Hamilton Bancorp, Inc.
Form 10-Q
August 13, 2018

Table of Contents

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, 2018

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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 [ ]	

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 3,416,414 shares issued and outstanding as of August 13, 2018.

Table of Contents

Hamilton Bancorp, Inc. and Subsidiary

Form 10-Q

Index

Table of Contents

Part I. – Financial Information

Item 1. Financial Statements

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

June 30, 2018 and March 31, 2018

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Assets		
Assets		
Cash and due from banks	**$28,820,533**	$15,488,396
Federal funds sold	**7,238,852**	7,880,019
Cash and cash equivalents	**36,059,385**	23,368,415
Certificates of deposit held as investment	**499,167**	499,189
Securities available for sale, at fair value	**72,638,697**	75,404,136
Federal Home Loan Bank stock, at cost	**2,994,900**	3,122,400
Loans	**381,044,039**	390,420,885
Allowance for loan losses	**(2,836,987)**	(2,821,903)
Net loans and leases	**378,207,052**	387,598,982
Premises and equipment, net	**3,928,511**	3,945,825
Foreclosed real estate	**457,778**	457,778
Accrued interest receivable	**1,470,881**	1,468,382
Bank-owned life insurance	**17,569,375**	17,455,850
Income taxes refundable	**40,000**	40,000
Goodwill and other intangible assets	**9,145,248**	9,176,764
Other assets	**2,264,055**	2,995,741
Total Assets	**$525,275,049**	$525,533,462
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	**$27,485,033**	$29,557,943
Interest-bearing deposits	**376,989,028**	375,585,032
Total deposits	**404,474,061**	405,142,975
Borrowings	**59,599,093**	60,672,140
Advances by borrowers for taxes and insurance	**2,707,378**	1,962,665
Other liabilities	**3,575,171**	3,679,550
Total liabilities	**470,355,703**	471,457,330

Commitments and contingencies	**-**	-
Shareholders' Equity		
Common stock, $.01 par value, 100,000,000 shares authorized. Issued and outstanding: 3,416,414 shares at June 30, 2018 and 3,407,613 shares at March 31, 2018	**34,164**	34,076
Additional paid in capital	**32,239,049**	32,113,534
Retained earnings	**26,799,923**	25,920,490
Unearned ESOP shares	**(2,073,680)**	(2,073,680)
Accumulated other comprehensive loss	**(2,080,110)**	(1,918,288)
Total shareholders' equity	**54,919,346**	54,076,132
Total Liabilities and Shareholders' Equity	**$525,275,049**	$525,533,462

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

1

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations (Unaudited)

Three Months Ended June 30, 2018 and 2017

	Three Months Ended June 30,	
	2018	**2017**
Interest revenue		
Loans, including fees	**$4,407,943**	$3,848,013
U.S. treasuries, government agencies and FHLB stock	**53,689**	32,684
Municipal and corporate bonds	**94,411**	113,969
Mortgage-backed securities	**275,008**	338,906
Federal funds sold and other bank deposits	**110,719**	54,408
Total interest revenue	**4,941,770**	4,387,980
Interest expense		
Deposits	**875,064**	660,458
Borrowed funds	**258,588**	134,270
Total interest expense	**1,133,652**	794,728
Net interest income	**3,808,118**	3,593,252
Provision for loan losses	**60,000**	160,000
Net interest income after provision for loan losses	**3,748,118**	3,433,252
Noninterest revenue		
Service charges	**120,584**	119,199
Gain on sale of loans held for sale	**9,542**	-
Earnings on bank-owned life insurance	**113,525**	122,576
Other	**47,123**	24,717
Total noninterest revenue	**290,774**	266,492
Noninterest expenses		
Salaries	**1,467,581**	1,459,998
Employee benefits	**411,842**	393,174
Occupancy	**271,828**	260,838
Advertising	**17,024**	27,028
Furniture and equipment	**90,299**	83,984
Data processing	**192,654**	164,850
Legal services	**56,338**	101,890
Other professional services	**98,316**	180,302
Deposit insurance premiums	**101,109**	57,128
Foreclosed real estate expense and losses	**-**	1,186
Other operating	**452,468**	422,647

Total noninterest expense	**3,159,459**	3,153,025
Income before income taxes	**879,433**	546,719
Income tax expense	**-**	154,342
Net Income	**$879,433**	$392,377
Net income per common share:		
Basic	**$0.27**	$0.12
Diluted	**$0.27**	$0.12

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

2

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income (Unaudited)

