Hamilton Bancorp, Inc.
Form 10-Q
February 14, 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 December 31, 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 [ ] Smaller reporting company [X]
(Do not check if smaller reporting company)
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 February 14, 2018.

Table of Contents

Hamilton Bancorp, Inc. and Subsidiaries

Form 10-Q

Index

		Page
Part I. Financial Information		
Item 1.	Financial Statements	
	Consolidated Statements of Financial Condition as of December 31, 2017 (unaudited) and March 31, 2017	1
	Consolidated Statements of Operations for the Three and Nine Months Ended December 31, 2017 and 2016 (unaudited)	2
	Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended December 30, 2017 and 2016 (unaudited)	3
	Consolidated Statements of Changes in Shareholders' Equity for the Nine Months Ended December 31, 2017 and 2016 (unaudited)	4
	Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2017 and 2016 (unaudited)	5 - 6
	Notes to Consolidated Financial Statements (unaudited)	7 – 44
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	45 – 72
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	72
Item 4.	Controls and Procedures	72
Part II. Other Information		
Item 1.	Legal Proceedings	73
Item 1A.	Risk Factors	73
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	73

Item 3.	Defaults upon Senior Securities	73
Item 4.	Mine Safety Disclosures	73
Item 5.	Other Information	73
Item 6.	Exhibits	73
	Signatures	74

Table of Contents

Part I. – Financial Information

Item 1. Financial Statements

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

December 31, 2017 and March 31, 2017

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
Assets		
Assets		
Cash and due from banks	**$*9,808,784***	$*24,436,793*
Federal funds sold	***278,054***	*4,917,128*
Cash and cash equivalents	***10,086,838***	*29,353,921*
Certificates of deposit held as investment	***499,212***	*499,280*
Securities available for sale, at fair value	***79,385,066***	*102,429,128*
Federal Home Loan Bank stock, at cost	***3,103,900***	*2,020,200*
Loans	***388,997,498***	*338,933,198*
Allowance for loan losses	***(2,609,537)***	*(2,194,815)*
Net loans and leases	***386,387,961***	*336,738,383*
Premises and equipment, net	***3,865,095***	*3,674,280*
Premises and equipment held for sale	**-**	*547,884*
Foreclosed real estate	***451,248***	*503,094*
Accrued interest receivable	***1,513,148***	*1,310,080*
Bank-owned life insurance	***18,623,339***	*18,253,348*
Deferred income taxes	***5,208,321***	*7,976,850*
Goodwill and other intangible assets	***9,208,280***	*9,302,828*
Other assets	***1,619,735***	*1,920,740*
Total Assets	**$*519,952,143***	$*514,530,016*
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	**$*27,337,694***	$*30,401,454*
Interest-bearing deposits	***365,353,296***	*382,454,320*
Total deposits	***392,690,990***	*412,855,774*
Borrowings	***62,765,387***	*36,124,899*
Advances by borrowers for taxes and insurance	***1,108,006***	*1,868,110*
Other liabilities	***3,982,573***	*3,890,003*

Total liabilities	***460,546,956***	*454,738,786*
Commitments and contingencies	***-***	-
Shareholders' Equity		
Common stock, $.01 par value, 100,000,000 shares authorized. Issued and outstanding: 3,411,075 shares at December 31, 2017 and March 31, 2017	***34,111***	*34,111*
Additional paid in capital	***32,050,303***	*31,656,235*
Retained earnings	***30,606,613***	*31,730,673*
Unearned ESOP shares	***(2,073,680***)	*(2,221,800*)
Accumulated other comprehensive loss	***(1,212,160***)	*(1,407,989*)
Total shareholders' equity	***59,405,187***	*59,791,230*
Total Liabilities and Shareholders' Equity	**$*519,952,143***	$*514,530,016*

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 and Nine Months Ended December 31, 2017 and 2016

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	**2017**	2016
Interest revenue				
Loans, including fees	**$*4,104,127***	$*3,878,223*	**$*11,890,765***	$*11,026,020*
U.S. treasuries, government agencies and FHLB stock	***37,836***	*33,022*	***117,034***	*182,130*
Municipal and corporate bonds	***102,847***	*107,564*	***329,386***	*226,230*
Mortgage-backed securities	***297,851***	*310,709*	***951,330***	*829,437*
Federal funds sold and other bank deposits	***18,998***	*28,065*	***100,145***	*147,504*
Total interest revenue	***4,561,659***	*4,357,583*	***13,388,660***	*12,411,321*
Interest expense				
Deposits	***714,350***	*673,348*	***2,044,413***	*1,959,630*
Borrowed funds	***209,926***	*74,336*	***502,830***	*192,977*
Total interest expense	***924,276***	*747,684*	***2,547,243***	*2,152,607*
Net interest income	***3,637,383***	*3,609,899*	***10,841,417***	*10,258,714*
Provision for loan losses	***345,000***	*780,000*	***625,000***	*1,040,006*
Net interest income after provision for loan losses	***3,292,383***	*2,829,899*	***10,216,417***	*9,218,708*
Noninterest revenue				
Service charges	***109,151***	*104,882*	***347,201***	*319,489*
(Loss) gain on sale of investment securities	***(12,736***)	*23,720*	***(2,356***)	*23,720*
Gain on sale of loans held for sale	***-***	*1,438*	***-***	*23,047*
Gain (loss) on sale of property and equipment	***212,743***	*(11,043*)	***212,743***	*(11,043*)
Earnings on bank-owned life insurance	***123,597***	*126,302*	***369,991***	*364,928*
Other	***29,860***	*42,784*	***95,972***	*119,937*
Total noninterest revenue	***462,615***	*288,083*	***1,023,551***	*840,078*
Noninterest expenses				
Salaries	***1,445,336***	*1,354,327*	***4,415,848***	*4,092,481*
Employee benefits	***373,699***	*359,987*	***1,115,185***	*1,056,741*
Occupancy	***259,595***	*234,310*	***759,848***	*709,081*
Advertising	***22,487***	*16,305*	***63,685***	*91,635*
Furniture and equipment	***92,894***	*93,058*	***262,632***	*290,818*
Data processing	***176,114***	*206,596*	***522,469***	*583,407*
Legal services	***153,615***	*47,831*	***374,610***	*161,278*
Other professional services	***218,879***	*284,979*	***611,699***	*808,309*

Merger related expenses	**-**	-	**-**	219,417
Branch consolidation expense	**-**	-	**-**	437,424
Deposit insurance premiums	***91,470***	*63,571*	***222,359***	*251,759*
Foreclosed real estate expense and losses (gains)	***43,706***	*(1,578)*	***45,005***	*6,530*
Other operating	***452,423***	*457,466*	***1,306,791***	*1,367,726*
Total noninterest expense	***3,330,218***	*3,116,852*	***9,700,131***	*10,076,606*
Income (loss) before income taxes	***424,780***	*1,130*	***1,539,837***	*(17,820)*
Income tax expense (benefit)	***2,351,970***	*(58,239)*	***2,663,897***	*(65,466)*
Net (loss) income	**$*(1,927,190)***	$*59,369*	**$*(1,124,060)***	$*47,646*
Net (loss) income per common share:				
Basic	**$*(0.60)***	$*0.02*	**$*(0.35)***	$*0.01*
Diluted	**$*(0.60)***	$*0.02*	**$*(0.35)***	$*0.01*

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 (Loss) Income (Unaudited)

Three and Nine Months Ended December 31, 2017 and 2016

	Three Months Ended December 31,		**Nine Months Ended December 31,**	
	2017	**2016**	**2017**	**2016**
Net (loss) income	**$*(1,927,190)***	$*59,369*	**$*(1,124,060)***	$*47,646*
Other comprehensive income (loss):				
Unrealized (loss) gain on investment securities available for sale	***(393,475)***	*(2,467,108)*	***243,772***	*(2,380,040)*
Reclassification adjustment for realized loss (gain) on investment securities available for sale included in net income	***12,736***	*(23,720)*	***2,356***	*(23,720)*
Total unrealized (loss) gain on investment securities available for sale	***(380,739)***	*(2,490,828)*	***246,128***	*(2,403,760)*
Unrealized gain (loss) on derivative transactions	***122,388***	-	***22,784***	-
Income tax (benefit) expense relating to investment securities available for sale and derivative transactions	***(101,906)***	*(982,508)*	***73,083***	*(948,164)*
Other comprehensive (loss) income	***(156,445)***	*(1,508,320)*	***195,829***	*(1,455,596)*
Total comprehensive (loss)	**$*(2,083,635)***	$*(1,448,951)*	**$*(928,231)***	$*(1,407,950)*

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

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Nine Months Ended December 31, 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 income	-	-	*47,646*	-	-	*47,646*
Unrealized loss on available for sale securities, net of tax effect of $ (948,164)	-	-	-	-	*(1,455,596*)	*(1,455,596*)
Stock based compensation - options	-	*156,907*	-	-	-	*156,907*
Stock based compensation - restricted stock	-	*169,279*	-	-	-	*169,279*
ESOP shares alocated for release	-	*62,951*	-	*148,120*	-	*211,071*
Balances December 31, 2016	**$ *34,136***	**$ *31,631,868***	**$ *32,707,101***	**$ *(2,221,800*)**	**$ *(1,477,415*)**	**$ *60,673,890***
Balances April 1, 2017	**$ *34,111***	**$ *31,656,235***	**$ *31,730,673***	**$ *(2,221,800*)**	**$ *(1,407,989*)**	**$ *59,791,230***
Net loss	-	-	*(1,124,060*)	-	-	*(1,124,060*)
Unrealized gain on available for sale securities, net of tax effect of $97,085	-	-	-	-	*149,043*	*149,043*
Unrealized loss on derivative transactions, net of tax effect of $(24,002)	-	-	-	-	*46,786*	*46,786*
Stock based compensation - options	-	*172,177*	-	-	-	*172,177*
Stock based compensation - restricted stock	-	*173,457*	-	-	-	*173,457*
ESOP shares alocated for release	-	*48,434*	-	*148,120*	-	*196,554*
Balances December 31, 2017	**$ *34,111***	**$ *32,050,303***	**$ *30,606,613***	**$ *(2,073,680*)**	**$ *(1,212,160*)**	**$ *59,405,187***

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)

Nine Months Ended December 31, 2017 and 2016

	Nine Months Ended December 31,	
	2017	**2016**
Cash flows from operating activities		
Interest received	$***13,864,923***	$*12,443,330*
Fees and commissions received	***444,472***	*428,385*
Interest paid	***(3,236,631)***	*(3,005,077)*
Cash paid to suppliers and employees	***(8,418,190)***	*(8,881,370)*
Origination of loans held for sale	***-***	*(2,397,825)*
Proceeds from sale of loans held for sale	***-***	*2,680,322*
Income taxes payable (refundable)	***31,549***	*(1,479,473)*
Net cash provided (used) by operating activities	***2,686,123***	*(211,708)*
Cash flows from investing activities		
Acquisition, net of cash acquired	***-***	*(11,006,813)*
Proceeds from maturing and called securities available for sale, including principal pay downs	***12,219,990***	*24,634,898*
Proceeds from sale of investment securities available for sale	***11,608,699***	*4,273,234*
Purchase of investment securities available for sale	***(1,208,990)***	*(50,585,898)*
Proceeds from maturing and called certificates of deposit	***-***	*1,724,000*
Proceeds from sale of certificates of deposit	***-***	*2,228,273*
Purchase of Federal Home Loan Bank stock	***(1,083,700)***	*-*
Redemption of Federal Home Loan Bank stock	***-***	*185,000*
Loans made, net of principal repayments	***778,762***	*(1,442,039)*
Purchase of loan portfolios	***(51,049,819)***	*-*
Purchase of premises and equipment	***(443,450)***	*(190,682)*
Proceeds from sale of premises and equipment	***769,914***	*429,177*
Proceeds from sale of foreclosed real estate	***35,896***	*-*
Net cash used by investing activities	***(28,372,698)***	*(29,750,850)*
Cash flows from financing activities		
Net increase (decrease) in		
Deposits	***(19,836,138)***	*(15,202,712)*
Advances by borrowers for taxes and insurance	***(760,104)***	*32,484*
Proceeds from borrowings	***40,000,000***	*-*
Payments of borrowings	***(13,007,050)***	*(4,000,000)*
Interest rate swap on FHLB borrowings	***22,784***	*-*
Net cash (provided) used by financing activities	***6,419,492***	*(19,170,228)*

Net decrease in cash and cash equivalents	***(19,267,083)***	*(49,132,786)*
Cash and cash equivalents at beginning of period	***29,353,921***	*67,448,536*
Cash and cash equivalents at end of period	**$*10,086,838***	$*18,315,750*
Supplemental Disclosures of Cash Flow Information:		
Total cash consideration paid for Fraternity Acquisition	**$-**	$*25,704,871*
Less cash acquired	**-**	*14,698,058*
Acquisition, net of cash acquired	**$-**	$*11,006,813*

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

5

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

(Continued)

	Nine Months Ended September 30,	
	2017	2016
Reconciliation of net (loss) income to net cash provided (used) by operating activities		
Net (loss) income	**$*(1,124,060)***	$*47,646*
Adjustments to reconcile net (loss) income to net cash provided (used) by operating activities		
Amortization of premiums on certificates of deposit	***68***	*12,927*
Amortization of premiums on securities	***668,133***	*600,201*
Loss (gain) on sale of investment securities	***2,356***	*(23,720)*
Loan discount amortization (accretion)	***46,841***	*(103,330)*
Deposit premium amortization	***(328,646)***	*(455,107)*
Borrowing premium amortization	***(352,463)***	*(404,632)*
Core deposit intangible asset amortization	***94,548***	*89,506*
Premises and equipment depreciation and amortization	***243,348***	*251,976*
Gain (loss) on disposal of premises and equipment	***(212,743)***	*11,043*
Loss on sale of foreclosed real estate	***1,299***	-
Stock based compensation	***345,634***	*326,186*
Provision for loan losses	***625,000***	*1,040,006*
ESOP shares allocated for release	***196,555***	*211,071*
Decrease (increase) in:		
Accrued interest receivable	***(203,068)***	*(533,222)*
Loans held for sale	**-**	*259,450*
Cash surrender value of life insurance	***(369,991)***	*(364,927)*
Income taxes refundable and deferred income taxes	***2,695,446***	*(1,544,939)*
Other assets	***301,007***	*2,300,101*
Increase (decrease) in:		
Accrued interest payable	***(8,279)***	*7,269*
Deferred loan origination fees	***(35,711)***	*55,433*
Other liabilities	***100,849***	*(1,994,646)*
Net cash provided (used) by operating activities	**$*2,686,123***	$*(211,708)*
Noncash investing activity		
Real estate acquired through foreclosure	**$*17,305***	$*17,205*

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

6

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Form 10-Q

Notes to Consolidated Financial Statements (Unaudited)

December 31, 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.*

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, 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, 2017* from audited financial statements. Operating results for the *three* and *nine* months ended *December 31, 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.

