48,942**	**9.82**	**%**	**19,926**	**4.000**	**%**	**19,926**	**4.00**	**%**	**24,908**	**5.00**	**%**

(1) - Under prompt corrective action

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March 31, 2017 (dollars in thousands)	Actual Amount	Actual Ratio	Minimum Capital Required - Basel III Phase-In Schedule Amount	Minimum Capital Required - Basel III Phase-In Schedule Ratio	Minimum Capital Required - Basel III Fully Phased-In Amount	Minimum Capital Required - Basel III Fully Phased-In Ratio	To be well capitalized (1) Amount	To be well capitalized (1) Ratio
Common equity tier 1 capital (to risk-weighted assets)								
Hamilton Bank	$40,084	12.13%	$18,996	5.750%	$23,126	7.00 %	$21,474	6.50 %
Hamilton Bancorp	48,318	14.56%	19,078	5.750%	23,225	7.00 %	21,566	6.50 %
Total risk-based capital (to risk-weighted assets)								
Hamilton Bank	42,334	12.81%	30,559	9.250%	34,689	10.50%	33,037	10.00%
Hamilton Bancorp	50,568	15.24%	30,690	9.250%	34,838	10.50%	33,179	10.00%
Tier 1 capital (to risk-weighted assets)								
Hamilton Bank	40,084	12.13%	23,952	7.250%	28,081	8.50 %	26,429	8.00 %
Hamilton Bancorp	48,318	14.56%	24,055	7.250%	28,202	8.50 %	26,543	8.00 %
Tier 1 capital (to adjusted total assets)								
Hamilton Bank	40,084	8.28 %	19,365	4.000%	19,365	4.00 %	24,207	5.00 %
Hamilton Bancorp	48,318	9.96 %	19,402	4.000%	19,402	4.00 %	24,253	5.00 %

(1) - Under prompt corrective action

Tier 1 capital consists of total shareholders’ equity less goodwill, intangible assets, and deferred tax net operating loss carryforwards. 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 ended December 31, 2016, the Company transferred $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 of 8% in the prior quarter.

In its regulatory report filed as of June 30, 2017, 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.

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 June 30, 2017, there were 83,900 restricted stock awards issued and outstanding and 247,850 stock option awards granted under the 2013 Equity Incentive Plan.

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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 and succeeding installments on each anniversary thereafter. The Company plans to issue new shares to satisfy share option exercises. The total cost that has been incurred for the stock option plan was $57,392 and $52,301 for the three months ended June 30, 2017 and 2016, 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 to date was determined using the following weighted-average assumptions as of grant date.

Grant Date	Number of Options Granted	Risk Free Interest Rate	Expected Term (in years)	Expected Stock Price Volatility	Dividend Yield	Fair Value of Options Granted
February 3, 2014	225,150	2.07 %	7.0	27.30 %	0.00 %	$ 4.65
November 1, 2016	19,000	1.61 %	7.0	27.17 %	0.00 %	$ 4.35
February 3, 2017	3,700	2.27 %	7.0	27.26 %	0.00 %	$ 5.18

The following tables summarize the Company’s stock option activity and related information for the periods ended:

Three months ended June 30, 2017:	Shares	Weighted Average	Weighted Average

		Exercise Price	Remaining Contractual Term (in years)
Outstanding at April 1, 2017	**242,350**	**$ 13.84**	7.1
Granted	**-**	**-**	-
Exercised	**-**	**-**	-
Forfeited, exchanged or expired	**-**	**-**	-
Outstanding at June 30, 2017	**242,350**	**$ 13.84**	6.8
Vested at June 30, 2017	**131,790**	**$ 13.85**	6.6

<u>Fiscal year ended March 31, 2017:</u>	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at April 1, 2016	219,650	$ 13.85	7.8
Granted	22,700	13.78	10.0
Exercised	-	-	-
Forfeited, exchanged or expired	-	-	-
Outstanding at March 31, 2017	242,350	$ 13.84	7.1
Vested at March 31, 2017	131,790	$ 13.85	6.8

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As of June 30, 2017 there was $420,448 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.2 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 $15.00 at June 30, 2017, the options outstanding had an intrinsic value of $281,098.

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.

The following table presents a summary of the activity in the Company's restricted stock for the periods ended:

June 30, 2017:	Shares	Weighted-Average Fair Value
Nonvested shares at April 1, 2017	**36,220**	**$ 13.76**
Granted	**-**	**-**
Vested	**-**	**-**
Forfeited	**-**	**-**
Nonvested shares at June 30, 2017	**36,220**	**$ 13.76**
Fair Value of shares vested at June 30, 2017	**$715,200**	

March 31, 2017:	Shares	Weighted-Average Fair Value
Nonvested shares at April 1, 2016	**50,600**	**$ 13.76**
Granted	**2,000**	**13.93**
Vested	**(16,380)**	**13.78**
Forfeited	**-**	**-**
Nonvested shares at March 31, 2017	**36,220**	**$ 13.76**

Fair Value of shares vested at March 31, 2017	**$731,888**

The Company recorded restricted stock awards expense of $57,819 and $56,426 during the three months ended June 30, 2017 and 2016, respectively. As of June 30, 2017, there was $398,902 of total unrecognized compensation cost related to nonvested shares granted under the 2013 stock incentive plan. The cost is expected to be recognized over a weighted-average period of 1.9 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;

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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.

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 June 30, 2017 and March 31, 2017, the Bank has categorized its investment securities available for sale as follows:

June 30, 2017	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
U.S. government agencies	$ -	**$3,508,628**	**$-**	**$3,508,628**
Municipal bonds	-	**14,547,888**	**1,915,962**	**16,463,850**
Corporate bonds		**1,919,496**	**-**	**1,919,496**
Mortgage-backed securities	**-**	**76,719,382**	**2,427**	**76,721,809**
Total investment securities available for sale	**$ -**	**$96,695,394**	**$1,918,389**	**$98,613,783**

March 31, 2017	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
U.S. government agencies	$ -	$3,512,303	$-	$3,512,303
Municipal bonds	-	14,239,526	1,928,313	16,167,839
Corporate bonds		1,916,522	-	1,916,522
Mortgage-backed securities	-	80,829,991	2,473	80,832,464

Total investment securities available for sale	$ -	$100,498,342	$1,930,786	$102,429,128

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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 June 30, 2017 and March 31, 2017, the bank has categorized its interest rate swap and related loan as follows:

June 30, 2017	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Loans - Commercial real estate loan	$ -	$3,193,349	$ -	$3,193,349
Derivative - Interest rate swap designated as fair value hedge	-	(38,521)	-	(38,521)
Derivatives - Interest rate swaps designated as cash flow hedge	-	(209,948)	-	(209,948)

March 31, 2017	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Loans - Commercial real estate loan	$ -	$3,201,691	$ -	$3,201,691
Derivative - Interest rate swap designated as fair value hedge	-	(26,647)	-	(26,647)
Derivatives - Interest rate swaps designated as cash flow hedge	-	(83,634)	-	(83,634)

The following table presents the valuation and unobservable inputs for Level 3 assets measured at fair value on a recurring basis at June 30, 2017:

Description	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
Investment securities	$1,918,389	3rd party valuation	Discount to reflect current market conditions	0.00% -10.00%

The following table presents a reconciliation of the investments which are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods presented:

	June 30, 2017	March 31, 2017

Balance, beginning of year	$1,930,786	$1,898,640
Transfers in:		
Municipal bonds	-	1,928,313
Mortgage-backed securities	-	2,473
Corporate bonds	-	-
Transfers out:		
Corporate bonds	-	1,898,640
Change in valuation	(12,397)	-
Balance, end of period	$1,918,389	$1,930,786

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. As of June 30, 2017 and March 31, 2017, the fair values consist of loan balances of $5,685,359 and $5,657,048 that have been written down by $278,573 and $285,359, respectively, as a result of specific loan loss allowances.