Three Months Ended June 30, 2018 and 2017

	Three Months Ended June 30,	
	2018	2017
Net income	**$879,433**	$392,377
Other comprehensive (loss) income:		
Unrealized (loss) gain on investment securities available for sale	**(259,861)**	549,343
Reclassification adjustment for realized loss (gain) on investment securities available for sale included in net income	**-**	-
Total unrealized (loss) gain on investment securities available for sale	**(259,861)**	549,343
Unrealized gain (loss) on derivative transactions	**98,039**	(209,948)
Income tax expense relating to investment securities available for sale and derivative transactions	**-**	133,874
Other comprehensive (loss) income	**(161,822)**	205,521
Total comprehensive income	**$717,611**	$597,898

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

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Three Months Ended June 30, 2018 and 2017

	Common stock	Additional paid-in capital	Retained earnings	Unearned ESOP shares	Accumulated other comprehensive loss	Total shareholders' equity
Balances at 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 securities, net of tax effect of $(82,814)	-	-	-	-	(43,500)	(43,500)
Stock based compensation - options	-	57,392	-	-	-	57,392
Stock based compensation - restricted stock	-	57,819	-	-	-	57,819
Balances at June 30, 2017	**$ 34,111**	**$31,771,446**	**$32,123,050**	**$(2,221,800)**	**$ (1,118,834)**	**$ 60,587,973**
Balances at April 1, 2018	**$ 34,076**	**$32,113,534**	**$25,920,490**	**$(2,073,680)**	**$ (1,918,288)**	**$ 54,076,132**
Net income	**-**	**-**	**879,433**	**-**	**-**	**879,433**
Unrealized loss on available for sale securities, net of tax effect of $ -0-	**-**	**-**	**-**	**-**	**(259,861)**	**(259,861)**
Unrealized gain on derivative transactions, net of tax effect of $ -0-	**-**	**-**	**-**	**-**	**98,039**	**98,039**
Stock based compensation - options	**-**	**61,514**	**-**	**-**	**-**	**61,514**
Restricted stock - compensation and activity	**88**	**64,001**	**-**	**-**	**-**	**64,089**
Balances at June 30, 2018	**$ 34,164**	**$32,239,049**	**$26,799,923**	**$(2,073,680)**	**$ (2,080,110)**	**$ 54,919,346**

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

4

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

Three Months Ended June 30, 2018 and 2017

	Three Months Ended June 30, 2018	2017
Cash flows from operating activities		
Interest received	$5,014,653	$4,515,279
Fees and commissions received	167,707	143,916
Interest paid	(1,286,649)	(1,066,546)
Cash paid to suppliers and employees	(2,291,909)	(2,393,508)
Origination of loans held for sale	(453,100)	-
Proceeds from sale of loans held for sale	462,642	-
Net cash provided by operating activities	1,613,344	1,199,141
Cash flows from investing activities		
Proceeds from maturing and called securities available for sale, including principal pay downs	4,332,019	4,126,059
Purchase of investment securities available for sale	(1,985,000)	-
Redemption of Federal Home Loan Bank stock	127,500	-
Loans made, net of principal repayments	9,415,130	(14,747,850)
Purchase of premises and equipment	(67,026)	(121,649)
Net cash provided (used) by investing activities	11,822,623	(10,743,440)
Cash flows from financing activities		
Net increase (decrease) in		
Deposits	(587,837)	(428,522)
Advances by borrowers for taxes and insurance	744,713	974,614
Proceeds from borrowings	-	11,550,000
Payments of borrowings	(1,000,000)	(11,553,111)
Interest rate swap on FHLB borrowings	98,039	(126,314)
Issuance of restricted stock	88	-
Net cash (used) provided by financing activities	(744,997)	416,667
Net increase (decrease) in cash and cash equivalents	12,690,970	(9,127,632)
Cash and cash equivalents at beginning of period	23,368,415	29,353,921
Cash and cash equivalents at end of period	$36,059,385	$20,226,289

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

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

(Continued)

	Three Months Ended June 30,	
	2018	2017
Reconciliation of net income to net cash provided by operating activities		
Net income	$879,433	$392,377
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of premiums on certificates of deposit	22	23
Amortization of premiums on securities	158,560	238,628
Write-down of foreclosed real estate	-	1,186
Loan discount accretion	(75,104)	(450)
Deposit premium amortization	(81,077)	(125,009)
Borrowing premium amortization	(73,047)	(146,560)
Core deposit intangible asset amortization	31,516	31,516
Premises and equipment depreciation and amortization	84,340	79,517
Stock based compensation	125,515	115,212
Provision for loan losses	60,000	160,000
Decrease (increase) in		
Accrued interest receivable	(2,499)	(108,369)
Cash surrender value of life insurance	(113,525)	(122,576)
Income taxes refundable and deferred income taxes	-	154,342
Other assets	731,685	229,464
Increase (decrease) in		
Accrued interest payable	1,127	(249)
Deferred loan origination fees	(8,096)	(2,533)
Other liabilities	(105,506)	302,622
Net cash provided by operating activities	$1,613,344	$1,199,141
Noncash investing activity		
Real estate acquired through foreclosure	$-	$17,305

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

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Form 10-Q

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2018

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.