Table of Contents

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 *December 31, 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.

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.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 (*see Note *3* "Acquisition") and Fairmount on *September 11, 2015* 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.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 forecasted transaction is ultimately recognized in the consolidated statement of operations. When a forecasted 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)

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. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities (excluding deferred tax assets and liabilities related to business combinations or components of other comprehensive income). Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Although realization is *not* assured, management believes it is more likely than *not* that all of the deferred tax assets will be realized.

On *December 22, 2017,* the Tax Cuts and Jobs Act was passed into law ("TCJA"). The TCJA includes a broad range of tax reform including changes to tax rates and deductions that are effective *January 1, 2018.* The decrease in the enacted corporate tax rate expected to apply when the Company's temporary differences are realized or settled ultimately resulted in a *one*-time revaluation of the Company's net deferred tax asset of *$2.2* million in *December 2017* with a corresponding charge to income tax expense. The tax effects of the TCJA increased income tax expense to a level that reduced net income to a net loss for both the *three* and *nine*-month periods ending *December 31, 2017.*

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 its consolidated financial statements.

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. ASU *No. 2017-09* became effective for interim and annual periods beginning after *December 15, 2017* and did *not* have a material impact on the 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 annual periods beginning after *December 15, 2017,* including interim periods within those fiscal years, with early adoption permitted. The Company does *not* expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 will be effective for public business entities for fiscal years beginning after *December 15, 2017,* and interim periods within those fiscal years. The guidance requires application using a retrospective transition method. The Company does *not* expect the guidance to have a significant impact on its consolidated statement of cash flows.

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. Hamilton Bancorps' 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.

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 the Company on *April 1, 2017* and was *not* material to the consolidated financial statements.

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 approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is assessing this guidance to determine its impact on the Company’s financial position, results of operations and cash flows.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 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 the *first* interim or annual period beginning after *December 15, 2017.* We expect to adopt the ASU during the *first* quarter of fiscal *2019.* 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.*

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 were subject to change through the measurement date of *May 2017,* 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. We will amortize the core deposit intangible on a straight-line basis over its estimated useful life of *eight* years. We will evaluate goodwill annually for impairment.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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* and *nine*-month periods ended *December 31, 2017* and *2016* as if the Fraternity acquisition had occurred as of the beginning of fiscal *2016* and *2017* are deemed immaterial and *not* presented. Due to the fact the acquisition of Fraternity occurred on *May 13, 2016,* the *three* and *nine*-month periods ending *December 31, 2016* and *2017,* as reported in this *10*-Q, already include or include a significant portion of the impact of Fraternity in the consolidated statements of operations as though the acquisition occurred at the beginning of fiscal *2016* and *2017.* The *nine*-month period ending *December 31, 2016* does *not* reflect the full impact to the consolidated statements of operations for those *nine* months since the acquisition occurred towards the beginning of that respective period, however, that amount is deemed to be immaterial to the consolidated statement of operations for that period.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 *nine*-month periods ending *December 31, 2017* and *2016.* There were *no* merger expenses for the *three*-month periods ending *December 31, 2017* and *2016.*

	Nine months ended December 31,	
	2017	2016
Legal	$ -	$ *55,500*
Professional services	-	*157,567*
Other	-	*6,350*
Total merger related expenses	$ -	$ *219,417*

Note *4*: Earnings per Share

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

Both the basic and diluted earnings per share for the *three* and *nine* months ended *December 31, 2017* and *2016* are summarized below:

	Three months ended	Three months ended	**Nine months ended**	Nine months ended

	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Net (loss) income	**$*(1,927,190)***	$*59,369*	**$*(1,124,060)***	$*47,646*
Weighted average common shares outstanding - basic	***3,189,056***	*3,177,810*	***3,188,949***	*3,177,041*
Weighted average common shares outstanding - diluted	***3,189,056***	*3,180,276*	***3,188,949***	*3,179,507*
(Loss) income per common share - basic and diluted	**$*(0.60)***	$*0.02*	**$*(0.35)***	$*0.01*
Anti-dilutive shares	***118,525***	*85,394*	***118,525***	*85,394*

During the *three* and *nine* months ending *December 31, 2017, none* of the common stock equivalents were dilutive due to the loss reported during those periods.

Note *5:* Investment Securities Available for Sale

The amortized cost and fair value of securities at *December 31, 2017* and *March 31, 2017,* are summarized as follows:

December 31, 2017	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government agencies	**$*2,756,604***	**$ -**	**$*25,281***	**$*2,731,323***
Municipal bonds	***12,464,369***	**-**	***404,378***	***12,059,991***
Corporate bonds	***2,000,000***	**-**	***72,214***	***1,927,786***
Mortgage-backed securities	***64,104,992***	***20,435***	***1,459,461***	***62,665,966***
	$*81,325,965*	**$ *20,435***	**$*1,961,334***	**$*79,385,066***

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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*

Proceeds from sales of investment securities were *$7,364,939* and *$4,273,234* during the *three* months ended *December 31, 2017* and *2016,* respectively, with gains of *$33,747* and losses of *$46,483* for the *three* months ended *December 31, 2017* and gains of *$36,131* and losses of *$12,411* for the *three* months ended *December 31, 2016.*

Proceeds from sales of investment securities were *$11,608,699* and *$4,273,234* during the *nine* months ended *December 31, 2017* and *2016,* respectively, with gains of *$57,099* and losses of *$59,455* for the *nine* months ended *December 31, 2017* and gains of *$36,131* and losses of *$12,411* for the *nine* months ended *December 31, 2016.*

As of *December 31, 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 *$76,554* and fair value of *$77,649* as of *December 31, 2017.*

As of *December 31, 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 *$733,507* and *$736,412,* respectively.

The amortized cost and estimated fair value of debt securities by contractual maturity at *December 31, 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

	December 31, 2017		March 31, 2017	
	Amortized cost	Fair value	Amortized cost	Fair value
Maturing				
Within one year	**$*2,012,418***	**$*1,997,816***	$-	$-
Over one to five years	***1,233,485***	***1,212,376***	*4,234,642*	*4,240,740*
Over five to ten years	***3,581,591***	***3,485,451***	*5,538,313*	*5,404,810*
Over ten years	***10,393,480***	***10,023,457***	*12,848,895*	*11,951,114*
Mortgage-backed, in monthly installments	***64,104,992***	***62,665,966***	*81,994,305*	*80,832,464*
	$*81,325,966*	**$*79,385,066***	$*104,616,155*	$*102,429,128*

17

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 *December 31, 2017* and *March 31, 2017.*

	Less than 12 months		12 months or longer		Total	
December 31, 2017	Gross Unrealized losses	Fair value	Gross Unrealized losses	Fair value	Gross Unrealized losses	Fair value
U.S. government agencies	***$10,679***	***$733,507***	***$14,602***	***$1,997,816***	***$25,281***	***$2,731,323***
Municipal bonds	-	-	***404,378***	***12,059,991***	***404,378***	***12,059,991***
Corporate bonds	-	-	***72,214***	***1,927,786***	***72,214***	***1,927,786***
Mortgage-backed securities	***238,033***	***18,514,960***	***1,221,428***	***43,065,908***	***1,459,461***	***61,580,868***
	$248,712	***$19,248,467***	***$1,712,622***	***$59,051,501***	***$1,961,334***	***$78,299,968***

	Less than 12 months		12 months or longer		Total	
March 31, 2017	Gross Unrealized losses	Fair value	Gross Unrealized losses	Fair value	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.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Note *6:* Loans Receivable and Allowance for Loan Losses

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

	December 31, 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)	***$80,477,455***	***$74,701,711***	***$155,179,166***	***40 %***	*$67,126,677*	*$83,892,389*	*$151,019,066*	*44 %*
Residential construction	***6,752,565***	***-***	***6,752,565***	***2 %***	*6,426,076*	*-*	*6,426,076*	*2 %*
Investor (3)	***7,375,997***	***18,208,906***	***25,584,903***	***7 %***	*6,742,469*	*18,779,644*	*25,522,113*	*8 %*
Commercial	***100,857,452***	***12,160,844***	***113,018,296***	***29 %***	*92,665,689*	*14,898,523*	*107,564,212*	*32 %*
Commercial construction	***3,995,441***	***856,970***	***4,852,411***	***1 %***	*1,881,541*	*1,308,652*	*3,190,193*	*1 %*
Total real estate loans	***199,458,910***	***105,928,431***	***305,387,341***	***79 %***	*174,842,452*	*118,879,208*	*293,721,660*	*87 %*
Commercial business (4)	***38,988,229***	***1,928,232***	***40,916,461***	***11 %***	*19,518,029*	*2,019,337*	*21,537,366*	*6 %*
Home equity loans	***13,802,091***	***6,874,136***	***20,676,227***	***5 %***	*13,278,229*	*7,266,141*	*20,544,370*	*6 %*
Consumer (5)	***20,075,548***	***785,100***	***20,860,648***	***5 %***	*2,258,836*	*937,600*	*3,196,436*	*1 %*
Total Loans	***272,324,778***	***115,515,899***	***387,840,677***	***100 %***	*209,897,546*	*129,102,286*	*338,999,832*	*100%*
Net deferred loan origination fees and costs	***(107,359)***	***-***	***(107,359)***		*(143,070)*	*-*	*(143,070)*	

Loan premium (discount)	***1,792,595***	***(528,415)***	***1,264,180***	*619,846*	*(543,410)*	*76,436*
	$274,010,014	***$114,987,484***	***$388,997,498***	*$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 *December 31, 2017* includes *$13.1* million of loans purchased in the *third* quarter of fiscal *2018;* and 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 as of *December 31, 2017* includes *$15.4* million of commercial lease loans purchased in *June 2017*.

(*5*) "Legacy" consumer loans as of *December 31, 2017* includes *$18.4* million of recreational vehicle loans purchased in *August 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* and *nine*-month periods ended *December 31, 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.