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Foreclosed real estate – The Bank's foreclosed real estate is measured at the lower of carrying value or fair value less estimated cost to sell. At June 30, 2017 and March 31, 2017, the fair value of foreclosed real estate was estimated to be $520,399 and $503,094, 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.

Premises and equipment held for sale – The Bank’s premises and equipment held for sale is measured at the fair value less estimated cost to sell. The assets in fiscal 2018 and 2017 were acquired in the acquisition of Fraternity and Fairmount, respectively. As of June 30, 2017 and March 31, 2017, the fair value of premises and equipment held for sale was estimated to be $547,884. Fair value was determined based upon appraisals and the cost to sell these assets was determined using standard market factors. The Company has categorized its premises and equipment held for sale as Level 3.

June 30, 2017	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Impaired loans	**$ -**	**$ -**	**$5,406,786**	**$5,406,786**
Foreclosed real estate	**-**	**-**	**520,399**	**520,399**
Premises and equipment held for sale	**-**	**-**	**547,884**	**547,884**

March 31, 2017	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Impaired loans	$ -	$ -	$5,371,689	$5,371,689
Foreclosed real estate	-	-	503,094	503,094
Premises and equipment held for sale	-	-	547,884	547,884

The following table presents the valuation and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis at June 30, 2017:

Description	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
Impaired loans, net of allowance	$5,406,786	Appraised value	Discount to reflect current market conditions	0.00%-25.00%
			Discount rates	2.63%- 7.25%

		Discounted cash flows		
Foreclosed real estate	$520,399	Appraised value	Discount to reflect current market conditions	0.00%-25.00%
Premises and equipment held for sale	$547,884	Appraised Value	Discount to reflect current market conditions	0.00%- 10.00%

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The following table summarizes changes in foreclosed real estate for the periods shown, which is measured on a nonrecurring basis using significant unobservable, level 3, inputs.

	Three Months Ended June 30, 2017	Fiscal Year Ended March 31, 2017
Balance at beginning of period	**$503,094**	$443,015
Transfer to foreclosed real estate	17,305	126,575
Proceeds from sale of foreclosed real estate	**-**	(60,258)
Loss on sale of foreclosed real estate	**-**	(6,238)
Balance at end of period	**$520,399**	$503,094

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.

	June 30, 2017		March 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Level 1 inputs				
Cash and cash equivalents	**$20,226,289**	**$20,226,289**	$29,353,921	$29,353,921
Level 2 inputs				
Federal Home Loan Bank stock	**2,020,200**	**2,020,200**	2,020,200	2,020,200
Bank-owned life insurance	**18,375,924**	**18,375,924**	18,253,348	18,253,348
Level 3 inputs				
Certificates of deposit held as investment	**499,257**	**507,112**	499,280	505,641
Loans receivable, net of unearned income	**350,513,425**	**351,744,563**	335,678,292	337,183,808
Financial liabilities				
Level 3 inputs				
Deposits	**412,302,243**	**412,584,763**	412,855,774	413,148,503
Advance payments by borrowers for taxes and insurance	**2,842,724**	**2,842,724**	1,868,110	1,868,110
Borrowings	**35,975,228**	**36,438,242**	36,124,899	36,697,631

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 values 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 certificates of deposit with 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 commitments.

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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 tangible common equity, in its analysis of the Company's performance. The tangible common equity non-GAAP reconciliation, which includes tangible book value per share, is 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, 2017 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.

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 – “*Acquisition”* of the consolidated financial statements for additional discussion about the Fraternity 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 overall revenue growth, as well as loan growth and asset quality during the three months ending June 30, 2017 compared to the same period a year ago. Net interest income improved $497,000, or 16%, to $3.6 million during the first three months of fiscal 2018 compared to the same period a year ago as the Company continued to show strong loan demand, closed on its acquisition of Fraternity in the comparable period a year ago, and worked towards reducing its cost of funds.

Non-interest revenue remained relatively unchanged at $266,000 for the three months ending June 30, 2017 compared to the same period ending June 30, 2016. On a comparative basis, there were increases relating to service charges and earnings on bank-owned life insurance (“BOLI”) associated with increases in core deposits and BOLI acquired in the Fraternity acquisition, offset by a reduction in other revenue and gain on the sale of loans. The Company made a conscious decision to hold in portfolio the majority of our residential loan originations versus selling them in the secondary market to partially offset the increased run-off associated with this loan type.

Lastly, non-interest expense for the quarter ended June 30, 2017 was $3.2 million, down $556,000, or 15%, from the quarter ended June 30, 2016. The decline is primarily the result of $626,000 in costs associated with or related to the completion of our acquisition of Fraternity in the prior year quarter. While overall operating expenses are higher as a result of operating as a larger financial institution, greater economies of scale have been achieved as reflected in the improvement in our efficiency ratio from 110.2% for the three months ending June 30, 2016 to 81.7% for the three months ending June 30, 2017. This also includes a reduction in overall expenses, including $626,000 in acquisition related expenses. From an operational standpoint, salary and benefit expenses for the first quarter of fiscal 2018 increased $121,000 compared to the same quarter a year ago as a result of strategic new hires focused on branch efficiency and new products. The Company also recognized one-time increases in occupancy expense due to our re-location of the Ellicott City branch that occurred in July 2017 and legal costs associated with certain loan purchases and other administrative matters. These increases were offset by decreases in other expenses largely composed of data processing and deposit insurance premiums. Management remains committed to reducing operational expenses and achieving higher efficiencies.

The following highlights contain additional financial data and events that have occurred during the three months ended June 30, 2017:

Net income increased $727,000, or $0.23 per common share, for the three months ending June 30, 2017, to $392,000, or $0.12 per common share, compared to net loss of $335,000, or loss of $0.11 per common share. The prior year period included $626,000 in acquisition and branch consolidation related expenses.

Net interest income increased to $3.6 million for the three months ending June 30, 2017, up $497,000, or 16%, from $3.1 million for the comparable period a year ago.

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As a result of the increase in net interest income quarter-over-quarter, the net interest margin increased 16 basis points, or 5.5%, to 3.08% at June 30, 2017, from 2.92% at June 30, 2016.