On December 21, 2017, the Bank converted its charter from a federal savings bank to a Maryland state-chartered commercial bank and now operates under the laws of the State of Maryland. In conjunction with the Bank's charter conversion, Hamilton Bancorp converted from a savings and loan holding company to a bank holding company. The charter conversion is part of the Bank's strategic plan which will allow it to continue to focus on growth opportunities in commercial, consumer and mortgage lending as well as small business and retail banking. The Maryland Office of the Commissioner of Financial Regulation will serve as the Bank's primary regulator with federal oversight provided by the Federal Deposit Insurance Corporation. Hamilton Bancorp will continue to be regulated by the Federal Reserve Board.

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.

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, 2018 from audited financial statements. Operating results for the three months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2019, 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, 2018.

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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, 2018 and March 31, 2018 were 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.

Loans Held For Sale. Mortgage loans originated and intended for sale are carried at the lower of aggregate cost or estimated fair value. Fair value is determined based on outstanding investor commitments, or in the absence of such commitments, based on current investor yield requirements. Gains and losses on loan sales are determined by the specific-identification method.

Table of Contents

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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.

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.

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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. As part of the estimation process, management keeps the net charge-off history as a percentage of loans, as it pertains to each loan segment, constant across all risk ratings and alters the qualitative factors either up or down based upon the respective risk rating for each loan segment.

Foreclosed Real Estate. Real estate acquired through foreclosure or other means is recorded at the lower of its carrying value or the fair value of the related real estate collateral less estimated selling costs. Losses in estimated fair value incurred at the time of acquisition of the property are charged to the allowance for loan losses. Subsequent reductions in the estimated fair value of the property are included in noninterest expense. Costs to maintain foreclosed real estate are expensed as incurred.

Goodwill and Other Intangible Assets. Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Intangible assets, consisting of core deposit intangibles, represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset may be sold or exchanged on its own or in combination with a related contract, asset, or liability. Core deposit intangibles are amortized on an accelerated basis over an eight-year period. Goodwill is not amortized but is evaluated on an annual basis to determine impairment, if any. Any impairment of goodwill would be recognized against income in the period of impairment.

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.

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Revenue from Contracts with Customers. We record revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, we must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) we satisfy a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods. Our primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. We have evaluated the nature of our contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Operation was not necessary. Contracts with customers are generally fully satisfied in regard to performance obligations as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

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.

Income Taxes. The Bank recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured 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. Deferred tax assets and liabilities are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that all or some portion of the deferred tax assets will not be realized.

Earnings Per Common Share. Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Weighted average shares exclude unallocated ESOP shares. Diluted earnings per share includes additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares relate to outstanding stock options, restricted stock, and warrants and are determined using the treasury stock method.

Note 2: New Accounting Pronouncements

Recent Accounting Pronouncements

ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities. This ASU's objectives are to: (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities; and (2) reduce the complexity of and simplify the application of hedge accounting by preparers. The ASU is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The Company does not expect the adoption of ASU 2017-12 to have a material impact on the Company's consolidated financial statements.

ASU No. 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company will evaluate the guidance in this update but does not expect it to have a significant impact on the Company's consolidated financial statements.

Table of Contents

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

ASU No. 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 was effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. The Company adopted this guidance effective April 1, 2018 and it did not have a material impact on our consolidated financial statements.

ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This update addresses diversity on how certain cash receipts and payments are reflected in the statement of cash flows. The 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 are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and is required to be applied retrospectively to all periods presented. The company adopted this guidance April 1, 2018, which did not result in a change in the classification in the statement of cash flows and did not have a material impact on our 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 estimate credit losses. 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 for public business entities is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Hamilton Bancorp is in the process of implementing a committee and has begun to gather loan information and consider acceptable methodologies to comply with this ASU. The implementation team will meet periodically to discuss the latest developments and updates via webcasts, publications, and conferences. We are currently evaluating and in the process of selecting a third-party vendor solution to assist us in the application of ASU 2016-13. Hamilton Bancorp's evaluation indicates that the provisions of ASU No. 2016-13 are expected to impact its consolidated financial statements, in particular the level of the reserve for loan losses. We are, however, continuing to evaluate the extent of the potential impact.