Three Months Ended December 31, 2017	**Residential Real Estate**	**Investor Real Estate**	**Commercial Real Estate**	**Commercial Construction**	**Commercial Business**	**Home Equity**	**Consumer**	**Total**
Allowance for credit losses:								
Beginning balance	$ *528,288*	$ *52,255*	$ *1,360,433*	$ *12,074*	$ *327,130*	$ *62,570*	$ *128,241*	$ *2,470,991*
Charge-offs	*-*	*(111,360)*	*(100,236)*	*-*	*-*	*-*	*-*	*(211,596)*
Recoveries	*3,937*	*-*	*-*	*-*	*171*	*-*	*1,034*	*5,142*
Provision for credit losses	*35,875*	*103,790*	*148,707*	*11,100*	*45,987*	*619*	*(1,078)*	*345,000*
Ending balance	$ *568,100*	$ *44,685*	$ *1,408,904*	$ *23,174*	$ *373,288*	$ *63,189*	$ *128,197*	$ *2,609,537*

Nine Months Ended December 31, 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	*(8,907)*	*(126,482)*	*(100,236)*	*-*	*-*	*-*	*(486)*	*(236,111)*
Recoveries	*3,937*	*18,129*	*-*	*-*	*551*	*-*	*3,216*	*25,833*

Provision for credit losses	*19,531*	*117,763*	*133,246*	*14,143*	*223,276*	*(6,882)*	*123,923*	*625,000*
Ending balance	$*568,100*	$*44,685*	$*1,408,904*	$ *23,174*	$*373,288*	$*63,189*	$*128,197*	$*2,609,537*
Allowance allocated to:								
Legacy Loans:								
Individually evaluated for impairment	$*272,707*	$-	$-	$ -	$ -	$-	$ -	$*272,707*
Collectively evaluated for impairment	*295,393*	*44,685*	*1,408,904*	*23,174*	*373,288*	*63,189*	*128,197*	*2,336,830*
Acquired Loans:								
Individually evaluated for impairment	$ -	$-	$-	$ -	$ -	$-	$ -	$-
Collectively evaluated for impairment	-	-	-	-	-	-	-	-

20

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Three Months Ended December 31, 2016	Residential Real Estate	Investor Real Estate	Commercial Real Estate	Commercial Construction	Commercial Business	Home Equity	Consumer	Total
Allowance for credit losses:								
Beginning balance	$ *461,915*	$ *112,739*	$ *1,090,881*	$ *13,092*	$ *173,891*	$ *88,269*	$ *1,581*	$ *1,942,368*
Charge-offs	-	*(53,187)*	*(621,741)*	-	-	-	*(2,793)*	*(677,721)*
Recoveries	-	*5,870*	-	-	*6,796*	-	*6,256*	*18,922*
Provision for credit losses	*(3,060)*	*24,589*	*763,937*	*29,630*	*(33,364)*	*1,952*	*(3,684)*	*780,000*
Ending balance	$ *458,855*	$ *90,011*	$ *1,233,077*	$ *42,722*	$ *147,323*	$ *90,221*	$ *1,360*	$ *2,063,569*

Nine Months Ended December 31, 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	-	*(97,509)*	*(621,741)*	-	*(1,521)*	-	*(4,073)*	*(724,844)*
Recoveries	-	*9,043*	-	-	*28,827*	-	*8,172*	*46,042*
Provision for credit losses	*198,960*	*10,345*	*953,050*	*345*	*(108,182)*	*8,209*	*(22,721)*	*1,040,006*
Ending balance	$ *458,855*	$ *90,011*	$ *1,233,077*	$ *42,722*	$ *147,323*	$ *90,221*	$ *1,360*	$ *2,063,569*
Allowance allocated to:								
Legacy Loans:								
Individually evaluated for impairment	$ *288,098*	$ -	$ -	$ -	$ -	$ -	$ -	$ *288,098*
Collectively evaluated for impairment	*170,757*	*90,011*	*1,233,077*	*42,722*	*147,323*	*90,221*	*1,360*	*1,775,471*
Acquired Loans:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Our recorded investment in loans at *December 31, 2017* and *2016* 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:

December 31, 2017	**Residential Real Estate**	**Investor Real Estate**	**Commercial Real Estate**	**Commercial Construction**	**Commercial Business**	**Home Equity**	**Consumer**	**Total**
Legacy Loans:								
Individually evaluated for impairment	***$1,697,585***	***$121,514***	***$4,500,043***	***$-***	***$905,178***	***$21,579***	***$-***	***$7,245,899***
Collectively evaluated for impairment	***85,532,435***	***7,254,483***	***96,357,409***	***3,995,441***	***38,083,051***	***13,780,512***	***20,075,548***	***265,078,8***
Ending balance	***$87,230,020***	***$7,375,997***	***$100,857,452***	***$3,995,441***	***$38,988,229***	***$13,802,091***	***$20,075,548***	***$272,324,7***
Acquired Loans:								
Individually evaluated for impairment	***$1,061,049***	***$579,172***	***$199,920***	***$-***	***$-***	***$-***	***$56,708***	***$1,896,849***
Collectively evaluated for impairment	***73,640,662***	***17,629,734***	***11,960,924***	***856,970***	***1,928,232***	***6,874,136***	***728,392***	***113,619,0***
Ending balance	***$74,701,711***	***$18,208,906***	***$12,160,844***	***$856,970***	***$1,928,232***	***$6,874,136***	***$785,100***	***$115,515,8***

December 31, 2016	**Residential Real Estate**	**Investor Real Estate**	**Commercial Real Estate**	**Commercial Construction**	**Commercial Business**	**Home Equity**	**Consumer**	**Total**
Legacy Loans:								
	$*1,773,457*	$*13,832*	$*2,036,391*	$*-*	$*781,623*	$*13,041*	$*-*	$*4,618,344*

Individually evaluated for impairment								
Collectively evaluated for impairment	*49,497,566*	*9,656,550*	*92,136,832*	*1,655,899*	*19,033,550*	*13,724,080*	*2,443,559*	*188,148,036*
Ending balance	$*51,271,023*	$*9,670,382*	$*94,173,223*	$*1,655,899*	$*19,815,173*	$*13,737,121*	$*2,443,559*	$*192,766,380*
Acquired Loans:								
Individually evaluated for impairment	$*984,823*	$*284,602*	$*206,463*	$-	$-	$*7,924*	$*37,576*	$*1,521,388*
Collectively evaluated for impairment	*87,497,479*	*22,147,634*	*15,305,167*	*1,620,552*	*2,506,890*	*7,940,379*	*948,717*	*137,966,818*
Ending balance	$*88,482,302*	$*22,432,236*	$*15,511,630*	$*1,620,552*	$*2,506,890*	$*7,948,303*	$*986,293*	$*139,488,206*

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 and for the *nine* months ended *December 31, 2017* and as of and for the year ended *March 31, 2017,* were as follows:

	December 31, 2017			March 31, 2017		
	Legacy	**Acquired**	**Total**	Legacy	Acquired	Total
Current	***$265,792,220***	***$113,966,922***	***$379,759,142***	*$207,328,184*	*$128,769,860*	*$336,098,044*
Accruing past due loans:						
30-59 days past due:						
Real estate loans:						
Residential	***27,517***	***248,711***	***276,228***	*69,618*	-	*69,618*
Investor	**-**	**-**	**-**	*320,971*	-	*320,971*
Commercial	**-**	***185,559***	***185,559***	-	-	-
Commercial construction	**-**	**-**	**-**	*113,603*	-	*113,603*
Commercial business	***297,986***	**-**	***297,986***	-	-	-
Home equity loans	**-**	***34,037***	***34,037***	-	-	-
Consumer	***248,662***	**-**	***248,662***	-	-	-
Total 30-59 days past due	***574,165***	***468,307***	***1,042,472***	*504,192*	-	*504,192*
60-89 days past due:						
Real estate loans:						
Residential	***35,319***	**-**	***35,319***	*74,631*	-	*74,631*
Investor	**-**	**-**	**-**	-	-	-
Commercial	**-**	**-**	**-**	-	-	-
Commercial construction	**-**	**-**	**-**	-	-	-
Commercial business	***342,813***	**-**	***342,813***	-	-	-
Home equity loans	**-**	**-**	**-**	-	-	-
Consumer	**-**	***28,800***	***28,800***	-	-	-
Total 60-89 days past due	***378,132***	***28,800***	***406,932***	*74,631*	-	*74,631*
90 or more days past due:						
Real estate loans:						
Residential	***287,310***	***153,856***	***441,166***	-	-	-
Investor	**-**	**-**	**-**	-	*21,030*	*21,030*
Commercial	**-**	**-**	**-**	-	-	-

Commercial construction	**-**	**-**	**-**	-	-	-
Commercial business	**-**	**-**	**-**	-	-	-
Home equity loans	**-**	**-**	**-**	-	-	-
Consumer	**-**	**-**	**-**	-	-	-
Total 90 or more days past due	***287,310***	***153,856***	***441,166***	-	*21,030*	*21,030*
Total accruing past due loans	***1,239,607***	***650,963***	***1,890,570***	*578,823*	*21,030*	*599,853*
Non-accruing loans:						
Real estate loans:						
Residential	***424,124***	***472,374***	***896,498***	*426,354*	*248,663*	*675,017*
Investor	***121,514***	***425,640***	***547,154***	*13,976*	*57,131*	*71,107*
Commercial	***4,500,043***	**-**	***4,500,043***	*1,546,812*	-	*1,546,812*
Commercial construction	**-**	**-**	**-**	-	-	-
Commercial business	***233,562***	**-**	***233,562***	-	-	-
Home equity loans	***13,708***	**-**	***13,708***	*3,397*	-	*3,397*
Consumer	**-**	**-**	**-**	-	*5,602*	*5,602*
Non-accruing loans:	***5,292,951***	***898,014***	***6,190,965***	*1,990,539*	*311,396*	*2,301,935*
Total Loans	**$*272,324,778***	**$*115,515,899***	**$*387,840,677***	$*209,897,546*	$*129,102,286*	$*338,999,832*
Nonaccrual interest not accrued:						
Real estate loans:						
Residential	**$*6,410***	**$*42,723***	**$*49,133***	$*6,460*	$*35,177*	$*41,637*
Investor	***9,400***	***14,095***	***23,495***	*6,982*	*23,293*	*30,275*
Commercial	**-**	**-**	**-**	*109,818*	-	*109,818*
Commercial construction	**-**	**-**	**-**	-	-	-
Commercial business	**-**	**-**	**-**	-	-	-
Home equity loans	***47***	**-**	***47***	*66*	-	*66*
Consumer	**-**	**-**	**-**	-	*317*	*317*
Total nonaccrual interest not accrued	**$*15,857***	**$*56,818***	**$*72,675***	$*123,326*	$*58,787*	$*182,113*

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Impaired Loans as of and for the *three* and *nine* months ended *December 31, 2017* and *2016,* and the year ended *March 31, 2017,* was as follows:

	Impaired Loans at December 31, 2017			**Three months ended December 31, 2017**		**Nine months ended December 31, 2017**	
Legacy:	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:							
Real estate loans:							
Residential	$*513,736*	$*371,312*	$ -	$*376,225*	$ *280*	$*387,772*	$ *1,451*
Investor	*127,420*	*121,514*		*122,576*	-	*123,362*	*3,772*
Commercial	*6,487,088*	*4,500,043*	-	*4,689,502*	-	*4,703,598*	*1,077*
Commercial construction	-	-	-	-	-	-	-
Commercial business	*1,303,000*	*905,178*	-	*937,594*	*24,038*	*894,330*	*75,926*
Home equity loans	*48,218*	*21,579*	-	*22,072*	*76*	*23,100*	*316*
Consumer	-	-	-	-	-	-	-
With an allowance recorded:							
Real estate loans:							
Residential	*1,354,169*	*1,326,273*	*272,707*	*1,330,015*	*13,248*	*1,341,584*	*39,333*
Investor	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Total legacy impaired	*9,833,631*	*7,245,899*	*272,707*	*7,477,984*	*37,642*	*7,473,746*	*121,875*
Acquired (1):							
With no related allowance recorded:							
Real estate loans:							
Residential	*1,211,254*	*1,061,049*	-	*1,063,445*	*4,247*	*1,077,738*	*26,087*
Investor	*687,849*	*579,172*	-	*663,538*	*2,893*	*697,174*	*34,582*
Commercial	*249,920*	*199,920*	-	*200,589*	*1,888*	*202,263*	*5,700*
Commercial construction	-	-	-	-	-	-	-

Commercial business	-	-	-	-	-	-	-
Home equity loans	*42,583*	-	-	-	-	-	*600*
Consumer	*99,349*	*56,708*	-	*58,084*	*1,338*	*62,234*	*4,464*
With an allowance recorded:							
Real estate loans:							
Residential	-	-	-	-	-	-	-
Investor	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Total acquired impaired	*2,290,955*	*1,896,849*	-	*1,985,656*	*10,366*	*2,039,409*	*71,433*
Total impaired	$*12,124,586*	$*9,142,748*	$*272,707*	$*9,463,640*	$ *48,008*	$*9,513,155*	$ *193,308*

(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 December 31, 2016			**Three months ended December 31, 2016**		**Nine months ended December 31, 2016**	
Legacy:	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:							
Real estate loans:							
Residential	$*515,728*	$*380,928*	$ -	$*383,561*	$ *339*	$*376,304*	$ *7,656*
Investor	*107,710*	*13,831*		*13,102*	-	*13,487*	-
Commercial	*3,433,621*	*2,036,391*	-	*2,502,696*	-	*2,610,661*	*987*
Commercial construction	-	-	-	-	-	-	-
Commercial business	*1,216,028*	*781,623*	-	*795,605*	*26,192*	*824,690*	*80,538*
Home equity loans	*37,916*	*13,041*	-	*13,507*	*45*	*14,628*	*188*
Consumer			-	-	-	-	-
With an allowance recorded:							
Real estate loans:							
Residential	*1,424,979*	*1,392,530*	*288,098*	*1,395,845*	*13,003*	*1,402,760*	*39,163*
Investor	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Total legacy impaired	*6,735,982*	*4,618,344*	*288,098*	*5,104,316*	*39,579*	*5,242,530*	*128,532*
Acquired (1):							
With no related allowance recorded:							
Real estate loans:							
Residential	*1,093,707*	*947,365*	-	*948,723*	*6,854*	*823,373*	*28,956*
Investor	*640,351*	*322,060*	-	*328,166*	*3,303*	*325,318*	*11,120*
Commercial	*256,463*	*206,463*	-	*207,266*	*1,939*	*208,859*	*5,848*
Commercial construction	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity loans	*57,116*	*7,924*	-	*8,848*	*725*	*7,712*	*2,663*
Consumer	*68,230*	*37,576*	-	*38,754*	*969*	*40,396*	*4,228*
With an allowance recorded:							

Real estate loans:							
Residential	-	-	-	-	-	-	-
Investor	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Total acquired impaired	***2,115,867***	***1,521,388***	-	***1,531,757***	***13,790***	***1,405,658***	***52,815***
Total impaired	**$*8,851,849***	**$*6,139,732***	**$*288,098***	**$*6,636,073***	**$ *53,369***	**$*6,648,188***	**$ *181,347***

(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, 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.