Our efficiency ratio declined from 110.2% for the three months ending June 30, 2016 to 81.7% for the three months ending June 30, 2017; a decline of 26%. The decline is attributable to increased revenue, a focus on lowering our cost of funds and the reduction of overall expenses, including acquisition related expenses

Total assets grew to $515.9 million at June 30, 2017, an increase of $1.4 million, compared to $514.5 million at March 31, 2017.

Gross loans grew to $353.7 million, up $14.7 million, or 4.3% at June 30, 2017, compared to $339.0 million at March 31, 2017. Growth in loans was largely attributable to the purchase of a $15.5 million commercial loan portfolio. During this same period, total deposits remained relatively unchanged, decreasing slightly from $412.9 million at March 31, 2017 to $412.3 million at June 30, 2017.

Core deposits (including all deposits except certificates of deposit) grew $4.5 million to $168.9 million at June 30, 2017, or 2.7%, from $164.4 million at March 31, 2017. Core deposits at June 30, 2017 represent 41.0% of total deposits compared to 33.6% a year ago.

Nonperforming loans increased from $2.3 million at March 31, 2017 to $2.5 million at June 30, 2017. Year-over-year nonperforming loans are down $1.9 million from $4.4 million at June 30, 2016. The percentage of nonperforming loans to gross loans increased from 0.69% at March 31, 2017 to 0.72% at June 30, 2017, but remains relatively low.

The allowance for loan losses as a percentage of nonperforming loans at June 30, 2017 remains strong at 92.4% compared to 94.5% at March 31, 2017. The Company experienced net recoveries of roughly $3,000 over the first three months of fiscal 2018 and recorded a loan loss provision of $160,000 due to growth within the loan portfolio. In comparison, the Company recorded net charge-offs of $15,000 and a provision for loan loss of $210,000 for the same period a year ago.

The Company ended June 30, 2017 with a book value of $17.76 per common share and a tangible book value of $15.04 per common share compared to $17.53 and $14.80, respectively, at March 31, 2017. Tangible book value increased as a result of the net income reported for the quarter. Tangible book value, a non-GAAP measure, was determined as follows:

	June 30, 2017	March 31, 2017
Tangible book value per common share:		
Total shareholders' equity	**$60,587,973**	$59,791,230
Less: Goodwill and other intangible assets	**(9,271,312)**	(9,302,828)

Tangible common equity (Non-GAAP)	**$51,316,661**	$50,488,402
Outstanding common shares	**3,411,075**	3,411,075
Book value per common share (GAAP)	**$17.76**	$17.53
Tangible book value per common share (Non-GAAP)	**$15.04**	$14.80

The Company maintained strong liquidity and at June 30, 2017 the Bank was deemed "well capitalized" under federal regulations.

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Strategic Plan

We have based our 2018-2020 strategic plan on the objective of improving shareholder value and growth through creating sustainable and profitable growth given the current and expected economic and competitive environment in the financial services industry. Our short-term goals include continuing the growth of our loan portfolio, changing the mix of our deposit 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 an efficient 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, profitable operating revenue through smart growth of earning assets that are funded by low-cost core deposits and growth of noninterest income. In addition, we will focus on efficient utilization of the Bank’s assets and other resources. 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 delivery channels and branch strategy that leverages technology and optimizes efficiencies. This strategy will focus on enhancing the overall customer experience through a seamless integration of all delivery channels, including both existing and newly rolled-out channels.

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 either through potential 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 the opportunities that may become available in the current economy, as well as a healthier economy going forward.

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 generally accepted accounting principles used in the United States of America. 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 June 30, 2017, all of our securities 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 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 during February of 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 2017, there was no evidence of impairment of the Company’s goodwill or intangible assets.

Business Combinations. Business combinations are accounted for using the acquisition method of accounting. Under the acquisition method of accounting, acquired assets and assumed liabilities are included with the acquirer's accounts as of the date of acquisition at estimated fair value, with any excess of purchase price over the fair value of the net assets acquired (including identifiable core deposit intangibles) capitalized as goodwill. In the event that the fair value of the net assets acquired exceeds the purchase price, an acquisition gain is recorded for the difference in the consolidated statements of operations for the period in which the acquisition occurred. The core deposit intangible asset is recognized as an asset apart from goodwill when it arises from contractual or other legal rights or if it is capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged. In addition, acquisition-related costs and restructuring costs are recognized as period expenses as incurred.

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 June 30, 2017 and March 31, 2017

Assets. Total assets increased $1.4 million to $515.9 million at June 30, 2017 from $514.5 million at March 31, 2017. The increase is primarily attributable to a $14.7 million increase on gross loans, partially offset by a $9.1 million decrease in cash and cash equivalents and a $3.8 million decrease in the investment portfolio.

Cash and Cash Equivalents. Cash and cash equivalents decreased by $9.1 million, or 31.1%, to $20.2 million at June 30, 2017 from $29.3 million at March 31, 2017. The decrease in cash is primarily a result of $15.4 million in cash paid for the purchase of a commercial loan portfolio in June 2017, partially offset by a $3.8 million decrease in the investment portfolio due to normal principal pay-down of our mortgage backed securities.

Investment Securities. Our investment portfolio consists primarily of investment grade securities including U.S. government agency and government-sponsored entity ("GSEs") securities, securities issued by states, counties and municipalities, corporate bonds, and mortgage-backed securities. At June 30, 2017, 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. During the three months ending June 30, 2017, we did not purchase or sell any securities.

Investment securities decreased $3.8 million, or 3.7%, to $98.6 million at June 30, 2017, from $102.4 million at March 31, 2017. The decrease is attributable to $4.0 million in monthly principal pay-downs associated with our collateralized mortgage obligations and mortgage-backed securities issued by government sponsored enterprises. The fair value of the investment portfolio increased $549,000 from an unrealized net loss position of $2.3 million at March 31, 2017 to an unrealized net loss position of $1.6 million at June 30, 2017. The increase in fair value of the investment portfolio is a result of the decrease in interest rates over the past three months.

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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 loan premiums and loan origination fees and costs, gross loans receivable increased by $14.7 million, or 4.3%, to $353.7 million at June 30, 2017 from $339.0 million at March 31, 2017. The increase is primarily attributable to a $15.4 million commercial business loan portfolio that was purchased towards the end of the first quarter of fiscal 2018. Included in gross loans at June 30, 2017 are acquired loans with a book balance of $124 million associated with the prior acquisitions of Fraternity and Fairmount institutions (these loans are reflected in the "acquired" loan column of the table below). At June 30, 2017, gross loans receivable represented 68.6% of total assets compared to 63.6% of total assets a year ago. The following table details the composition of loans and the related percentage mix and growth of total loans:

	June 30, 2017				March 31, 2017				Y C
	Legacy	**Acquired**	**Total**	**Percent of Total**	Legacy	Acquired	Total	Percent of Total	A
Real estate loans:									
One-to four-family:									
Residential	**$68,615,099**	**$80,296,553**	**$148,911,652**	**42 %**	$67,126,677	$83,892,389	$151,019,066	44 %	$
Residential construction	**6,803,657**	**-**	**6,803,657**	**2 %**	6,426,076	-	6,426,076	2 %	
Investor	**7,811,461**	**18,433,397**	**26,244,858**	**8 %**	6,742,469	18,779,644	25,522,113	8 %	
Commercial	**92,628,423**	**14,399,402**	**107,027,825**	**30 %**	92,665,689	14,898,523	107,564,212	32 %	
Commercial construction	**2,326,457**	**1,191,507**	**3,517,964**	**1 %**	1,881,541	1,308,652	3,190,193	1 %	
Total real estate loans	**178,185,097**	**114,320,859**	**292,505,956**	**83 %**	174,842,452	118,879,208	293,721,660	87 %	
Commercial business	**35,339,083**	**2,037,264**	**37,376,347**	**10 %**	19,518,029	2,019,337	21,537,366	6 %	
Home equity loans	**14,116,647**	**6,668,685**	**20,785,332**	**6 %**	13,278,229	7,266,141	20,544,370	6 %	
Consumer	**2,135,569**	**928,700**	**3,064,269**	**1 %**	2,258,836	937,600	3,196,436	1 %	
Total loans	**$229,776,396**	**$123,955,508**	**$353,731,904**	**100 %**	$209,897,546	$129,102,286	$338,999,832	100 %	$

The Company’s largest concentration of loans continues to be residential one-to four-family loans as a result of the loans acquired in the Fraternity and Fairmount acquisitions. This loan portfolio comprises 42% of the entire loan portfolio at June 30, 2017, a decrease of $2.1 million from March 31, 2017. Over the past several years, the Bank originated traditional one-to-four family residential loans and sold them in the secondary market at a premium in order to manage interest rate risk in a rising rate environment. However, in the last half of fiscal 2017 and into fiscal 2018 we have begun to portfolio the majority of these loans due to the increase in normal attrition within this loan segment resulting from our prior acquisitions. In fiscal 2015, as a means to supplement our residential loan portfolio, the Company began to promote its one-to-four family residential construction lending program. During the first quarter of fiscal 2018, the Bank has originated commitments of $3.7 million in residential construction loans. At June 30, 2017 we had $11.1 million in residential construction commitments, of which $5.7 million in funds have been advanced; compared to $11.8 million in residential construction commitments at March 31, 2017 of which $6.0 million in funds had been advanced. The construction period on residential homes is typically nine to twelve months, at which time the Bank is often repaid through permanent financing by a third party.

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Real estate investor loans represent funds advanced to borrowers for the purchase or refinance of non-owner occupied one-to-four family properties. These loans make up $26.2 million, or 7.4%, of total gross loans at June 30, 2017, including a remaining balance of $18.4 million that were acquired from Fraternity and Fairmount. This type of lending typically involves more risk than originating owner-occupied one-to-four family residential mortgages and as such, the Bank typically refrains from originating these type of loans organically.

The Bank continues to focus on growth through origination or purchase of 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 in loans over the first three months of fiscal 2018, as shown in the previous table, is a $15.8 million, or 75.5%, increase in commercial business loans from $21.5 million at March 31, 2017 to $37.4 million at June 30, 2017. In the last half of fiscal 2017, management focused on diversifying the commercial loan portfolio and seeking more asset-based type lending relationships both organically and through purchases. The majority of the increase in commercial business loans is related to the purchase of a $15.4 million pool of commercial business loans at the end of the first quarter. The pool of loans consists of commercial lease loans that are concentrated in need-based equipment, such as medical equipment. At the same time, commercial real estate loans remained relatively unchanged from $107.6 million at March 31, 2017 to $107.0 million at June 30, 2017. Commercial real estate comprises 30.3% of the total loan portfolio at June 30, 2017, although this percentage has declined slightly from 31.7% at March 31, 2017 due to the growth and diversification of the commercial business loan portfolio over this period. 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.

Bank-Owned Life Insurance. We invest in bank-owned life insurance (“BOLI”) to provide us with a funding source for our benefit plan obligations. BOLI also provides us noninterest income that is tax-exempt. Federal regulations generally limit our investment in BOLI to 25% of our Tier 1 capital plus our allowance for loan losses (“total capital”). At June 30, 2017, our investment in bank-owned life insurance remained relatively unchanged at $18.4 million compared to $18.3 million at March 31, 2017 and was at 43% of total capital as a result of the BOLI acquired in the Fraternity acquisition. Due to the amount of BOLI currently held, the Company has no plans to purchase additional BOLI at this time. The increase reflected during the first quarter of fiscal 2018 is associated with the increase in the cash surrender value of the underlying insurance policies.

Deposits. Total deposits (excluding premiums on acquired deposits) decreased $429,000 to $411.6 million at June 30, 2017 from $412.0 million at March 31, 2017. 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, consisting of savings, checking, and money market accounts. Money market accounts have increased the most with respect to core deposits based upon a money market promotion that has been running since December 2016. Overall core deposits increased $4.5 million, or 2.7%, to $168.9 million at June 30, 2017 compared to $164.4 million at March 31, 2017. Year-over-year core deposits have increased $25.9 million, or 18.1%, at June 30, 2017. Core deposits accounted for 41.0% of total deposits at June 30, 2017, compared to 38.9% at March 31, 2017.

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

	June 30, 2017		March 31, 2017		Year-To-Date Growth	
	Total	**Percent of Total**	Total	Percent of Total	Amount	Growth Percent
Savings	**$44,008,241**	**11 %**	$44,614,415	11 %	$(606,174)	-1.4 %
Noninterest-bearing checking	**32,424,765**	**8 %**	30,401,454	7 %	2,023,311	6.7 %
Interest-bearing checking	**27,319,834**	**7 %**	26,415,189	6 %	904,645	3.4 %
Money market accounts	**65,153,339**	**16 %**	62,962,902	15 %	2,190,437	3.5 %
Time deposits	**242,692,001**	**59 %**	247,632,742	60 %	(4,940,741)	-2.0 %
	$411,598,180	**100 %**	$412,026,702	100 %	$(428,522)	-0.1 %
Premium on deposits asssumed	**704,063**		829,072		(125,009)	
Total deposits	**$412,302,243**		$412,855,774		$(553,531)	

As loan demand has increased, our strategy with respect to deposits has been to maintain our current certificate of deposit base by pricing more competitively in the marketplace or through short-term certificate of deposit promotions, as we 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) and a note payable associated with an automobile. At June 30, 2017, outstanding advances from the FHLB remained unchanged at $35.5 million when compared to March 31, 2017. Included in the FHLB advances is $15.0 million in FHLB advances assumed in the Fraternity acquisition, $5.0 million of which are coming due in the next fiscal quarter of 2018 and $10.0 million in fiscal 2019. These advances were originally longer-term borrowings and carried higher rates of interest varying from 3.4% to 4.3%. As a result of the higher stated rates, the Company recorded a discount of $794,000 when accounting for the borrowings at fair value upon acquisition. At June 30, 2017, the remaining discount is $401,000. The accretion of this discount will offset the higher stated rate of these borrowings. In addition to the acquired borrowings, the Company also entered into $11.5 million of new FHLB advances in the last quarter of fiscal 2017 to supplement the funding of a residential jumbo loan portfolio at that time.