Table of Contents

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

ASU 2016-02, Leases (Topic 842). From the lessee's perspective, the new ASU standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for lessees. The guidance also eliminates the current real estate-specific provision and changes the guidance on sale-leaseback transactions, initial direct costs and lease executory costs. With respect to lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. All entities will classify leases to determine how to recognize lease-related revenue and expense. In applying this guidance entities will also need to determine whether an arrangement contains a lease or service agreement. Disclosures are required by lessees and lessors to meet the objective of enabling users of financials statements to assess the amount, timing, and uncertainty of cash flows arising from leases. For public entities, this guidance is effective for the first interim or annual period beginning after December 15, 2018. Early adoption is permitted. Entities are required to use a modified retrospective transition method for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements.

In July 2018, as a follow-up to ASU 2016-02 (Topic 842), the Board issued *ASU No. 2018-10 – Codification Improvements to Topic 842, Leases* to clarify the codification associated with ASU 2016-02 or to correct unintended application of guidance. The amendments in this Update are of a similar nature to the items typically addressed in the Codification improvements project and affect narrow aspects of the guidance issued in the amendments in Update 2016-02. The Update addresses sixteen separate issues under the guidance that provide a clearer understanding as to intent and application of the guidance. The Company is assessing the guidance under ASU 2016-02 and 2018-10 to determine its impact on the Company's consolidated financial statements.

ASU No. 2018-11, Leases (Topic 842) – Targeted Improvements. The purpose of this ASU is to update ASU 2016-02 to address stakeholders concerns regarding comparative reporting and separating components of a lease contract for lessors. For comparative reporting, entities are required under ASU 2016-02 to use a modified retrospective transition method. Due to issues in implementing, the Board decided to provide another transition method that allows companies to initially apply the new leases standard at the adoption date versus retrospectively and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The amendments in this update also provides lessors a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component, similar to the expedient provided by lessees. However, the lessor practical expedient is limited to circumstances in which the nonlease component or components otherwise would be accounted for under the new revenue guidance and both (1) the timing and pattern of transfer are the same for the nonlease component(s) and associated lease component and (2) the lease component, if accounted for separately, would be classified as an operating lease. The Company is assessing this guidance in conjunction with ASU 2016-02 to determine its impact on the Company's consolidated financial statements.

ASU No. 2016-01, Financial Instruments – Recognition and Measurement of Financial Assets and Liabilities. This ASU requires equity investments to be measured at fair value with changes in fair value recognized in net income, excluding equity investments that are consolidated or accounted for under the equity method of accounting. The amendment allows equity investments without readily determinable fair values to be measured at cost minus impairment, with a qualitative assessment required to identify impairment. The amendment also requires public companies to use exit prices to measure the fair value of financial instruments purposes; requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statement; it eliminates the disclosure requirements related to measurement assumptions for the fair value of instruments measured at amortized cost. In addition, for liabilities measured at fair value under the fair value option, to present in other comprehensive income changes in fair value due to changes in instrument specific credit risk. The Company's management engaged a third-party expert in the field of valuation and reporting to assist management and ensure adequate documentation of financial controls and analysis performed in its review of "exit pricing" of the fair values of loans, deposits, and other financial instruments. This ASU is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We adopted this ASU effective April 1, 2018. With the adoption of this ASU, equity securities can no longer be classified as available for sale, and as such marketable equity securities are disclosed as a separate line item on the Consolidated Statement of Financial Condition with changes in the fair value of equity securities reflected in net income. At June 30, 2018 the Company did not have any equity securities. During the first quarter of fiscal 2019, we began using an exit price notion when measuring the fair value of our loan portfolio, excluding loans held for sale, for disclosure purposes. The adoption of this ASU did not have a significant impact on our consolidated financial statements.

Table of Contents

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. This ASU does not apply to revenue associated with financial instruments including loans and securities that are accounted for under U.S. GAAP. Consequently, adoption of the ASU did not have a significant impact on the Company's consolidated financial statements and related disclosures since the primary source of revenue for the Company is derived from interest and dividends earned on loans, investment securities and other financial instruments that are outside the scope of the ASU. The Company has assessed its revenue streams and reviewed its contracts with customers that are affected by the new guidance. This includes fees on deposits, gains and losses on the sale of foreclosed real estate, credit and debit card interchange fees, merchant card services, and administrative services for customer deposit account such as ATM and wire transfer transactions. The Company's revenue recognition pattern for revenue streams within the scope of the ASU has not changed significantly from current practice and is immaterial to our financial statements. This guidance was effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this guidance effective April 1, 2018 and it did not have a material impact on our consolidated financial statements.