26

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

The following table documents changes in the carrying amount of acquired impaired loans (Purchased Credit Impaired or "PCI") for the *nine* months ended *December 31, 2017* and *2016,* along with the outstanding balance at the end of the period:

	December 31, 2017	December 31, 2016
Recorded investment at beginning of period	$*1,341,935*	$*919,729*
Fair value of loans acquired during the period	-	*1,027,518*
Accretion	*25,964*	*20,738*
Reductions for payments	*(324,806*)	*(501,432*)
Recorded investment at end of period	$*1,043,093*	$*1,466,553*
Outstanding principal balance at end of period	$*1,297,471*	$*1,907,842*

A summary of changes in the accretable yield for PCI loans for the *nine* months ended *December 31, 2017* and *2016* is as follows:

	December 31, 2017	December 31, 2016
Accretable yield at beginning of period	$*59,639*	$*32,629*
Addition from acquisition	-	*55,046*
Accretion	*(25,964*)	*(20,738*)
Reclassification from nonaccretable difference	-	-
Accretable yield at end of period	$*33,675*	$*66,937*

During the *three* months ended *December 31, 2017* and *2016,* accretion income on PCI loans was *$25,239* and *$7,195,* respectively. There were *no* additions or reclassifications to the accretable yields during those respective *three*-month periods.

Impaired loans also include certain loans that have been modified in troubled debt restructurings (TDRs) where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Generally, nonaccrual

loans that are modified and considered TDRs are classified as nonperforming at the time of restructure and *may* only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally *six* months.

A summary of TDRs at *December 31, 2017* and *March 31, 2017* follows:

December 31, 2017	Number of contracts	Performing	Nonperforming	Total
Real estate loans:				
Residential	***16***	$***1,238,143***	$ ***327,938***	$***1,566,081***
Investor	***-***	***-***	***-***	***-***
Commercial	***2***	***-***	***1,339,200***	***1,339,200***
Commercial construction	***-***	***-***	***-***	***-***
Commercial business	***1***	***607,263***	***-***	***607,263***
Home equity loans	***-***	***-***	***-***	***-***
Consumer	***-***	***-***	***-***	***-***
	19	$***1,845,406***	$ ***1,667,138***	$***3,512,544***

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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* and *nine*-month periods ended *December 31, 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 *December 31, 2017.*

	Loans Modified as a TDR for the three months ended			
	December 31, 2017		December 31, 2016	
Troubled Debt Restructurings	**Number of contracts**	**Outstanding recorded investment**	Number of contracts	Outstanding recorded investment
Real estate loans:				
One-to four-family	***2***	***50,432***	*1*	*52,649*

	Loans Modified as a TDR for the nine months ended			
	December 31, 2017		December 31, 2016	
Troubled Debt Restructurings	**Number of contracts**	**Outstanding recorded investment**	Number of contracts	Outstanding recorded investment
Real estate loans:				

One-to four-family	***3***	**$ *52,363***	*1*	$ *52,649*

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

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.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 overall 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.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Loss

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

The following tables present the *December 31, 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 *December 31, 2017* or *March 31, 2017.*

	December 31, 2017			March 31, 2017		
	LEGACY	**ACQUIRED**	**TOTAL**	LEGACY	ACQUIRED	TOTAL
Risk Rating:						
Rating - Pass:						
Real estate loans:						
Residential	**$*84,465,792***	**$*72,618,936***	**$*157,084,728***	$*71,721,341*	$*81,228,457*	$*152,949,798*
Investor	***7,254,483***	***17,326,511***	***24,580,994***	*6,728,493*	*18,151,533*	*24,880,026*
Commercial	***93,250,455***	***11,960,924***	***105,211,379***	*84,789,748*	*13,387,987*	*98,177,735*
Commercial construction	***3,995,441***	***856,970***	***4,852,411***	*1,881,541*	*1,308,652*	*3,190,193*
Commercial Business	***38,690,314***	***1,928,232***	***40,618,546***	*19,376,763*	*2,019,337*	*21,396,100*
Home Equity	***13,780,512***	***6,726,697***	***20,507,209***	*13,269,478*	*7,133,164*	*20,402,642*
Consumer	***20,075,548***	***727,064***	***20,802,612***	*2,258,836*	*896,022*	*3,154,858*
Total Pass	***261,512,545***	***112,145,334***	***373,657,879***	*200,026,200*	*124,125,152*	*324,151,352*
Rating - Special Mention:						
Real estate loans:						
Residential	***2,455,625***	***1,021,726***	***3,477,351***	*1,499,436*	*1,724,987*	*3,224,423*
Investor	**-**	***303,223***	***303,223***	-	*408,803*	*408,803*
Commercial	***3,106,954***	**-**	***3,106,954***	*6,329,129*	*1,305,692*	*7,634,821*
Commercial construction	**-**	**-**	**-**	-	-	-
Commercial Business	**-**	**-**	**-**	-	-	-
Home Equity	**-**	***147,439***	***147,439***	-	*132,977*	*132,977*

Consumer	**-**	***28,800***	***28,800***	*-*	*788*	*788*
Total Special Mention	***5,562,579***	***1,501,188***	***7,063,767***	*7,828,565*	*3,573,247*	*11,401,812*
Rating - Substandard:						
Real estate loans:						
Residential	***308,603***	***1,061,049***	***1,369,652***	*331,976*	*938,945*	*1,270,921*
Investor	***121,514***	***579,172***	***700,686***	*13,976*	*219,308*	*233,284*
Commercial	***4,500,043***	***199,920***	***4,699,963***	*1,546,812*	*204,844*	*1,751,656*
Commercial construction	**-**	**-**	**-**	-	-	-
Commercial Business	***297,915***	**-**	***297,915***	*141,266*	-	*141,266*
Home Equity	***21,579***	**-**	***21,579***	*8,751*	-	*8,751*
Consumer	**-**	***29,236***	***29,236***	-	*40,790*	*40,790*
Total - Substandard	***5,249,654***	***1,869,377***	***7,119,031***	*2,042,781*	*1,403,887*	*3,446,668*
Rating - Doubtful	**-**	**-**	**-**	-	-	-
Rating - Loss	**-**	**-**	**-**	-	-	-
TOTAL LOANS	**$*272,324,778***	**$*115,515,899***	**$*387,840,677***	$*209,897,546*	$*129,102,286*	$*338,999,832*

30

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

The Bank's maximum exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the credit commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. 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 *December 31, 2017* and *March 31, 2017* totaled *$61,010* and *$55,000,* respectively. At *December 31, 2017,* management is *not* aware of any accounting loss to be incurred by funding these loan commitments now.

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

	December 31, 2017	March 31, 2017
Unused commercial lines of credit	**$*10,059,219***	$*10,733,345*
Unused home equity lines of credit	***22,129,721***	*22,993,289*
Unused consumer lines of credit	***29,624***	*1,110,155*
Residential mortgage loan commitments	**-**	-
Residential construction loan commitments	***7,795,386***	*8,047,156*
Commercial construction loan commitments	***7,638,013***	*7,091,564*
Home equity loan commitments	***23,000***	*84,000*
Commercial & Industrial loan commitments	***1,909,622***	*1,089,218*
Standby letters of credit	***214,396***	*472,354*

Note *7:* Goodwill and Other Intangible Assets

The Company's intangible assets (goodwill and core deposit intangible) at *December 31, 2017* consists of assets recorded in *December 2009* associated with the acquisition of a branch office in Pasadena, Maryland and the acquisitions 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.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

The following table presents the changes in the net book value of intangible assets for the *nine* months ended *December 31, 2017* and *2016:*

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

	Goodwill	Core deposit intangible
Balance March 31, 2017	$*8,563,530*	$*739,298*
Amortization expense	-	*(94,548*)
Balance December 31, 2017	**$*8,563,530***	**$*644,750***

(*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.

At *December 31, 2017,* future expected annual amortization associated with the core deposit intangible is as follows:

Year ending March 31,	Amount

2018	$*31,518*
2019	*126,072*
2020	*123,739*
2021	*98,072*
2022	*98,072*
2023	*98,072*
2024	*64,163*
2025	*5,042*
	$*644,750*

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 *$748,000* and *$392,000* under collateral arrangements as of *December 31, 2017* and *March 31, 2017,* respectively, to satisfy collateral requirements associated with the risk exposure associated with all interest rate swap agreements.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 *December 31, 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 aggregate fair value of the swaps is recorded in other assets (liabilities) with changes in fair value associated with the effective portion recorded in other comprehensive income (loss) and the ineffective portion recorded in other non-interest income. The cash flow hedges were determined to be ineffective during the quarter ended *September 30, 2017.* As such, a total of *$9,124* of ineffectiveness has been reported in net loss for the period ending *December 31, 2017.*

Summary information about the interest rate swaps designated as cash flow hedges as of year-end 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 $*33,966* and *$102,864* for the *three* and *nine* months ended *December 31, 2017,* respectively 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 *December 31, 2017* and *March 31, 2017:*

	December 31, 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*	$*(69,974*)	$*11,550,000*	$*(83,634*)

The following tables present the net gains (losses) recorded in accumulated other comprehensive income (loss) and the Consolidated Statements of Income relating to the cash flow derivative instruments for the *three* and *nine*-month periods ended *December 31, 2017:*

	Three Month and Period Ended December 31, 2017		
	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	**Amount of Gain (Loss) Reclassified from OCI to Interest Income**	**Amount of Gain (Loss) Recognized in Other Noninterest Income (Ineffective Portion)**
Interest Rate Contracts	$*122,388*	$ -	$ *(5,445*)

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

	Nine Month and Period Ended December 31, 2017		
	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	**Amount of Gain (Loss) Reclassified from OCI to Interest Income**	**Amount of Gain (Loss) Recognized in Other Noninterest Income (Ineffective Portion)**
Interest Rate Contracts	$*22,784*	$ -	$ *(9,124*)

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 *$3.1* million at *December 31, 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.

The fair value hedge is summarized below:

	December 31, 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	**$-**	**$*3,113,423***	**$*3,118,607***	$-	$*3,175,044*	$*3,201,691*
Included in other liabilities:						
Interest rate swap	**$*3,113,423***	**-**	**$*5,184***	$*3,175,044*	-	$*26,647*

No gain or loss was recognized in earnings with respect to the interest rate swap for the *three* or *nine* months ended *December 31, 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.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Note *9:* Deposits

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

	December 31, 2017			March 31, 2017		
	Amount	% of Total		Amount	% of Total	
Savings	**$*42,481,085***	***11***	*%*	$*44,614,415*	*11*	*%*
Noninterest-bearing checking	***27,337,694***	***7***	*%*	*30,401,454*	*7*	*%*
Interest-bearing checking	***25,709,045***	***7***	*%*	*26,415,189*	*7*	*%*
Money market accounts	***51,800,203***	***13***	*%*	*62,962,902*	*15*	*%*
Time deposits	***244,862,537***	***62***	*%*	*247,632,742*	*60*	*%*
	$*392,190,564*	***100***	*%*	$*412,026,702*	*100*	*%*
Premium on deposits asssumed	***500,426***			*829,072*		
Total deposits	**$*392,690,990***			$*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 *December 31, 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 *December 31, 2017* and *March 31, 2017* is *$20,200* and *$27,250,* respectively.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 certain loans owned by the Bank. At *December 31, 2017* and *March 31, 2017,* the Bank had *$64.8* 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 *$163.0* million at *December 31, 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 *December 31, 2017* and *March 31, 2017* is presented below.

	December 31, 2017			March 31, 2017		
	Amount	**Rate**	**Maturity Date**	Amount	Rate	Maturity Date
FHLB advance (1)	**$*5,550,000***	***1.48*%**	**3/9/2018**	$*5,550,000*	*0.94*%	6/9/2017
FHLB advance (2)	***6,000,000***	***1.52*%**	**3/29/2018**	*6,000,000*	*0.93*%	6/29/2017
FHLB advance	***7,000,000***	***1.41*%**	**1/29/2018**	*1,000,000*	*4.24*%	7/31/2017
FHLB advance	***1,000,000***	***2.60*%**	**7/2/2018**	*5,000,000*	*4.28*%	7/31/2017
FHLB advance	***1,000,000***	***3.05*%**	**7/3/2018**	*1,000,000*	*4.01*%	8/21/2017
FHLB advance	***5,000,000***	***3.94*%**	**7/23/2018**	*1,000,000*	*0.91*%	8/31/2017
FHLB advance	***1,000,000***	***1.35*%**	**7/31/2018**	*1,500,000*	*3.23*%	11/24/2017
FHLB advance	***1,000,000***	***1.40*%**	**8/21/2018**	*1,500,000*	*3.40*%	11/27/2017
FHLB advance	***3,000,000***	***1.41*%**	**8/27/2018**	*1,000,000*	*2.60*%	7/2/2018
FHLB advance	***4,000,000***	***1.44*%**	**8/27/2018**	*1,000,000*	*3.05*%	7/3/2018
FHLB advance	***5,000,000***	***3.38*%**	**9/19/2018**	*5,000,000*	*3.94*%	7/23/2018
FHLB advance	***1,000,000***	***2.60*%**	**10/2/2018**	*5,000,000*	*3.38*%	9/19/2018
FHLB advance	***1,000,000***	***1.59*%**	**12/31/2018**	*1,000,000*	*2.60*%	10/2/2018
FHLB advance	***3,000,000***	***1.38*%**	**7/31/2019**	-	-	-
FHLB advance	***3,000,000***	***1.59*%**	**8/26/2019**	-	-	-
FHLB advance	***3,000,000***	***1.48*%**	**8/26/2019**	-	-	-
FHLB advance	***3,000,000***	***1.42*%**	**8/26/2019**	-	-	-
FHLB advance	***1,500,000***	***1.95*%**	**11/25/2019**	-	-	-
FHLB advance	***1,500,000***	***1.78*%**	**11/27/2019**	-	-	-
FHLB advance	***1,000,000***	***2.15*%**	**11/30/2020**	-	-	-
FHLB advance	***2,000,000***	***2.28*%**	**12/28/2020**	-	-	-
FHLB advance	***3,000,000***	***1.48*%**	**8/25/2021**	-	-	-
Note payable - auto	***20,200***	***1.95*%**	**2/17/2020**	*27,250*	*1.95*%	2/17/2020
	62,570,200			*35,577,250*		
Premium on borrowings assumed	***195,187***			*547,649*		
Total FHLB borrowings	**$*62,765,387***			$*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 prompt corrective action regulations for banks, 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).