At June 30, 2017, $11.0 million of the total advances are considered short-term and mature in less than one year, while the remaining $24.5 million in advances are considered long-term and mature in more than one year. Included in long-term advances is $11.6 million in advances that mature on a quarterly basis; however, they are associated with several cash flow hedge transactions and will be continuously renewed over the expected life of the hedged transactions. The hedge transactions currently have an average life of 7.1 years. Excluding the advances associated with the hedge transactions, 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 June 30, 2017, we had the ability to borrow approximately $91.9 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 increased $797,000, or 1.3%, to $60.6 million at June 30, 2017 from $59.8 million at March 31, 2017. The change in equity is primarily attributable to net income of $392,000 reported for the first quarter of fiscal 2018, along with an $115,000 increase in additional paid in capital resulting from the expense derived from equity awards granted in prior periods. In addition, accumulated other comprehensive loss decreased $289,000 due to the increase in the fair value of the investment portfolio. The fair value of the investment portfolio increased over the first quarter as a result of the decrease in interest rates that occurred over that same period. The Company’s book value per common share was $17.76 at June 30, 2017 compared to $17.53 at March 31, 2017.

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Comparison of Asset Quality at June 30, 2017 and March 31, 2017

The Bank's asset quality remains a primary focus of management and the Board of Directors. Nonperforming assets at June 30, 2017, were $3.1 million, an increase of $247,000 from March 31, 2017 and a $1.8 million decrease from June 30, 2016. Nonperforming assets to total assets increased slightly from 0.55% at March 31, 2017 to 0.60% at June 30, 2017. Nonperforming assets for the respective periods were as follows:

	At June 30, 2017	At March 31, 2017	At June 30, 2016
	(dollars in thousands)		
Nonaccruing loans	**$2,222**	$2,302	$4,417
Accruing loans delinquent more than 90 days	**331**	21	17
Foreclosed real estate	**520**	503	461
Total nonperforming assets	**$3,073**	$2,826	$4,895
Asset Quality Ratios:			
Nonperforming loans to gross loans	**0.72 %**	0.69 %	1.33 %
Nonperforming assets to total assets	**0.60 %**	0.55 %	0.94 %
Net charge-offs (annualized) to average loans	**0.00 %**	0.92 %	0.02 %

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 June 30, 2017 these loan balances were slightly elevated as they related to many smaller investor (residential non-owner occupied) loans that matured at the same time. The Bank's credit department is diligently working through these loans and have either renewed or extended them accordingly.

Nonaccrual loans decreased to $2.2 million at June 30, 2017 compared to $2.3 million at March 31, 2017 and $4.4 million a year ago. A large portion of the non-accrual loans reported at June 30, 2017 and March 31, 2017 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 $1.5 million at June 30, 2017, including $1.7 million in charge-offs life to date. The loans were placed on non-accrual in October 2015 due to legal issues and the concern of collectability. The loan is classified as a Trouble 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 borrower currently has the property listed for sale by a broker. Management is actively exploring other options to resolve this problem credit that may or may not result in additional write-downs. As of June 30, 2017, there were no other commercial real estate or business loans on nonaccrual.

Nonaccrual loans also consisted of $638,000 in one-to-four family residential mortgage loans of June 30, 2017, including one loan with a book balance of $222,000 that is an acquired loan. The remaining $416,000 of nonaccrual one-to-four family residential mortgage loans consists of 18 different loans with smaller outstanding balances, three of which make up $201,000 of this total.

The remaining balance of nonaccrual loans at June 30, 2017, consisted of $35,000 in one-to-four family non-owner occupied ("investor") loans; down from $71,000 at March 31, 2017 and one home equity loan with a book balance of $3,000.

Delinquencies 30-59 days past due increased $3.0 million to $3.5 million at June 30, 2017 from $504,000 at March 31, 2017. This increase is attributable to one commercial real estate loan with a book balance of $3.2 million at June 30, 2017. The Bank is monitoring this loan closely and working with the borrower to develop a business plan or possibly refinance the loan with another institution. At this time, the underlying collateral supporting this loan appears to be adequate to re-pay the outstanding principal balance on this loan.

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Foreclosed real estate increased $17,000 from $503,000 at March 31, 2017 to $520,000 at June 30, 2017 and consisted of five properties. One of the five properties consists of semi-developed land with a fair value of $443,000. The property is listed for sale and is participated with another financial institution, with Hamilton being the lead lender. The remaining four properties totaling $77,000 are comprised of one-to-four family residential mortgage loans, three of which are participations that Hamilton owns less than 15% of and is not the lead lender. One of these properties was added to foreclosed real estate during the current quarter in the amount of $17,000.

The Bank recorded a $160,000 provision for loan loss during the first quarter of fiscal 2018 compared to a $210,000 provision for loan loss for the same period a year ago. The provision for loan loss for the recent quarter was a result of an increase in loan growth primarily stemming from the purchase of a commercial business loan portfolio. The allowance for loan losses at June 30, 2017 totaled $2.4 million, or 0.67% of gross loans, compared to $2.2 million, or 0.65% of gross loans, at March 31, 2017. The immaterial change in percentage despite additional provisions that were not charge-off related was due to the increase in overall loan balances. This overall percentage remains relatively low compared to peers as a result of our recent acquisitions. 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 if additional provisions are necessary in relation to the estimated fair value placed on those loans as determined by management.

The activity in the allowance for loan losses for the three month period ending June 30, 2017 includes $7,000 in recoveries, offset by $4,000 in charge-offs and a $160,000 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 June 30, 2017. We estimate the allowance for loan losses within a range based upon our charge-off history and certain environmental factors.

Results of Operations for the Three Months Ended June 30, 2017 and 2016 (unaudited)

General. Net income was $392,000, or $0.12 per basic and diluted common share for the three-month period ended June 30, 2017 compared to a net loss of $335,000, or $(0.11) per basic and diluted common share for the same period in fiscal 2017, a period-over-period increase of $727,000. The increase in net results of operations resulted primarily from a $497,000 increase in net interest income, a $50,000 decrease in the provision for loan losses, and a $556,000 decrease in noninterest expenses, partially offset by a $372,000 increase in income tax expense.

Net Interest Income. Net interest income increased $497,000, or 16.0%, to $3.6 million for the three-months ended June 30, 2017 compared to $3.1 million for the three-months ended June 30, 2016. The increase in net interest income was due to a $638,000 increase in interest revenue, partially offset by a $141,000 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 an increase in average yield on interest-earning assets. The average balance in interest-earning assets increased $42.9 million, or 10.1%, for the quarter ended June 30, 2017 compared to the same period in fiscal 2017, while the average yield increased 23 basis points to 3.76% from 3.53%, respectively. The average balances increased quarter-over-quarter due to the acquisition of Fraternity, which occurred in the middle of the prior year quarter ending June 30, 2016. Over this period, the Bank was able to also increase organically and through purchases the average balance of higher interest-earning assets, in particular loans. We purchased a $23.4 million residential loan portfolio in March 2017 and a $15.4 million commercial business loan portfolio in June 2017.