Note 3: 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, 2018 and 2017 are summarized below:

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
Net income	**$879,433**	$392,377
Weighted average common shares outstanding - basic	**3,209,046**	3,188,895
Weighted average common shares outstanding - diluted	**3,230,287**	3,198,999
Income per common share - basic and diluted	**$0.27**	$0.12
Anti-dilutive shares	**159,019**	121,686

Table of Contents

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Note 4: Investment Securities Available for Sale

The amortized cost and fair value of securities at June 30, 2018 and March 31, 2018, are summarized as follows:

June 30, 2018	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government agencies	**$2,750,087**	**$ -**	**$34,435**	**$2,715,652**
Municipal bonds	**12,405,766**	**-**	**772,923**	**11,632,843**
Corporate bonds	**2,000,000**	**-**	**16,750**	**1,983,250**
Mortgage-backed securities	**58,605,648**	**4,212**	**2,302,908**	**56,306,952**
	$75,761,501	**$ 4,212**	**$3,127,016**	**$72,638,697**

March 31, 2018	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government agencies	$2,753,346	$ -	$34,697	$2,718,649
Municipal bonds	12,435,068	-	729,077	11,705,991
Corporate bonds	2,000,000	-	45,924	1,954,076
Mortgage-backed securities	61,078,665	12,993	2,066,238	59,025,420
	$78,267,079	$ 12,993	$2,875,936	$75,404,136

There were no sales of investment securities during the three months ended June 30, 2018 or 2017.

As of June 30, 2018 and March 31, 2018, 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 $53,850 and fair value of $54,709 as of June 30, 2018.

As of June 30, 2018 and March 31, 2018, the Company had one security pledged to the Federal Reserve Bank with a book value of $744,186 at both dates and a fair value of $719,728 and $723,023, respectively.

The amortized cost and estimated fair value of debt securities by contractual maturity at June 30, 2018 and March 31, 2018 follow. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	Available for Sale			
	June 30, 2018		March 31, 2018	
	Amortized cost	Fair value	Amortized cost	Fair value
Maturing				
Within one year	**$2,005,901**	**$1,995,924**	$2,009,160	$1,995,625
Over one to five years	**1,230,371**	**1,190,018**	1,231,928	1,196,368
Over five to ten years	**3,576,063**	**3,524,030**	3,578,827	3,500,641
Over ten years	**10,343,518**	**9,621,773**	10,368,499	9,686,082
Mortgage-backed securities, in monthly installments	**58,605,648**	**56,306,952**	61,078,665	59,025,420
	$75,761,501	**$72,638,697**	$78,267,079	$75,404,136

Table of Contents

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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, 2018 and March 31, 2018.

	Less than 12 months		12 months or longer		Total	
June 30, 2018	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
U.S. government agencies	**$24,458**	**$719,728**	**$9,977**	**$1,995,924**	**$34,435**	**$2,715,652**
Municipal bonds	**-**	**-**	**772,923**	**11,632,843**	**772,923**	**11,632,843**
Corporate bonds	**-**	**-**	**16,750**	**1,983,250**	**16,750**	**1,983,250**
Mortgage-backed securities	**494,184**	**18,259,112**	**1,808,724**	**37,779,118**	**2,302,908**	**56,038,230**
	$518,642	**$18,978,840**	**$2,608,374**	**$53,391,135**	**$3,127,016**	**$72,369,975**

	Less than 12 months		12 months or longer		Total	
March 31, 2018	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
U.S. government agencies	$21,163	$723,023	$13,534	$1,995,625	$34,697	$2,718,648
Municipal bonds	-	-	729,077	11,705,991	729,077	11,705,991
Corporate bonds	-	-	45,924	1,954,076	45,924	1,954,076
Mortgage-backed securities	383,987	15,880,948	1,682,251	40,684,836	2,066,238	56,565,784
	$405,150	$16,603,971	$2,470,786	$56,340,528	$2,875,936	$72,944,499

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.

Table of Contents

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Note 5: Loans Receivable and Allowance for Loan Losses

Loans receivable, excluding loans held for sale, consist of the following at June 30, 2018 and March 31, 2018:

	June 30, 2018				March 31, 2018			
	Legacy (1)	Acquired	Total Loans	% of Total	Legacy (1)	Acquired	Total Loans	% of Total
Real estate loans:								
One-to four-family:								
Residential (2)	$84,252,950	$70,509,208	$154,762,158	41 %	$85,248,184	$72,749,066	$157,997,250	41 %
Residential construction	5,636,504	-	5,636,504	1 %	5,450,827	-	5,450,827	1 %
Investor (3)	8,822,670	17,210,983	26,033,653	7 %	9,275,031	17,460,809	26,735,840	7 %
Commercial	102,659,016	10,486,192	113,145,208	30 %	100,403,769	11,762,485	112,166,254	29 %
Commercial construction	2,550,462	854,370	3,404,832	1 %	5,763,784	1,352,019	7,115,803	2 %
Total real estate loans	203,921,602	99,060,753	302,982,355	80 %	206,141,595	103,324,379	309,465,974	80 %
Commercial business (4)	37,061,370	1,905,770	38,967,140	10 %	38,302,739	1,841,226	40,143,965	10 %
Home equity loans	13,735,464	5,475,308	19,210,772	5 %	13,956,327	6,039,462	19,995,789	5 %
Consumer (5)	17,861,626	739,300	18,600,926	5 %	18,849,448	766,063	19,615,511	5 %
Total Loans	272,580,062	107,181,131	379,761,193	100 %	277,250,109	111,971,130	389,221,239	100 %
Net deferred loan origination fees and costs	(204,650)	-	(204,650)		(212,746)	-	(212,746)	
Loan premium (discount)	1,844,408	(356,912)	1,487,496		1,922,428	(510,036)	1,412,392	
	$274,219,820	$106,824,219	$381,044,039		$278,959,791	$111,461,094	$390,420,885	

(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, 2018 includes $19.2 million of various loan pools purchased in the second half of fiscal 2018.
(3) "Investor" loans are residential mortgage loans secured by non-owner occupied one-to four-family properties.
(4) "Legacy" commercial business loans at March 31, 2018 includes a $15.5 million pool of commercial lease loans purchased in June 2017 and $3.2 million in guaranteed SBA loans purchased in second half of fiscal 2018.
(5) "Legacy" consumer loans at March 31, 2018 includes $19.9 million of purchased loan pools consisting of recreational vehicles that were purchased in August and December 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.

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.

Table of Contents

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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, 2018 and 2017. 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.

Three Months Ended June 30, 2018	**June 30, 2018 Residential Real Estate**	**Investor Real Estate**	**Commercial Real Estate**	**Commercial Construction**	**Commercial Business**	**Home Equity**	**Consumer**	**Total**
Allowance for credit losses:								
Beginning balance	**$608,723**	**$51,690**	**$1,253,383**	**$ 33,430**	**$ 673,982**	**$69,459**	**$131,236**	**$2,821,903**
Charge-offs	**(8,047)**	**(5,580)**	**(31,320)**	**-**	**-**	**-**	**(2,465)**	**(47,412)**
Recoveries	**767**	**65**	**-**	**-**	**-**	**-**	**1,664**	**2,496**
Provision for credit losses	**(232)**	**17,331**	**133,823**	**(18,637)**	**(64,610)**	**(1,192)**	**(6,483)**	**60,000**
Ending balance	**$601,211**	**$63,506**	**$1,355,886**	**$ 14,793**	**$ 609,372**	**$68,267**	**$123,952**	**$2,836,987**
Allowance allocated to:								
Legacy Loans:								
Individually evaluated for impairment	**$261,902**	**$-**	**$-**	**$ -**	**$ -**	**$-**	**$-**	**$261,902**
Collectively evaluated for impairment	**339,309**	**63,506**	**1,355,886**	**14,793**	**609,372**	**68,267**	**123,952**	**2,575,085**
Acquired Loans:								
	$-	**$-**	**$-**	**$ -**	**$ -**	**$-**	**$-**	**$-**

Individually evaluated for impairment								
Collectively evaluated for impairment	-	-	-	-	-	-	-	-

Table of Contents

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Three Months Ended June 30, 2017	**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 for impairment	**$278,573**	**$-**	**$-**	**$ -**	**$ -**	**$-**	**$ -**	**$278,573**
Collectively evaluated for impairment	**265,984**	**64,471**	**1,312,158**	**26,987**	**343,094**	**64,661**	**1,600**	**2,078,955**
Acquired Loans:								
Individually evaluated for impairment	**$-**	**$-**	**$-**	**$ -**	**$ -**	**$-**	**$ -**	**$-**
Collectively evaluated for impairment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Our recorded investment in loans at June 30, 2018 and 2017 related to each balance in the allowance for probable loan losses by portfolio segment and disaggregated on the basis of our impairment methodology was as follows:

June 30, 2018						
	Commercial	**Commercial**			**Consumer**	**Total**

	Residential Real Estate	Investor Real Estate	Commercial Real Estate	Construction	Business	Home Equity		
Loans:								
Legacy Loans:								
Individually evaluated for impairment	$1,784,758	$58,599	$7,505,365	$-	$858,762	$7,408	$19,853	$10,234,74
Collectively evaluated for impairment	88,104,696	8,764,071	95,153,651	2,550,462	36,202,608	13,728,056	17,841,773	262,345,3
Ending balance	$89,889,454	$8,822,670	$102,659,016	$2,550,462	$37,061,370	$13,735,464	$17,861,626	$272,580,0
Acquired Loans:								
Individually evaluated for impairment	$892,087	$433,174	$197,259	$-	$-	$-	$58,706	$1,581,226
Collectively evaluated for impairment	69,617,121	16,777,808	10,288,933	854,370	1,905,770	5,475,308	680,595	105,599,9
Ending balance	$70,509,208	$17,210,982	$10,486,192	$854,370	$1,905,770	$5,475,308	$739,301	$107,181,1

19

Table of Contents

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

	June 30, 2017 Residential Real Estate	Investor Real Estate	Commercial Real Estate	Commercial Construction	Commercial Business	Home Equity	Consumer	Total
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	225,724,481
Ending balance	$75,418,756	$7,811,461	$92,628,423	$2,326,457	$35,339,083	$14,116,647	$2,135,569	$229,776,396
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	122,322,064
Ending balance	$80,296,553	$18,433,397	$14,399,402	$1,191,507	$2,037,264	$6,668,685	$928,700	$123,955,508

Table of Contents

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Past due loans, segregated by age and class of loans, as of June 30, 2018 and March 31, 2018, were as follows:

	June 30, 2018			March 31, 2018		
	Legacy	Acquired	Total	Legacy	Acquired	Total
Current	$263,581,744	$105,746,394	$369,328,138	$270,807,643	$109,972,473	$380,780,116
Accruing past due loans:						
30-59 days past due:						
Real estate loans:						
Residential	74,733	82,995	157,728	63,618	689,364	752,982
Investor	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-
Commercial business	14,573	-	14,573	135,502	-	135,502
Home equity loans	-	-	-	-	-	-
Consumer	28,161	28,005	56,166	148,876	-	148,876
Total 30-59 days past due	117,467	111,000	228,467	347,996	689,364	1,037,360
60-89 days past due:						
Real estate loans:						
Residential	26,172	-	26,172	70,291	-	70,291
Investor	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-
Commercial business	-	-	-	134,524	-	134,524
Home equity loans	-	-	-	-	-	-
Consumer	-	-	-	28,300	-	28,300
Total 60-89 days past due	26,172	-	26,172	233,115	-	233,115
90 or more days past due:						
Real estate loans:						
Residential	-	-	-	-	-	-
Investor	515,243	517,040	1,032,283	734,818	471,423	1,206,241
Commercial	-	197,259	197,259	-	-	-
	-	-	-	-	-	-

Commercial construction						
Commercial business	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total 90 or more days past due	**515,243**	**714,299**	**1,229,542**	**734,818**	**471,423**	**1,206,241**
Total accruing past due loans	**658,882**	**825,299**	**1,484,181**	**1,315,929**	**1,160,787**	**2,476,716**
Non-accruing loans:						
Real estate loans:						
Residential	**515,611**	**315,038**	**830,649**	**526,584**	**338,060**	**864,644**
Investor	**58,599**	**294,400**	**352,999**	**60,949**	**300,872**	**361,821**
Commercial	**7,505,364**	-	**7,505,364**	**4,356,264**	**198,938**	**4,555,202**
Commercial construction	-	-	-	-	-	-
Commercial business	**240,009**	-	**240,009**	**165,285**	-	**165,285**
Home equity loans	-	-	-	**12,605**	-	**12,605**
Consumer	**19,853**	-	**19,853**	**4,850**	-	**4,850**
Non-accruing loans:	**8,339,436**	**609,438**	**8,948,874**	**5,126,537**	**837,870**	**5,964,407**
Total Loans	**$272,580,062**	**$107,181,131**	**$379,761,193**	**$277,250,109**	**$111,971,130**	**$389,221,239**
Nonaccrual interest not accrued:						
Real estate loans:						
Residential	**$2,248**	**$4,308**	**$6,556**	**$8,250**	**$53,120**	**$61,370**
Investor	**969**	**4,138**	**5,107**	**8,513**	**15,604**	**24,117**
Commercial	**184,891**	-	**184,891**	**294,619**	-	**294,619**
Commercial construction	-	-	-	-	-	-
Commercial business	**7,462**	-	**7,462**	**12,891**	-	**12,891**
Home equity loans	-	-	-	**436**	-	**436**
Consumer	**446**	-	**446**	**385**	-	**385**
Total nonaccrual interest not accrued	**$196,016**	**$8,446**	**$204,462**	**$325,094**	**$68,724**	**$393,818**