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

Under the revised prompt corrective action requirements, as of *January 1, 2015,* insured depository institutions are required to meet the following in order to qualify as "well capitalized:" (*1*) a Common Equity Tier *1* risk-based capital ratio of *6.5%;* (*2*) a Tier *1* risk-based capital ratio of *8%;* (*3*) a Total risk-based capital ratio of *10%* and (*4*) a Tier *1* leverage ratio of *5%.* As of *December 31, 2017,* the Bank met all capital adequacy requirements under the Basel III Capital Rules to be considered "well capitalized" under prompt corrective action rules.

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

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

The following table presents actual and required capital ratios as of *December 31, 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.

	Minimum Capital	Minimum Capital	To be well

	Actual		Required - Basel III Phase-In Schedule		Required - Basel III Fully Phased-In		capitalized (1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017 (dollars in thousands)								
Common equity tier 1 capital (to risk-weighted assets)								
Hamilton Bank	***$41,135***	***11.01%***	***$21,399***	***5.750%***	***$26,051***	***7.00 %***	***$24,190***	***6.50 %***
Hamilton Bancorp	***49,374***	***13.22%***	***21,474***	***5.750%***	***26,143***	***7.00 %***	***24,275***	***6.50 %***
Total risk-based capital (to risk-weighted assets)								
Hamilton Bank	***43,805***	***11.73%***	***34,425***	***9.250%***	***39,077***	***10.50%***	***37,216***	***10.00%***
Hamilton Bancorp	***52,045***	***13.94%***	***34,546***	***9.250%***	***39,214***	***10.50%***	***37,347***	***10.00%***
Tier 1 capital (to risk-weighted assets)								
Hamilton Bank	***41,135***	***11.01%***	***26,981***	***7.250%***	***31,633***	***8.50 %***	***29,773***	***8.00 %***
Hamilton Bancorp	***49,374***	***13.22%***	***27,076***	***7.250%***	***31,745***	***8.50 %***	***29,877***	***8.00 %***
Tier 1 capital (to adjusted total assets)								
Hamilton Bank	***41,135***	***8.19 %***	***20,080***	***4.000%***	***20,080***	***4.00 %***	***25,100***	***5.00 %***
Hamilton Bancorp	***49,374***	***9.75 %***	***20,260***	***4.000%***	***20,260***	***4.00 %***	***25,325***	***5.00 %***

(*1*) - Under prompt corrective action

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

	Actual		Minimum Capital Required - Basel III Phase-In Schedule		Minimum Capital Required - Basel III Fully Phased-In		To be well capitalized (1)	
March 31, 2017 (dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	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 quarter prior.

In its regulatory report filed as of *December 31, 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 *December 31, 2017,* there were *83,900* restricted stock awards issued and outstanding and *247,850* stock option awards granted under the *2013* Equity Incentive Plan.

<u>Stock Options:</u>

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 expense that has been incurred for the stock option plan was *$57,392* and *$172,177* for the *three* and *nine* months ended *December 31, 2017* and *$52,302* and *$156,907* for the *three* and *nine* months ended *December 31, 2016,* respectively.

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 that options granted are expected to be outstanding, which considers 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:

Nine months ended December 31, 2017:	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at April 1, 2017	***242,350***	$ ***13.84***	*7.1*
Granted	**-**	**-**	-
Exercised	**-**	**-**	-
Forfeited, exchanged or expired	**-**	**-**	-
Outstanding at December 31, 2017	***242,350***	$ ***13.84***	*6.3*

Vested at December 31, 2017	***135,590***	**$ *13.84***	*6.2*

Fiscal year ended March 31, 2017:	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*

As of *December 31, 2017,* there was *$305,664* 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 *1.6* 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 *$15.40* at *December 31, 2017,* the options outstanding had an intrinsic value of *$377,298.*

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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:

December 31, 2017:	Shares	Weighted-Average Fair Value
Nonvested shares at April 1, 2017	***36,220***	$ ***13.76***
Granted	-	-
Vested	*(380)*	***13.61***
Forfeited	-	-
Nonvested shares at December 31, 2017	***35,840***	$ ***13.76***
Fair Value of shares vested at December 31, 2017	$***740,124***	

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 *$173,457* during the *three* and *nine* months ended *December 31, 2017* and *$56,426* and *$169,279* during the *three* and *nine* months ended *December 31, 2016,* respectively. As of *December 31, 2017,* there was *$283,264* 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 *1.3* years.

Note *13:* Fair Value Measurements

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

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

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

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

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

December 31, 2017	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
U.S. government agencies	**$ -**	**$*2,731,323***	**$-**	**$*2,731,323***
Municipal bonds	**-**	***10,489,586***	***1,570,405***	***12,059,991***
Corporate bonds		***1,927,786***	**-**	***1,927,786***
Mortgage-backed securities	**-**	***62,663,669***	***2,297***	***62,665,966***
Total investment securities available for sale	**$ -**	**$*77,812,364***	**$*1,572,702***	**$*79,385,066***

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*

Derivative – Interest rate swap agreements – The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level *2*). The quantitative models that are used utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices

to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and *third*-party pricing services. As of *December 31, 2017,* and *March 31, 2017,* the bank has categorized its interest rate swaps and related loan as follows:

December 31, 2017	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Loans - Commercial real estate loan	$ -	$*3,118,607*	$ -	$*3,118,607*
Derivative - Interest rate swap designated as fair value hedge	-	*(5,184*)	-	*(5,184*)
Derivatives - Interest rate swaps designated as cash flow hedge	-	*(69,974*)	-	*(69,974*)

41

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 *December 31, 2017:*

Description	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
Investment securities	$*1,572,702*	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:

	Nine Months Ended December 31, 2017	Year Ended 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:		
Municipal Bonds	*312,228*	-
Corporate bonds	-	*1,898,640*
Change in valuation	*(45,856*)	-

Balance, end of period	$ *1,572,702*	$ *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 *December 31, 2017,* and *March 31, 2017,* the fair values consist of loan balances of *$9,142,748* and *$5,657,048* that have been written down by *$272,707* and *$285,359,* respectively, because of specific loan loss allowances.

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 *December 31, 2017,* and *March 31, 2017,* the fair value of foreclosed real estate was estimated to be *$451,249* 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.*

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 *2017* were acquired in the acquisition of Fraternity and sold during the quarter ending *December 31, 2017.* 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.*

December 31, 2017	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Impaired loans	**$ -**	**$ -**	**$*8,870,041***	**$*8,870,041***
Foreclosed real estate	**-**	**-**	***451,248***	***451,248***
Premises and equipment held for sale	**-**	**-**	**-**	**-**

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 *December 31, 2017:*

Description	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
Impaired loans, net of allowance	$*8,870,041*	Appraised value	Discount to reflect current market conditions	*0.00%-25.00%*
		Discounted cash flows	Discount rates	*2.63%-7.25%*

Foreclosed real estate	$*451,248*	Appraised value	Discount to reflect current market conditions	*0.00%-25.00%*

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.

	Nine Months Ended December 31, 2017	Fiscal Year Ended March 31, 2017
Balance at beginning of period	**$*503,094***	$*443,015*
Transfer to foreclosed real estate	***17,305***	*126,575*
Write-down of foreclosed real estate	***(31,955*** **)**	-
Proceeds from sale of foreclosed real estate	***(35,897*** **)**	*(60,258*)
Loss on sale of foreclosed real estate	***(1,299*** **)**	*(6,238*)
Balance at end of period	**$*451,248***	$*503,094*

43

Table of Contents

HAMILTON BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

	December 31, 2017		March 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Level 1 inputs				
Cash and cash equivalents	**$*10,086,838***	**$*10,086,838***	$*29,353,921*	$*29,353,921*
Level 2 inputs				
Federal Home Loan Bank stock	***3,103,900***	***3,103,900***	*2,020,200*	*2,020,200*
Bank-owned life insurance	***18,623,339***	***18,623,339***	*18,253,348*	*18,253,348*
Level 3 inputs				
Certificates of deposit held as investment	***499,212***	***492,774***	*499,280*	*505,641*
Loans receivable, net of unearned income	***385,884,075***	***384,560,104***	*335,678,292*	*337,183,808*
Financial liabilities				
Level 3 inputs				
Deposits	***392,690,990***	***392,466,742***	*412,855,774*	*413,148,503*
Advance payments by borrowers for taxes and insurance	***1,108,006***	***1,108,006***	*1,868,110*	*1,868,110*
Borrowings	***62,765,387***	***62,178,116***	*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 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.

Table of Contents

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. Subsequently, 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..

Table of Contents

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 Company does not own or lease any real property but instead uses the premises, equipment and other property of the Bank.

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. The two 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, continued to show improvement in pre-tax income, overall revenue, and loan growth during the three months ending December 31, 2017 compared to the same period a year ago. Interest revenue improved $204,000, or 4.7% to $4.6 million for the third quarter of fiscal 2018 compared to the same period a year ago as the Company continued to generate loans organically and through purchases. Interest revenue was partially offset by a $177,000 increase in interest expense over this same period due to the rise in interest rates.

Non-interest revenue increased $175,000, or 60.6%, to $463,000 for the three months ended December 31, 2017 compared to $288,000 for the same period ended December 31, 2016. A large portion of this increase is related to the sale of one of our branch locations in Baltimore City, which was sold in December 2017 at a gain of $213,000. On a comparative basis, excluding the gain on sale of the branch, there were increases relating to service charges on deposits, offset by losses on the sale of investment securities and a decrease in other fee generated income, a reduction in gain on the sale of loans and earnings on bank-owned life insurance due to lower rates. The Company made a decision at the beginning of the current fiscal year to hold in portfolio most of our residential loan originations versus selling them in the secondary market to partially offset the increased run-off associated with this loan type.

Non-interest expense for the quarter ended December 31, 2017 was $3.3 million, an increase of $213,000 from the quarter ended December 31, 2016. The increase in operating expenses is partially related to our recent charter conversion, as well costs associated with growing our loan portfolio through loan purchases. The growth of the loan portfolio and its impact is reflected in the increase in interest revenue quarter-over-quarter. Because of the revenue growth, we have been able to maintain our efficiency ratio at 81.2% for the three months ending December 31, 2017 as compared to 80.0% for the three months ending December 31, 2016 despite the increase in non-interest expenses. The largest increase in our noninterest expenses for the respective periods is in salaries because of bonus accruals and strategic new hires focused on branch efficiency and new products. The Company also recognized higher legal costs associated with certain loan purchases and other administrative matters, including our conversion to a state chartered bank. These increases were partially offset by decreases in other expenses largely composed of other professional services and data processing. Management remains committed to reducing operational expenses and achieving higher efficiencies.

Table of Contents

The following highlights contain additional financial data and events that have occurred during the three and nine months ended December 31, 2017:

The Company reported pre-tax income of $425,000 and $1.5 million for the three and nine months ended December 31, 2017, respectively, compared to pre-tax income of $1,000 and a net loss of $18,000 for the comparable periods ending December 31, 2016. The prior year nine-month period included $657,000 in acquisition and branch consolidation related expenses.

During the quarter-ended December 31, 2017, the Company performed a revaluation of its net deferred tax assets as a result of the reduction in the corporate income tax rate that was enacted through the federal government's passage of the *Tax Cuts and Jobs Act* on December 22, 2017. The revaluation resulted in a one-time adjustment of $2.2 million that was recorded through income tax expense.

Due to the revaluation of the net deferred tax assets, the Company reported an after-tax loss of $1.9 million, or $0.60 loss per common share, and $1.1 million, or $0.35 loss per common share for the three and nine months ended December 31, 2017, respectively, compared to net income of $59,000 and $48,000 for the comparable periods ending December 31, 2016.

Net interest income for the three months ended December 31, 2017 was $3.6 million, or $27,000 higher compared to the same period a year ago. For the nine months ended December 31, 2017, net interest income increased $583,000, or 5.7%, to $10.8 million compared to $10.3 million for the nine-month period a year ago.