The increase in the average balance of interest-earning assets for the quarter ended June 30, 2017 was offset by a $44.8 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 the deposit base and entering into new borrowings to fund loan growth. The average cost of interest-bearing liabilities for the comparative periods increased 6 basis points from 0.70% for the quarter ended June 30, 2016 to 0.76% for the quarter ended June 30, 2017. Our net interest margin increased 16 basis points from 2.92% for the three-months ended June 30, 2016 to 3.08% for the three-months ended June 30, 2017.

Interest Revenue. Interest revenue increased $638,000, or 17.0% to $4.4 million during the three-months ended June 30, 2017 compared to $3.8 million for the three-months ended June 30, 2016. The increase resulted from increases in interest and fees on loans and interest revenue earned on investment securities, partially offset by a decrease in revenue from federal funds sold and other bank deposits.

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Interest and fees on loans increased $531,000, or 16.0%, to $3.8 million for the three-months ended June 30, 2017, compared to $3.3 million for the three-months ended June 30, 2016. The increase in interest and fees on loans is due to a $58.3 million increase in the average balance of net loans from $278.2 million to $336.5 million quarter-over-quarter. The increase in average loans is attributable to the loans acquired in the Fraternity acquisition, which was completed in the middle of the prior year quarter ending June 30, 2016, as well as organic growth generated by our commercial lending area and strategic loan purchases over the past two quarters. Partially offsetting the revenue derived from an increase in the average balance of loans is a 20 basis point decline in the average yield earned on loans from 4.77% for the quarter ending March 31, 2016 to 4.57% for the quarter ending June 30, 2017. The decline in yield is a result of the extended low interest rate environment and the competitive pressure relating to pricing.

Interest revenue on investment securities increased $119,000 to $486,000 for the three-months ended June 30, 2017 from $367,000 for the three-months ended June 30, 2016. The average balance of investment securities increased by $21.8 million, or 27.7%, to $100.3 million for the three months ended June 30, 2017 from $78.6 million for the same period last year, while the average yield also increased 7 basis points to 1.94% from 1.87%, respectively. The largest increase in investment securities was in mortgage-backed securities, which increased $18.6 million to $75.8 million for the three months ended June 30, 2017 from $57.2 million for the same period last year. The average balance of investment securities also increased quarter-over-quarter by $3.1 million. The increase in average investments is attributable to the Fraternity acquisition, along with utilizing the excess cash acquired in the Fraternity acquisition to purchase new securities in the second half of fiscal 2017.

Interest Expense. Interest expense increased $141,000, or 21.5%, to $795,000 for the three-months ended June 30, 2017 compared to $654,000 for the same period in fiscal 2017, due to the increase in the average balance of both interest-bearing deposits and borrowings. The average balance of interest-bearing deposits increased $31.2 million, or 8.9%, to $381.5 million for the three-months ended June 30, 2017 from $350.3 million for the three-months ended June 30, 2016. The average cost of deposits declined from 0.70% to 0.69% for 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 associated with deposits is more attributable to the increase in average balances than to interest rates. The decline in the average cost of deposits would have been greater; however, in the last quarter of fiscal 2017 we began to run a money market promotion with a 6-month teaser rate as a means to attract core deposits. As a result, the average cost associated with money market accounts increased from 0.23% to 0.55% quarter-over-quarter.

For the three-month period ended June 30, 2017, 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 $5.1 million, or 2.1%, to $245.4 million for the quarter ended June 30, 2017 compared to $240.3 million for the quarter ended June 30, 2016. Over this same period, core interest-bearing deposits increased $26.1 million, or 23.7%, to $136.0 million for the three-months ended June 30, 2017 compared to $109.9 million for the three-months ended June 30, 2016. 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. Average noninterest-bearing deposits increased $7.0 million, or 31.9%, to $29.0 million for the three-months ended June 30, 2017, compared to $22.0 million for the three-months ended June 30, 2016. This increase resulted 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 acquisition of Fraternity.

For the three-month period ended June 30, 2017, average interest-bearing borrowings were $36.1 million compared to an average balance of $22.5 million for the same period a year ago. The borrowings primarily consisted of advances from the Federal Home Loan Bank. At June 30, 2017, the Bank had $35.5 million in outstanding advances from the FHLB, including $24.0 million in borrowings assumed through the Fraternity and Fairmount acquisitions. These borrowings carried an average rate of 1.49% for the three months ended June 30, 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 were 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 interest revenue or interest expense by the average balances of assets or liabilities, respectively, for the periods presented and have been annualized. 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 June 30, (dollars in thousands)					
	2017			**2016**		
	Average Balance	**Interest**	**Yield/ Cost**	**Average Balance**	**Interest**	**Yield/ Cost**
Interest-earning assets:						
Interest bearing deposits with banks	**$30,520**	**$ 54**	**0.71%**	$67,668	$ 67	0.40%
Investment securities (1)	**24,520**	**147**	**2.40%**	21,393	136	2.54%
Mortgage-backed securities	**75,822**	**339**	**1.79%**	57,177	231	1.62%
Loans receivable, net (2)	**336,472**	**3,848**	**4.57%**	278,202	3,316	4.77%
Total interest-earning assets	**467,334**	**4,388**	**3.76%**	424,440	3,750	3.53%
Noninterest-earning assets	**43,584**			35,325		
Total assets	**$510,918**			$459,765		
Interest-bearing liabilities:						
Certificates of deposit	**$245,436**	**$ 556**	**0.91%**	$240,336	$ 565	0.94%
Money Market	**64,822**	**89**	**0.55%**	54,358	31	0.23%
Statement savings	**44,578**	**14**	**0.13%**	39,442	15	0.15%
NOW accounts	**26,635**	**2**	**0.03%**	16,139	1	0.02%
Total interest-bearing deposits	**381,471**	**661**	**0.69%**	350,275	612	0.70%
Borrowings	**36,073**	**134**	**1.49%**	22,479	42	0.75%
Total interest-bearing liabilities	**417,544**	**795**	**0.76%**	372,754	654	0.70%
Noninterest-bearing liabilities and equity:						
Noninterest-bearing deposits	**28,952**			21,950		
Other noninterest-bearing liabilities	**7,274**			5,701		
Total liabilities	**453,770**			400,405		
Total shareholders’ equity	**57,148**			59,360		
Total liabilities and shareholders’ equity	**$510,918**			$459,765		
Net interest income		**$ 3,593**			$ 3,096	
Net interest rate spread (3)			**3.00%**			2.83%
Net interest-earning assets (4)	**$49,790**			$51,686		
Net interest margin (5)			**3.08%**			2.92%
Average interest-earning assets to average interest-bearing liabilities	**111.92 %**			113.87 %		

(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.