Table of Contents

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Impaired Loans as of and for the three months ended June 30, 2018 and 2017, and the year ended March 31, 2018, was as follows:

	Impaired Loans at June 30, 2018			**Three Months Ended June 30, 2018**	
	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Legacy:					
With no related allowance recorded:					
Real estate loans:					
Residential	**$630,805**	**$484,375**	**$ -**	**$490,726**	**$ 10,492**
Investor	**124,696**	**58,599**	**-**	**59,355**	**1,312**
Commercial	**9,565,282**	**7,505,365**	**-**	**5,957,014**	**53,278**
Commercial construction	**-**	**-**	**-**		
Commercial business	**1,619,151**	**858,762**	**-**	**827,871**	**8,863**
Home equity loans	**34,472**	**7,408**	**-**	**17,016**	**953**
Consumer	**22,382**	**19,853**	**-**	**19,577**	**-**
With an allowance recorded:					
Real estate loans:					
Residential	**1,327,589**	**1,300,383**	**261,902**	**1,312,130**	**13,834**
Investor	**-**	**-**	**-**	**-**	**-**
Commercial	**-**	**-**	**-**	**-**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**
Home equity loans	**-**	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**	**-**
Total legacy impaired	**13,324,377**	**10,234,745**	**261,902**	**8,683,689**	**88,732**
Acquired (1):					
With no related allowance recorded:					
Real estate loans:					
Residential	**1,052,825**	**892,087**	**-**	**936,819**	**10,156**
Investor	**755,381**	**433,174**	**-**	**437,401**	**9,184**
Commercial	**247,259**	**197,259**	**-**	**198,098**	**1,863**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**
Home equity loans	**39,418**	**-**	**-**	**-**	**419**
Consumer	**93,577**	**58,706**	**-**	**59,571**	**2,418**

With an allowance recorded:					
Real estate loans:					
Residential	-	-	-	-	-
Investor	-	-	-	-	-
Commercial	-	-	-	-	-
Commercial construction	-	-	-	-	-
Commercial business	-	-	-	-	-
Home equity loans	-	-	-	-	-
Consumer	-	-	-	-	-
Total acquired impaired	**2,188,460**	**1,581,226**	**-**	**1,631,889**	**24,040**
Total impaired	**$15,512,837**	**$11,815,971**	**$ 261,902**	**$10,315,578**	**$ 112,772**

(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.

Table of Contents

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

	Impaired Loans at June 30, 2017			Three Months Ended June 30, 2017	
	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Legacy:					
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.

Table of Contents

HAMILTON BANCORP INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

	Impaired Loans at March 31, 2018			**For the Year Ended March 31, 2018**	
	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Legacy:					
With no related allowance recorded:					
Real estate loans:					
Residential	**$665,051**	**$517,600**	**$ -**	**$548,636**	**$ 9,257**
Investor	**126,389**	**60,949**	**-**	**118,175**	**3,772**
Commercial	**6,487,088**	**4,356,264**	**-**	**4,634,504**	**1,077**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Commercial business	**1,562,756**	**795,410**	**-**	**1,082,773**	**103,474**
Home equity loans	**47,650**	**20,595**	**-**	**22,604**	**392**
Consumer	**48,115**	**34,266**	**-**	**38,514**	**1,576**
With an allowance recorded:					
Real estate loans:					
Residential	**1,336,078**	**1,309,440**	**266,256**	**1,328,919**	**51,928**
Investor	**-**	**-**	**-**	**-**	
Commercial	**-**	**-**	**-**	**-**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**
Home equity loans	**-**	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**	**-**
Total legacy impaired	**10,273,127**	**7,094,524**	**266,256**	**7,774,125**	**171,476**
Acquired (1):					
With no related allowance recorded:					
Real estate loans:					
Residential	**1,082,484**	**922,252**	**-**	**945,602**	**26,437**
Investor	**682,045**	**444,254**	**-**	**659,246**	**37,368**
Commercial	**248,938**	**198,938**	**-**	**201,519**	**7,336**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**
Home equity loans	**40,473**	**-**	**-**	**-**	**1,329**
Consumer	**95,986**	**60,371**	**-**	**64,013**	**6,062**
With an allowance recorded:					
Real estate loans:					
Residential	**-**	**-**	**-**	**-**	**-**
Investor	**-**	**-**	**-**	**-**	**-**
Commercial	**-**	**-**	**-**	**-**	**-**

Commercial construction	-	-	-	-	-
Commercial business	-	-	-	-	-
Home equity loans	-	-	-	-	-
Consumer	-	-	-		