The net interest margin increased 8 basis points over the comparable nine-month periods ended December 31, 2017 and 2016 because of the increase in net interest income. The net interest margin for the nine-month periods improved from 2.99% to 3.07%, respectively. The net interest margin for the comparable three-month periods ending December 31, 2017 and 2016 remained unchanged at 3.07%.

A gain of $213,000 was realized on the sale of our Pigtown branch located in Baltimore City, along with the disposal of certain equipment. This branch is being relocated within the same community to a smaller space that will provide operational cost savings.

The efficiency ratio improved from 90.8% for the nine months ended December 31, 2016 to 81.7% for the nine months ended December 31, 2017; an improvement of 10.0%. The improvement is attributable to increased revenue and the reduction of non-interest expenses, including acquisition related expenses.

Total assets grew $5.4 million, increasing from $514.5 million at March 31, 2017 to $520.0 million at December 31, 2017.

Gross loans grew to $387.8 million, up $48.8 million, or 14.4% at December 31, 2017, compared to $339.0 million at March 31, 2017. Growth in loans was due to organic growth and the purchase of several loan pools throughout the year. Total loans purchased through the nine months ended December 31, 2017 is approximately $51.0 million and consisted of residential mortgage, commercial business and consumer loan portfolios. The respective loan purchases improved the diversity of our loan portfolio.

Nonperforming loans increased from $2.3 million at March 31, 2017 to $6.6 million at December 31, 2017. The increase is primarily attributable to one commercial real estate loan with a book value of $3.2 million that was placed on nonaccrual during the second quarter of fiscal 2018. There has been no impairment identified with this loan based upon the current collateral value of the property. As a result of this loan, the percentage of nonperforming loans to gross loans increased from 0.69% at March 31, 2017 to 1.71% at December 31, 2017.

The allowance for loan losses as a percentage of nonperforming loans declined from 94.5% at March 31, 2017 to 39.3% at December 31, 2017. During fiscal 2018, the Company has experienced net charge-offs totaling $210,000 and recorded a loan loss provision of $625,000 associated with growth within the loan portfolio and charge-offs. In comparison, the Company recorded net charge-offs of $678,000 and a provision for loan loss of $1.0 million for the same period a year ago.

Table of Contents

Total deposits decreased $20.2 million from $412.9 million at March 31, 2017 to $392.7 million at December 31, 2017, while borrowings increased $26.6 million from $36.1 million to $62.8 million over the same period. Core deposits (consisting of all deposits except certificates of deposits) declined $17.1 million to $147.3 million, respectively. The decline is attributable to the end of a promotional rate on certain money market accounts and the competitive pricing within the deposit market. Core deposits represent 37.6% of total deposits at December 31, 2017 compared to 36.5% of total deposits at December 31, 2016.

The Company ended December 31, 2017 with a book value of $17.42 per common share and a tangible book value of $14.72 per common share compared to $17.53 and $14.80, respectively, at March 31, 2017. Tangible book value decreased because of the net income reported for the quarter. Tangible book value, a non-GAAP measure, was determined as follows:

	December 31, 2017	March 31, 2017
Tangible book value per common share:		
Total shareholders' equity	**$59,405,187**	$59,791,230
Less: Goodwill and other intangible assets	**(9,208,280)**	(9,302,828)
Tangible common equity (Non-GAAP)	**$50,196,907**	$50,488,402
Outstanding common shares	**3,411,075**	3,411,075
Book value per common share (GAAP)	**$17.42**	$17.53
Tangible book value per common share (Non-GAAP)	**$14.72**	$14.80

The Company maintained strong liquidity based upon the amount and make-up of its investment portfolio and at December 31, 2017 the Bank was deemed “well capitalized” under federal regulations.

Strategic Plan

We have based our 2018-2020 strategic plan on the objective of improving shareholder value through creating sustainable and profitable growth given the current and expected economic and competitive environment in the financial services industry. Our short-term focus and 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. With our recent acquisitions and enhanced lending platform, we have been able to increase revenues and improve our efficiency ratio while managing our operating expenses. In addition, we have completed a bench marking study and hired a Marketing Director who has implemented several new campaigns that promote the Bank and reach out to new customers.

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. Recently we opened a newly relocated branch that consists of a smaller space and a new modern design and look. The innovative design eliminates the traditional teller line and allows our employees to assist and interact more closely with our customers. We are putting in place Small Business Developers to work with our branches and increase our presence in the communities we serve. Innovative technology has been implemented that allows customers to do even more on-line using our website.

Table of Contents

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. We have successfully completed the purchase of several loan portfolios in the past year. These loan purchases have enhanced our revenues and diversified our loan portfolio.

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 current 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.

Table of Contents

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 reviews our allowance for credit losses. Such agencies may require that we recognize additions to the allowance for credit losses based on their judgments about information available to them at the time of their examination. To the extent that actual outcomes differ from management's estimates, additional provisions to the allowance for credit losses may be required that would adversely impact earnings in future periods.

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

If the estimated value of investments is less than the cost or amortized cost, we evaluate whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of the investment. If such an event or change has occurred and we determine that the impairment is other-than-temporary, we record the impairment of the investment in the period in which the event or change occurred. We also consider how long a security has been in a loss position in determining if it is other than temporarily impaired. Management also assesses the nature of the unrealized losses taking into consideration factors such as changes in risk-free interest rates, general credit spread widening, market supply and demand, creditworthiness of the issuer, and quality of the underlying collateral. At December 31, 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. Potential tax reform and the decrease of corporate tax rates could impact the carrying amount of our deferred tax asset and require the establishment of a valuation allowance. The judgment about the level of future taxable income is dependent to a great extent on matters that may, at least in part, be beyond our control. It is at least reasonably possible that management's judgment about the need for a valuation allowance for deferred tax assets could change in the near term.

Comparison of Financial Condition at December 31, 2017 and March 31, 2017

Assets. Total assets increased $5.4 million to $520.0 million at December 31, 2017 from $514.5 million at March 31, 2017. The increase is primarily attributable to a $48.8 million increase in gross loans, partially offset by a $19.3 million decrease in cash and cash equivalents, a $23.0 million decline in investment securities, and a $2.8 million decrease in net deferred tax assets.

Cash and Cash Equivalents. Cash and cash equivalents decreased by $19.3 million, or 65.6%, to $10.1 million at December 31, 2017 from $29.3 million at March 31, 2017. The decline from March 31, 2017 is in part a result of cash and investments used to purchase various pools of residential mortgage, commercial business, and consumer loans throughout the year; thereby converting lower interest-earning cash and investments into higher interest-earning loans. In addition, the cash proceeds from investment paydowns were also utilized to assist with the decrease in our deposit base.

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 December 31, 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.

Investment securities decreased $23.0 million, or 22.5%, to $79.4 million at December 31, 2017, from $102.4 million at March 31, 2017. The decrease is related to $12.2 million in cash flows resulting from normal principal payments associated with the mortgage-backed security portfolio, as well as the sale of $11.6 million in securities during fiscal 2018, including $7.4 million of securities sold in the quarter ended December 31, 2017. The sale of securities to date has resulted in a loss of $2,000. The fair value of the investment portfolio improved $246,000 from an unrealized net

loss position of $2.2 million at March 31, 2017 to an unrealized net loss position of $1.9 million at December 31, 2017. The increase in fair value of the investment portfolio is a result of the change in interest rates over the first nine months of the fiscal year and the passage of time as certain investments get closer to maturity.

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.

Table of Contents

Loans. Excluding loan premiums and loan origination fees and costs, gross loans receivable increased by $48.8 million, or 14.4%, to $387.8 million at December 31, 2017 from $339.0 million at March 31, 2017. The increase is attributable to organic growth and approximately $51.0 million in loan purchases throughout the year. The various loan purchases included residential mortgages, commercial business, and consumer loans. Included in gross loans at December 31, 2017 are acquired loans with a book balance of $115.5 million associated with the acquisitions of Fraternity and Fairmount institutions (these loans are reflected in the "acquired" loan column of the table below). At December 31, 2017, gross loans receivable represented 74.6% of total assets compared to 65.9% of total assets at March 31, 2017. The following table details the composition of loans and the related percentage mix and growth of total loans:

	December 31, 2017				March 31, 2017			
	Legacy	**Acquired**	**Total**	**Percent of Total**	Legacy	Acquired	Total	Percent of Total
Real estate loans:								
One-to four-family:								
Residential	**$80,477,455**	**$74,701,711**	**$155,179,166**	**40.0 %**	$67,126,677	$83,892,389	$151,019,066	44 %
Residential construction	**6,752,565**	**-**	**6,752,565**	**1.7 %**	6,426,076	-	6,426,076	2 %
Investor	**7,375,997**	**18,208,906**	**25,584,903**	**6.6 %**	6,742,469	18,779,644	25,522,113	8 %
Commercial	**100,857,452**	**12,160,844**	**113,018,296**	**29.1 %**	92,665,689	14,898,523	107,564,212	32 %
Commercial construction	**3,995,441**	**856,970**	**4,852,411**	**1.3 %**	1,881,541	1,308,652	3,190,193	1 %
Total real estate loans	**199,458,910**	**105,928,431**	**305,387,341**	**78.7 %**	174,842,452	118,879,208	293,721,660	87 %
Commercial business	**38,988,229**	**1,928,232**	**40,916,461**	**10.6 %**	19,518,029	2,019,337	21,537,366	6 %
Home equity loans	**13,802,091**	**6,874,136**	**20,676,227**	**5.3 %**	13,278,229	7,266,141	20,544,370	6 %
Consumer	**20,075,548**	**785,100**	**20,860,648**	**5.4 %**	2,258,836	937,600	3,196,436	1 %
Total loans	**$272,324,778**	**$115,515,899**	**$387,840,677**	**100.0 %**	$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 40.0% of the entire loan portfolio at December 31, 2017, an increase of $4.2 million from March 31, 2017. This growth is primarily related to the purchase of $13.1 million in residential mortgage loans during the third quarter of fiscal 2018. In addition, over the last half of fiscal 2017 and into fiscal 2018 we began to portfolio many of the traditional residential mortgage loans we originated, versus selling them in the secondary market, due to the increase in normal attrition within this loan segment resulting from our acquisitions. Prior to that time, we generally sold these loans in the secondary market at a premium to assist with managing interest rate risk and to enhance non-interest revenue.

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. Over the first nine months of fiscal 2018, the Bank has originated commitments of $11.7 million in residential construction loans. At December 31, 2017, we had $11.8 million in residential construction commitments, of which $5.1 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.

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 $25.6 million, or 6.6%, of total gross loans at December 31, 2017, including a remaining balance of $18.2 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 this type of loan organically.

Table of Contents

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 second largest increase in loans over the first half of fiscal 2018, is a $19.4 million, or 90.0%, increase in commercial business loans from $21.5 million at March 31, 2017 to $40.9 million at December 31, 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 of fiscal 2018. The pool of loans consists of commercial lease loans that are concentrated in equipment that is necessary to operate a business segment, such as medical equipment. Over this same period, commercial real estate loans have also grown by $5.5 million, or 5.1%, from $107.6 million at March 31, 2017 to $113.0 million at December 31, 2017. Commercial real estate comprises 29.1% of the total loan portfolio at December 31, 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 same 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.

As a means to continue to increase revenue and diversify the loan portfolio, a group of consumer loans totaling $18.4 million was purchased in August 2017 from another financial institution. This portfolio of loans was collateralized by various makes and models of recreational vehicles (RV). Prior to this purchase, the consumer portfolio made up less than 1.0% of the total loan portfolio. This purchase increased our consumer loan balances significantly from $3.2 million at March 31, 2017 to $20.9 million at December 31, 2017; accounting for 5.4% of the entire loan portfolio. As a result, we were able to further diversify the composition of the loan portfolio and increase our net interest income.

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 December 31, 2017, our investment in bank-owned life insurance remained relatively unchanged at $18.6 million compared to $18.3 million at March 31, 2017 and was at 42.5% of Bank total capital due to the BOLI that was assumed in the Fraternity acquisition. Due to the amount of BOLI currently held, the Company has no plans to purchase additional BOLI in the near term. The increase reflected since the beginning 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 $19.8 million to $392.2 million at December 31, 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. This has proven to be a challenge in fiscal 2018 as we have seen core deposits decline despite our efforts in a competitive market. Overall core deposits have decreased $17.1 million, or 10.4%, to $147.3 million at December 31, 2017 compared to $164.4 million at March 31, 2017. This decline is attributable to the end of a promotional rate on certain money market accounts, as well as a very competitive deposit market and normal business cycles associated with our commercial customers at calendar year end. On a year-over-year comparison, however, core deposits have only decreased $1.4 million, or 0.9%, at December 31, 2017. Core deposits accounted for 37.6% of total deposits at December 31, 2017, compared to 39.9% at March 31, 2017.

The Bank is currently running deposit promotions to attract new customers in a competitive deposit market.