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 $160,000 charged to the provision for loan losses for the three-months ended June 30, 2017 compared to a provision for loan loss of $210,000 for the three-months ended June 30, 2016. In the current quarter, the $160,000 provision for loan loss recorded is primarily attributable to the overall growth within the loan portfolio, in particular commercial business loans from the $15.4 million loan portfolio purchased in June 2017. For the quarter ending June 30, 2016, $170,000 of the $210,000 charged to the provision for loan loss was related to two performing TDRs that were charged a risk adjusted rate of interest when their modified rate period expired. The remaining amount was primarily related to organic loan growth and not a product of charge-offs, as reflected in the table below.

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The allowance for loan losses was $2.4 million, or 92.4% of non-performing loans at June 30, 2017 compared to $1.9 million, or 42.4% of non-performing loans at June 30, 2016. The increase in the percentage is a result of the $1.9 million, or 42.4%, decrease in non-performing loans over this same period. Non-performing loans over this period have largely been reduced by actions taken in the second half of fiscal 2017, including $1.1 million in charge-offs associated with one commercial real estate relationship and the sale of a pool of loans that included $768,000 in non-performing loans.

During the three-months ended June 30, 2017, loan charge-offs totaled $4,000 with recoveries of $7,000, compared to $31,000 in charge offs and $16,000 in recoveries during the three-months ended June 30, 2016. During fiscal year 2018, 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 loan loss 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 June 30,	
	2017	**2016**
	(dollars in thousands)	
Allowance for loan losses at beginning of period	**$2,195**	$1,702
Charge-offs:		
Real estate loans:		
Residential	**-**	28
Investor	**4**	-
Commercial	**-**	-
Commercial construction	**-**	-
Commercial business	**-**	2
Home equity	**-**	-
Consumer	**-**	1
Total charge-offs	**4**	31
Recoveries	**7**	16
Net charge-offs	**(3)**	15
Provision for loan losses	**160**	210
Allowance for loan losses at end of period	**$2,358**	$1,897
Allowance for loan losses to non-performing loans	**92.36%**	42.44%
Allowance for loan losses to total loans outstanding at the end of the period	**0.67%**	0.57%

Net charge-offs to average loans outstanding during the period (annualized)	**0.00 %**	0.02 %

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Noninterest Revenue. Noninterest revenue remained relatively unchanged, decreasing to $266,000 for the three-months ended June 30, 2017, compared to $269,000 for the three-months ended June 30, 2016. The following table outlines the changes in noninterest revenue for the three-month periods.

	Three months ended June 30,			
	2017	2016	$ Change	% Change
Service charges	**$119,199**	$95,120	$24,079	25.3
Gain on sale of loans held for sale	**-**	11,172	(11,172)	(100.0)
Earnings on bank-owned life insurance	**122,576**	112,526	10,050	8.9
Other fees and commissions	**24,717**	50,680	(25,963)	(51.2)
Total noninterest revenue	**$266,492**	$269,498	$(3,006)	(1.1)

Noninterest revenue was impacted during the three-months ending June 30, 2017 by increases in service charges and earnings on bank-owned life insurance, along with decreases in gain on sale of loans held for sale and other fees and commissions.

Service charges associated with retail and commercial deposit products increased during the three-months ending June 30, 2017 compared to the same period a year ago in part due to the Fraternity acquisition and management's continued focus on growing core deposits, particularly checking accounts, which typically generate more service fee income. We continuously 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 the $5.1 million in BOLI assumed in the Fraternity acquisition in the quarter ending June 30, 2016. Because the Fraternity acquisition occurred in the middle of the prior year quarter, the prior year quarter did not have the full benefit of those balances. The revenue earned from BOLI is exempt for tax purposes.

Offsetting the increases in noninterest revenue for the three-months ending June 30, 2017 was a decrease in gain on the sale of loans held for sale. Gain on sale of loans held for sale represents revenue earned on loans sold in the secondary market at a premium. Over the past several years, we typically sold our newly originated residential mortgage loans in the secondary market as a means to manage interest rate risk in a rising rate environment. During the second half of fiscal 2017, however, the Company began to hold in portfolio the majority of our residential loan originations to partially offset the increased run-off associated with this loan type. Consequently, there were no loans sold during the quarter ending June 30, 2017 compared to the same quarter last year in which several loans were sold at a gain of $11,000.

Other fees and commissions include loan fees charged to customers, merchant credit card fees, and other smaller fees. The decrease with respect to the three-months ending June 30, 2017 compared to three-months ending June 30, 2016, as shown in the table above, is primarily related to loan fees. Loan fees include various charges to customers for loan applications, processing, and/or extensions. Loan fees for the three-months ending June 30, 2017 declined $30,000 to $14,000, compared to $44,000 for the same period a year ago.

Gains on investment securities are also reported as noninterest revenue; however, for the comparable three-month periods ending June 30, 2017 and 2016, no securities were sold and no gains or losses were recognized.

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Noninterest Expense. Noninterest expense decreased $556,000, or 15.0%, to $3.2 million for the three-months ended June 30, 2017 compared to $3.7 million for the three-months ended June 30, 2016. The following table outlines the changes in noninterest expense for those periods.

	Three months ended June 30,			
	2017	2016	$ Change	% Change
Salaries and benefits	**$1,853,172**	$1,731,940	$121,232	7.0
Occupancy	**260,838**	215,900	44,938	20.8
Advertising	**27,028**	31,351	(4,323)	(13.8)
Furniture and equipment	**83,984**	98,323	(14,339)	(14.6)
Data processing	**164,850**	185,723	(20,873)	(11.2)
Legal services	**101,890**	50,263	51,627	102.7
Other professional services	**180,302**	196,764	(16,462)	(8.4)
Merger related expenses	**-**	188,151	(188,151)	(100.0)
Branch consolidation expense	**-**	437,424	(437,424)	(100.0)
Deposit insurance premiums	**57,128**	77,200	(20,072)	(26.0)
Foreclosed real estate expense and losses	**1,186**	8,108	(6,922)	(85.4)
Other operating	**422,647**	487,952	(65,305)	(13.4)
Total noninterest expense	**$3,153,025**	$3,709,099	$(556,074)	(15.0)

The decline in noninterest expense is primarily the result of non-recurring costs incurred in the prior year quarter, including $188,000 in non-recurring costs associated with the completion of our most recent acquisition and $437,000 in costs relating to the closing of one of our branch locations due to branch overlap from the Fraternity acquisition. Acquisition expenses include fees paid to attorneys, investment bankers and accountants, data conversion, as well as other related costs. While overall operating expenses are higher as a result of operating as a larger financial institution, greater economies of scale have been achieved as reflected in the improvement in our efficiency ratio from 110.2% for the three-months ending June 30, 2016 to 81.7% for the three-months ending June 30, 2017. As noted earlier, some of these efficiencies are derived from the elimination of costs associated with the most recent acquisition.

Many of the other noninterest expense items shown in the table above declined during the three-months ending June 30, 2017 as compared to the same period a year ago. Certain expenses, including furniture and equipment and other professional services, declined as a result of management’s continued focus on reducing costs where applicable. Some of these reductions have been obtained through the review or negotiation of vendor contracts, analysis of alternative sources, and more efficient means. Data processing costs are lower as a result of previous credits that were obtained through the Fraternity acquisition and federal deposit insurance premiums are lower due to a reduction in the rate assessed by the Federal Deposit Insurance Corporation, the government agency that insures deposits. Other operating expenses are lower due to one-to-four family non-owner occupied costs incurred in the prior year quarter to either maintain these properties or keep them from going to tax sale. In the past year, management has worked diligently with many of the investor problem assets, including strategically selling a portion of them, so as to reduce costs going forward.

The largest increase in noninterest expenses quarter-over-quarter was in salaries and benefits, which increased $122,000. During the quarter ending June 30, 2017, the Company made strategic new hires that will be focused on branch efficiency and new products. In addition, annual increases were awarded at this time of year. Also included in salaries and benefits for the three months ending June 30, 2017 and 2016, is $80,000 and $79,000 in expense, respectively, relating to equity awards granted to officers under the Company's 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 $35,000 and $30,000 in expense, respectively, associated with equity awards granted to Directors.

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Legal expense for the quarter ending June 30, 2017 increased over the same quarter a year ago. The increase in legal costs is due in part to management's engagement of counsel to assist with efforts to reduce regulatory costs in the future. In addition, counsel has been sought to assist with compiling and reviewing agreements associated with loan purchases, as well as advice on the re-location of our Ellicott City branch and other branch matters, including the possible sale and re-location of our Pigtown branch within the same area of Baltimore City. Counsel also continues to assist with the collection and foreclosure process associated with problem loans, as well as consult on how to proceed with certain borrowers.

The increase in occupancy expense is primarily related to the re-location of our Ellicott City branch within the same geographic area of Howard County. Due the timing and ability to move into the new location, the Bank had to pay rent expense on both the current and new property for a one-month period. In addition, there were costs incurred in the quarter associated with the re-location that were not capitalized. The new branch location in Ellicott City opened in July 2017.

Income Tax Expense. We recorded tax expense of $154,000 for the three-months ended June 30, 2017 after pre-tax income of $547,000, compared to a tax benefit of $218,000 for the three-months ended June 30, 2016 after a pre-tax net loss of $553,000. The effective income tax rate was 28.2% for the three-months ending June 30, 2017 compared to a negative effective income tax rate of 39.4% for the three-months ending June 30, 2016. Certain items, such as bank-owned life insurance and certain municipal security interest are tax-exempt, while acquisition related expenses are not tax-deductible.

At June 30, 2017, the Company reported a net deferred tax asset of $7.7 million compared to $8.0 million at March 31, 2017. The change is primarily due to the decrease in net operating loss (NOL) carryforwards attributable to the net income reported for the first quarter of fiscal 2018. The NOL carryforwards have a defined expiration date of 20 years from the date of creation.

In accordance with Accounting Standards Codification (ASC) 740, *Accounting for Income Taxes,* the Company continually assesses whether a deferred tax asset is more likely than not to be realized based on an evaluative process that considers all available positive and negative evidence. As part of this evaluative process, management considers the following sources of taxable income: 1) the future reversals of taxable temporary differences 2) future taxable income exclusive of reversing temporary differences and carryforwards 3) taxable income in prior carryback years and; 4) tax planning strategies. A deferred tax asset valuation allowance is established to reduce the net carrying amount of deferred tax assets if it is determined to be more likely than not that all or some portion of the deferred tax asset will not be realized. The Company has established a valuation allowance in the amount of $43,000 at June 30, 2017 because the Company believes that a portion of the state operating loss carryforwards and state tax credit carryforwards will not be utilized.

In making a conclusion, management has evaluated all available positive and negative evidence impacting these sources of taxable income. The positive evidence that is most heavily relied upon is future taxable income exclusive of reversing temporary differences and carryforwards. Based upon our analysis, there is more positive evidence than negative regarding the utilization of our deferred tax asset and the realization of our recorded deferred tax asset at June 30, 2017.

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.

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We also have the ability to borrow from the FHLB to meet our funding and liquidity needs. At June 30, 2017, we had $35.5 million in borrowings from the FHLB, of which $24.0 million were assumed through acquisitions, and the capacity to borrow approximately $91.9 million more, subject to our pledging sufficient assets.

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.

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 June 30, 2017, cash and cash equivalents totaled $20.2 million and securities classified as available-for-sale amounted to $98.6 million.

Total deposits decreased $554,000 over the three months ended June 30, 2017, while total deposits increased $546,000 over the same period a year ago. Deposit flows are affected by the level of interest rates, the interest rates and products offered by competitors and other factors. In the first quarter of fiscal 2017, we made a conscious effort to grow our lower costing core deposits (considered to be all deposits other than certificates of deposit) and retain maturing certificates of deposits through various promotions to assist in funding organic loan growth. Certificates of deposit allow us to lock in those funds for an extended period of time based upon current interest rates. At June 30, 2017, certificates of deposit scheduled to mature within one year totaled $119.0 million, or 49.4% 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 June 30, 2018.

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 June 30, 2017, we had $52.4 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 June 30, 2017, 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 4.5%. 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 year ended June 30, 2017, our common equity to Tier 1 capital was $40.7 million, or 11.97%, of total risk-weighted assets compared to $40.1 million, or 12.13% of total risk-weighted assets for the year ended March 31, 2017.

Our core (Tier 1) capital was $10.7 million and $40.1 million, or 8.25% and 8.28% of adjusted total assets, at June 30, 2017 and March 31, 2017, respectively. In order to be classified as “well-capitalized” under federal banking regulations, we were required to have core capital of at least $24.7 million, or 5.0% of adjusted assets, as of June 30, 2017. 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 June 30, 2017 and March 31, 2017, we had total risk-based capital ratios of 12.68% and 12.81%, respectively, and Tier 1 risk-based capital ratios of 11.97% and 12.13%, respectively. Our regulatory risk weighted capital ratios decreased during the first quarter of fiscal 2018 as a result of our risk-weighted assets increasing due to the Fraternity acquisition and to a lesser extent, increases within the loan portfolio due to organic growth and loan purchases.

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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, 2017 filed on June 29, 2017. 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.

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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, 2017. As of June 30, 2017, the risk factors of the Company have not changed materially from those disclosed in the annual report.

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.

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 June 30, 2017 (unaudited) and March 31, 2017; (ii) the Consolidated Statements of Operations for the three months ended June 30, 2017 and 2016 (unaudited); (iii) the Consolidated Statements of Comprehensive Income for the three months ended June 30, 2017 and 2016 (unaudited); (iv) the Consolidated Statements of Equity for the three months ended June 30, 2017 and 2016 (unaudited); (v) the Consolidated Statement of Cash Flows for the three months ended June 30, 2017 and 2016 (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.

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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: August 14, 2017	/s/ Robert A. DeAlmeida Robert A. DeAlmeida President and Chief Executive Officer
Date: August 14, 2017	/s/ John P. Marzullo John P. Marzullo Senior Vice President, Chief Financial Officer and Treasurer