Table of Contents

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

	December 31, 2017		March 31, 2017		Year-To-Date Growth	
		Percent		Percent		Growth
	Total	**of Total**	Total	of Total	Amount	Percent
Savings	**$42,481,085**	**11 %**	$44,614,415	11 %	$(2,133,330)	-4.8 %
Noninterest-bearing checking	**27,337,694**	**7 %**	30,401,454	7 %	(3,063,760)	-10.1 %
Interest-bearing checking	**25,709,045**	**7 %**	26,415,189	7 %	(706,144)	-2.7 %
Money market accounts	**51,800,203**	**13 %**	62,962,902	15 %	(11,162,699)	-17.7 %
Time deposits	**244,862,537**	**62 %**	247,632,742	60 %	(2,770,205)	-1.1 %
	$392,190,564	**100 %**	$412,026,702	100 %	$(19,836,138)	-4.8 %
Premium on deposits asssumed	**500,426**		829,072		(328,646)	
Total deposits	**$392,690,990**		$412,855,774		$(20,164,784)	

As loan demand increases or we look to purchase other loan portfolios, our strategy with respect to deposits has been to maintain our current certificate of deposit base, as we focus on growing our lower costing core deposits at a faster pace. We hope to accomplish this by pricing more competitively in the marketplace or through short-term certificate of deposit promotions. However, there may be instances when funding demands are more immediate. To meet these demands, the Company entered into a contract and began utilizing a certificate of deposit subscription service in the third quarter of fiscal 2018. As a result, we were able to obtain $10.6 million in certificate of deposits in the third quarter of fiscal 2018 through this service. The cost of these deposits is more expensive than traditional certificates of deposit because of the ability to provide the funding needed in a timely manner, but can be less costly than borrowing from the Federal Home Loan Bank or other sources. We may continue to utilize this service as a funding source when other less costly means are not able to meet our funding requirements.

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 December 31, 2017, outstanding advances from the FHLB increased $27.0 million to $62.6 million at December 31, 2017 compared to $35.6 million at March 31, 2017. The increase is attributable to additional FHLB advances that were entered into to fund various loan purchases throughout the year. Already included in the FHLB advances is $15.0 million in FHLB advances assumed in the Fraternity acquisition, of which $10 million is to mature in fiscal 2019 and $5.0 million that matured last quarter and were rolled over. The advances assumed from Fraternity 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 December 31, 2017, the remaining discount is $166,000. The accretion of this discount offsets the higher contractual rate on these borrowings.

At December 31, 2017, $33.0 million of the total advances are considered short-term and mature in less than one year, while the remaining $29.6 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 6.5 years. Excluding the advances associated with the hedge transactions, the longest outstanding borrowing is for $3.0 million and matures in August 2021.

The FHLB borrowings provide an alternative means to support the cash outflow needed to fund new loan originations in coordination with deposit growth. FHLB borrowings can provide a less expensive means to support cash outflow when compared to selling higher yielding investment securities. These obligations are secured by our residential and home equity loan portfolios. At December 31, 2017, we had the ability to borrow approximately $64.8 million in additional funds from the FHLB, subject to our pledging sufficient assets. These obligations will be repaid as our cash position strengthens.

Table of Contents

Equity. Total equity decreased $386,000, or 0.6%, to $59.4 million at December 31, 2017 from $59.8 million at March 31, 2017. The change in equity is primarily attributable to a net loss of $1.1 million reported for the first nine months of fiscal 2018, partially offset by a $394,000 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 $218,000 due to the increase in the fair value of the investment portfolio. The fair value of the investment portfolio increased over the first nine months due to the change in interest rates over that period and the passage of time as certain investments get closer to maturity. The Company's book value per common share was $17.42 at December 31, 2017 compared to $17.53 at March 31, 2017.

Comparison of Asset Quality at December 31, 2017 and March 31, 2017

The Bank's asset quality remains a primary focus of management and the Board of Directors. Nonperforming assets at December 31, 2017 were $7.1 million, an increase of $4.3 million from March 31, 2017 and a $3.6 million increase from December 31, 2016. Nonperforming assets to total assets increased from 0.55% at March 31, 2017 to 1.36% at December 31, 2017. Nonperforming assets and related ratios at or for the respective periods were as follows:

	At December 31, 2017	At March 31, 2017	At December 31, 2016
	(dollars in thousands)		
Nonaccruing loans	**$6,195**	$2,302	$ 3,045
Accruing loans delinquent more than 90 days	**441**	21	-
Foreclosed real estate	**451**	503	460
Total nonperforming assets	**$7,087**	$2,826	$ 3,505
Asset Quality Ratios:			
Nonperforming loans to gross loans	**1.71 %**	0.69 %	0.92 %
Nonperforming assets to total assets	**1.36 %**	0.55 %	0.70 %
Net charge-offs (annualized) to average loans	**0.08 %**	0.92 %	0.28 %

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 December 31, 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 obtaining required information so that these loans can either be renewed or extended accordingly.

Nonaccrual loans increased to $6.2 million at December 31, 2017 compared to $2.3 million at March 31, 2017 and $3.0 million a year ago. The $3.9 million increase from March 2017 to December 2017 is primarily attributable to one commercial real estate loan with a book value of $3.2 million that was placed on nonaccrual last quarter and a group of residential investor loans totaling $527,000 that were placed on nonaccrual this quarter. Approximately $72,000 was charged-off in relation to the residential investor loans, while there was no impairment identified with the commercial real estate loan based upon the most recent collateral value of the property. The one commercial real estate property is currently listed for sale by the borrower.

Also reported as a part of nonaccrual loans at December 31, 2017 and March 31, 2017 are two commercial real estate loans that are associated with the same borrower. Together these loans have a contractual principal balance of $3.4 million and a recorded investment balance of $1.3 million at December 31, 2017. Life-to-date we have charged-off $1.8 million associated with these loans, including a $107,000 charge-off this quarter based upon a new appraised value. These loans were placed on nonaccrual in October 2015 due to legal issues and the concern of collectability. The loans are classified as a Trouble Debt Restructure ("TDR") and the borrower 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 December 31, 2017, there were no other commercial real estate or business loans on nonaccrual.

Table of Contents

The remaining balance of nonaccrual loans at December 31, 2017 consisted of $901,000 in one-to-four family residential mortgage loans, including four loans with a book balance of $472,000 that were acquired loans. The remaining $429,000 of nonaccrual one-to-four family residential mortgage loans consists of 20 different loans with smaller outstanding balances, four of which make up $243,000 of this total.

Delinquencies 30-89 days past due increased $695,000 to $1.3 million at December 31, 2017 from $579,000 at March 31, 2017. Included in total delinquencies were three commercial lease loans totaling $455,000, one commercial real estate loan for $186,000, and one residential mortgage loan for $249,000. The remaining balance of delinquencies are made up of smaller loan balances, including recreational vehicles totaling $200,000. The Bank is monitoring the delinquent loans closely and working with the borrowers to develop a payment plan to make the loans current again. If the borrowers are unable to bring these loans current or unable to re-pay or re-finance the respective loans, there could be future charge-offs associated with these loans based upon collateral values.

Foreclosed real estate decreased $52,000 from $503,000 at March 31, 2017 to $451,000 at December 31, 2017 and consisted of four properties. One of the four properties consist of semi-developed land with a fair value of $411,000. This property was written-down by $32,000 during the recent quarter based upon a newly obtained appraised value. The property is listed for sale and is participated with another financial institution, with Hamilton being the lead lender. The remaining three properties totaling $40,000 are comprised of one-to-four family residential mortgage loans, all of which are participations that Hamilton owns less than 15% of and is not the lead lender.

The Bank recorded a $625,000 provision for loan loss during the first nine months of fiscal 2018 compared to a $1.0 million provision for loan loss for the same period a year ago. The provision for loan loss for the nine months ended December 31, 2017 was a result of an increase in loan growth primarily stemming from the purchase of several loan portfolios throughout the year and some charge-offs previously discussed. The allowance for loan losses at December 31, 2017 totaled $2.6 million, or 0.67% of gross loans, compared to $2.2 million, or 0.65% of gross loans, at March 31, 2017. The change in this percentage, despite additional provisions, was due to the increase in overall loan balances. This overall percentage remains relatively low compared to peers because 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 nine-month period ending December 31, 2017 includes $236,000 in charge-offs, offset by $26,000 in recoveries and a $625,000 provision for loan losses. We review the adequacy of the allowance for loan losses no less than quarterly and are proactively managing problem assets. Based upon our analysis, we believe this allowance appropriately reflects the inherent risk of loss in our loan portfolio at December 31, 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 December 31, 2017 and 2016 (unaudited)

General. Net income for the quarter ended December 31, 2017 was a loss of $1.9 million, or $0.60 per common share, compared to net income of $59,000, or $0.02 per common share for the quarter ended December 31, 2016. The decrease in net income was a result of the passage of the *Tax Cuts and Job Act* (the "Act") that was signed into law on December 22, 2017. The Act amended the Internal Revenue Code to reduce income tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Act reduces the federal corporate income tax rate from a maximum 35 percent to a flat 21 percent tax rate. As a result, our net deferred tax assets of $7.5 million, which were based upon a 34 percent corporate tax rate, had to be re-evaluated to reflect the new tax rate of 21 percent. This one-time non-cash adjustment is estimated to be $2.2 million and is recorded through income tax expense. Pre-tax income for the quarter, however, was $425,000 compared to $1,000 for the quarter ending December 31, 2016; a period-over-period increase of $424,000 The increase in pre-tax income resulted primarily from a $27,000 increase in net interest income, a $175,000 increase in noninterest revenue, and a $435,000 decrease in the provision for loan losses, partially offset by a $213,000 increase in noninterest expenses.

Table of Contents

Net Interest Income. Net interest income increased $27,000 to $3.6 million for the three-months ended December 31, 2017 compared to $3.6 million for the three-months ended December 31, 2016. The increase in net interest income was due to a $204,000 increase in interest revenue, partially offset by a $177,000 increase in interest expense. The increase in interest revenue was due to an increase in the average yield on interest-earning assets as lower yielding assets, particularly investments and interest-bearing deposits with banks, were re-invested into higher yielding loans. The average yield increased 13 basis points from 3.71% to 3.84%. Over this same period, the average balance in interest-earning assets increased $4.4 million, or 0.9%, compared to the same period in fiscal 2017 as the average balance in loans receivable continued to grow.

The increase in interest expense for the quarter ended December 31, 2017 compared to the same quarter last year was the result of a 17 basis points increase in the average cost of interest-bearing liabilities. The average cost of interest-bearing liabilities increased from 0.71% for the three months ended December 31, 2016 to 0.88% for the three months ended December 31, 2017. In addition, the average balance of interest-bearing liabilities also increased $1.7 million from $418.7 million to $420.2 million. The increase resulted from the growth in average borrowings, partially offset by a decrease in average interest-bearing deposits. The net interest margin decreased 1 basis point from 2.99% for the three months ended December 31, 2016 to 2.98% for the three months ended December 31, 2017.

Interest Revenue. Interest revenue increased $204,000, or 4.7% to $4.6 million during the three months ended December 31, 2017 compared to $4.4 million for the three months ended December 31, 2016. The increase resulted from the increase in interest and fees on loans, partially offset by decreases in interest revenue earned on investment securities and federal funds sold and other bank deposits.

Interest and fees on loans increased $226,000, or 5.8%, to $4.1 million for the three months ended December 31, 2017, compared to $3.9 million for the three months ended December 31, 2016. The increase in interest and fees on loans is due to a $44.2 million increase in the average balance of net loans from $327.3 million to $371.5 million quarter-over-quarter. The increase in average loans is attributable to organic growth generated by our commercial lending area and strategic loan purchases over the past year. Partially offsetting the increase in the average balance of loans is a 32 basis point decline in the average yield earned on loans from 4.74% for the quarter ending December 31, 2016 to 4.42% for the quarter ending December 31, 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 decreased $12,000 to $439,000 for the three months ended December 31, 2017 from $451,000 for the three months ended December 31, 2016. The average balance of investment securities decreased $16.8 million, or 15.7%, to $90.2 million for the three months ended December 31, 2017 from $107.0 million for the same period last year, while the average yield increased 26 basis points to 1.95% from 1.69%. The largest decrease in investment securities was in mortgage-backed securities, which decreased $14.9 million to $67.9 million for the three months ended December 31, 2017 from $82.9 million for the same period last year. The average balance of investment securities also decreased quarter-over-quarter by $1.8 million. The decrease in average investments is attributable to $7.4 million in securities that were sold during the most recent quarter and the utilization of excess cash in the second half of fiscal 2017 to purchase new securities that have since paid down through normal

attrition.

Interest Expense. Interest expense increased $177,000, or 23.6%, to $924,000 for the three months ended December 31, 2017 compared to $748,000 for the same period in fiscal 2017, due to the increase in the average cost of both interest-bearing deposits and borrowings. The average cost of deposits increased nine basis points from 0.69% for the three months ended December 31, 2016 to 0.78% for the three months ended December 31, 2017. The increase in interest expense associated with the average cost of interest-bearing deposits was partially offset by a decrease in the average balance of interest-bearing deposits. The average balance of interest-bearing deposits decreased $25.7 million, or 6.5%, to $366.8 million for the three months ended December 31, 2017 from $392.4 million for the three months ended December 31, 2016. Because of the increase in costs that were offset by the decline in average balances, the interest expense associated with interest-bearing deposits only increased $40,000, or 5.9%, period-over-period. In the last quarter of fiscal 2017 and during the second quarter of this year, we began to offer a money market account with a 6-month promotional rate to attract core deposits. As a result, the average cost associated with money market accounts has increased from 0.38% to 0.50% quarter-over-quarter, which contributed to the increase in the cost of interest-bearing deposits.

Table of Contents

For the three-month period ended December 31, 2017, average interest-bearing deposit balances increased or remained relatively unchanged for all types of deposits, except for the decreases in money market accounts and certificate of deposits, when compared to the same period a year ago. 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. This has proven to be a challenge in fiscal 2018 as we have seen our overall deposits decline despite our efforts in a competitive market. The average balance of time deposits decreased $25.5 million, or 9.6%, to $239.9 million for the quarter ended December 31, 2017 compared to $265.4 million for the quarter ended December 31, 2016. For the same two periods, average core interest-bearing deposits remained relatively unchanged, decreasing $132,000 to $126.8 million for the three months ended December 31, 2017 compared to $127.0 million for the three months ended December 31, 2016.

Noninterest-bearing deposits allow us to fund growth in interest-earning assets at minimal cost. Average noninterest-bearing deposits increased $4.4 million, or 17.5%, to $29.7 million for the three months ended December 31, 2017, compared to $25.3 million for the three months ended December 31, 2016. This increase resulted from the efforts of our cash management personnel and commercial loan officers working with commercial clients to move their deposit relationship to Hamilton Bank.

For the three-month period ended December 31, 2017, average interest-bearing borrowings were $53.6 million compared to an average balance of $26.3 million for the same period a year ago. The increase in borrowings is associated with funds needed to purchase several loan portfolios over the past year and a declining deposit base. The borrowings primarily consisted of advances from the Federal Home Loan Bank. At December 31, 2017, the Bank had $62.6 million in outstanding advances from the FHLB, including $13.0 million in borrowings assumed through the Fraternity and Fairmount acquisitions. The borrowings carried an average rate of 1.57% for the three months ended December 31, 2017; a 44 basis points increase from 1.13% for the same period a year ago. Borrowing from the FHLB in today’s low interest rate environment can be a more cost-effective means to obtain funds if deposits are not growing compared to selling investment securities that are earning a higher yield.

Table of Contents

Average Balances, Interest and Yields. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest revenue from average interest-earning assets, the dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing 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 December 31, (dollars in thousands)					
	2017			**2016**		
	Average Balance	**Interest**	**Yield/ Cost**	**Average Balance**	**Interest**	**Yield/ Cost**
Interest-earning assets:						
Interest bearing deposits with banks	**$12,850**	**$ 19**	**0.59 %**	$35,824	$ 28	0.31 %
Investment securities (1)	**22,310**	**141**	**2.53 %**	24,145	140	2.32 %
Mortgage-backed securities	**67,919**	**298**	**1.76 %**	82,856	311	1.50 %
Loans receivable, net (2)	**371,486**	**4,103**	**4.42 %**	327,336	3,879	4.74 %
Total interest-earning assets	**474,565**	**4,561**	**3.84 %**	470,161	4,358	3.71 %
Noninterest-earning assets	**43,173**			42,425		
Total assets	**$517,738**			$512,586		
Interest-bearing liabilities:						
Certificates of deposit	**$239,920**	**$ 625**	**1.04 %**	$265,448	$ 594	0.90 %
Money Market	**58,761**	**74**	**0.50 %**	64,848	62	0.38 %
Statement savings	**43,080**	**13**	**0.12 %**	44,806	17	0.15 %
NOW accounts	**24,996**	**2**	**0.03 %**	17,315	1	0.02 %
Total interest-bearing deposits	**366,757**	**714**	**0.78 %**	392,417	674	0.69 %
Borrowings	**53,645**	**210**	**1.57 %**	26,280	74	1.13 %
Total interest-bearing liabilities	**420,402**	**924**	**0.88 %**	418,697	748	0.71 %
Noninterest-bearing liabilities and equity:						
Noninterest-bearing deposits	**29,708**			25,274		
Other noninterest-bearing liabilities	**6,026**			7,014		
Total liabilities	**456,136**			450,985		
Total shareholders' equity	**61,602**			61,601		
Total liabilities and shareholders' equity	**$517,738**			$512,586		
Net interest income		**$ 3,637**			$ 3,610	
Net interest rate spread (3)			**2.98 %**			2.99 %
Net interest-earning assets (4)	**$54,163**			$51,464		
Net interest margin (5)			**3.07 %**			3.07 %
Average interest-earning assets to average interest-bearing liabilities	**112.88 %**			112.29 %		

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

Table of Contents

Provision for Loan Losses. We establish provisions for loan losses that are charged to operations in order to maintain the allowance for loan losses at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. There was $345,000 charged to the provision for loan losses for the three months ended December 31, 2017 compared to a provision for loan loss of $780,000 for the three months ended December 31, 2016. In the current quarter, $206,000 of the provision for loan loss is attributable to net charge-offs while the remaining $139,000 is related to the overall growth within the loan portfolio, particularly residential mortgage loans that include $13.1 million in loans that were purchased during the quarter. For the quarter ending December 31, 2016, the $780,000 charged to the provision for loan losses included a $622,000 charge-off relating to one commercial real estate relationship.

The allowance for loan losses was $2.6 million, or 39.3% of non-performing loans at December 31, 2017 compared to $2.1 million, or 67.78% of non-performing loans at December 31, 2016. The lower percentage overall at December 31, 2017 is due to two commercial real estate relationships with a combined book balance of $4.5 million that are on nonaccrual. If these loans were excluded, the allowance for loan losses as a percentage of non-performing loans at December 31, 2017 would be 100.9%. These loans are reported at the estimated fair value of their underlying collateral and any respective charge-offs have been taken either this quarter or in prior periods.

During the three months ended December 31, 2017, loan charge-offs totaled $211,000 with recoveries of $5,000, compared to $677,000 in charge offs and $19,000 in recoveries during the three months ended December 31, 2016. During fiscal year 2018, we expect that we will continue our emphasis in growing organically 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 December 31,	
	2017	**2016**
	(dollars in thousands)	
Allowance for loan losses at beginning of period	**$2,471**	$1,942
Charge-offs:		
Real estate loans:		
Residential	**-**	52
Investor	**111**	-
Commercial	**100**	622

Commercial construction	**-**	-
Commercial business	**-**	-
Home equity	**-**	-
Consumer	**-**	3
Total charge-offs	**211**	677
Recoveries	**5**	19
Net charge-offs	**206**	658
Provision for loan losses	**345**	780
Allowance for loan losses at end of period	**$2,610**	$2,064
Allowance for loan losses to non-performing loans	**39.33%**	67.78%
Allowance for loan losses to total loans outstanding at the end of the period	**0.67%**	0.62%
Net charge-offs to average loans outstanding during the period (annualized)	**0.22%**	0.80%

60

Table of Contents

Noninterest Revenue. Noninterest revenue increased $175,000, or 60.6%, to $463,000 for the three-months ended December 31, 2017, compared to $288,000 for the three-months ended December 31, 2016. The following table outlines the changes in noninterest revenue for the three-month periods.

	Three months ended December 31,			
	2017	2016	$ Change	% Change
Service charges	**$109,151**	$104,882	$4,269	4.1
(Loss) gain on sale of investment securities	**(12,736)**	23,720	(36,456)	(153.7)
Gain on sale of loans held for sale	**-**	1,438	(1,438)	(100.0)
Gain (loss) on sale of property and equipment	**212,743**	(11,043)	223,786	2,026.5
Earnings on bank-owned life insurance	**123,597**	126,302	(2,705)	(2.1)
Other fees and commissions	**29,860**	42,784	(12,924)	(30.2)
Total noninterest revenue	**$462,615**	$288,083	$174,532	60.6

Noninterest revenue was impacted during the three months ended December 31, 2017 by increases in service charges and gains on sale of property and equipment, partially offset by decreases in gain on sale of investments and loans held for sale, other fees and commissions, and earnings on bank-owned life insurance.

Service charges associated with retail and commercial deposit products increased $4,000, or 4.1% during the three months ended December 31, 2017 compared to the same period a year ago due to an $11.3 million increase in our checking accounts period-over-period. Management is focused on growing core deposits, particularly checking accounts, which typically generate more service fee income. We continue to review and evaluate our retail fee structure to be more in-line with our market area. Customers, however, have become more cost conscious of fees and better manage their deposit relationship with the Bank.

The $213,000 gain on sale of property and equipment for the three months ended December 31, 2017 is related specifically to the sale of our Pigtown branch in Baltimore City, along with various furniture and equipment that was associated with the property. This branch is being relocated within the same community, but to a smaller, more efficient space that will provide operational cost savings. We are continuing to operate from the existing location in accordance with the sales agreement with the buyer until the new location is renovated and opened for operation, which is expected to be in March 2018.

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 ended December 31, 2017 compared to the three months ended December 31, 2016, 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 December 31, 2017 decreased

$19,000 to $11,000, compared to $30,000 for the same period a year ago.

The decrease in earnings on bank-owned life insurance (BOLI) is associated with lower interest rates offered by the insurance companies on the outstanding balance compared to the comparable period a year ago. The revenue earned from BOLI is exempt for tax purposes.

The other components that make up noninterest revenue for the three months ended December 31, 2017 include a decrease in gain on investment securities and gain on the sale of loans held for sale. The loss on sale of investment securities for the three months ended December 31, 2017 was associated with the sale of securities with a book value of $7.4 million. The securities were sold to provide additional liquidity.

Table of Contents

Noninterest Expense. Noninterest expense increased $213,000, or 6.8%, to $3.3 million for the three months ended December 31, 2017 compared to the three months ended December 31, 2016. The following table outlines the changes in noninterest expense for those periods.

	Three months ended December 31,			
	2017	2016	$ Change	% Change
Salaries and benefits	**$1,819,035**	$1,714,314	$104,721	6.1
Occupancy	**259,595**	234,310	25,285	10.8
Advertising	**22,487**	16,305	6,182	37.9
Furniture and equipment	**92,894**	93,058	(164)	(0.2)
Data processing	**176,114**	206,596	(30,482)	(14.8)
Legal services	**153,615**	47,831	105,784	221.2
Other professional services	**218,879**	284,979	(66,100)	(23.2)
Deposit insurance premiums	**91,470**	63,571	27,899	43.9
Foreclosed real estate expense and losses (gains)	**43,706**	(1,578)	45,284	2,869.7
Other operating	**452,423**	457,466	(5,043)	(1.1)
Total noninterest expense	**$3,330,218**	$3,116,852	$213,366	6.8

Overall our operating expenses have increased quarter-over-quarter due to costs associated with growing the loan portfolio and addressing other administrative matters, such as our charter conversion. Despite these increases, we have been able to manage a growing loan portfolio from an operational cost basis and continue to increase our interest revenue. This is reflected in our ability to essentially maintain our efficiency ratio at 81.2 percent for the three months ended December 31, 2017 compared to 80.0 percent for the three months ended December 31, 2016. We hope to realize some of the benefit of operating as a larger financial institution and utilize greater economies of scale going forward.

The largest increase in noninterest expenses quarter-over-quarter was in salaries and benefits, which increased $105,000. During the first quarter of fiscal 2018, the Company made strategic new hires that were focused on branch efficiency and new products. In addition, annual salary increases were awarded and the cost of health benefits increased, along with the cost recognized under our Employee Stock Ownership Plan resulting from the increase in our stock price over the past year. Also included in salaries and benefits for the three months ending December 31, 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 an 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.

Legal expense for the quarter ending December 31, 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 our charter conversion from a federal savings bank to a Maryland commercial bank. The charter conversion was approved and effective December 21, 2017. The charter conversion should reduce regulatory costs going forward. In addition, counsel has been sought to assist with compiling and reviewing agreements associated with loan purchases, as well as advise on the relocation of our Pigtown branch and other compliance matters. 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 problem borrowers.

Deposit insurance premiums increased due to the increase in the Bank's asset size and the rate assessed by the Federal Deposit Insurance Corporation ("FDIC"), the government agency that insures deposits. The rate assessed by the FDIC is formula based and considers several financial factors, including nonperforming loans. Foreclosed real estate expense also increased quarter-over-quarter due to a $32,000 write-down of one of the Bank's foreclosed real estate properties. This write-down was based upon a new appraisal obtained on the property. The remainder of foreclosed real estate expense is associated with the property taxes paid on the same property.

Table of Contents

Certain other non-interest expenses, including furniture and equipment, data processing, and other operating expenses 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. We are in the process of re-locating our Pigtown branch to a smaller space to reduce costs and continue to look for alternatives to making our branches more efficient. Other professional services decreased in part due to the end of our contractual obligation under a consulting and non-compete agreement with one of the former Fraternity executives. Roughly $145,000 was recognized in the prior year quarter that related to these agreements.

Income Tax Expense. We recorded tax expense of $2.4 million for the three months ended December 31, 2017 after pre-tax income of $425,000, compared to a tax benefit of $58,000 for the three months ended December 31, 2016 after pre-tax income of $1,000. The increase in tax expense for the quarter ended December 31, 2017 is directly related to the passage of the *Tax Cuts and Job Act* (the "Act") that was signed into law on December 22, 2017. The Act amended the Internal Revenue Code to reduce income tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Act reduces the federal corporate income tax rate from a maximum 35 percent to a flat 21 percent tax rate. As a result, our net deferred tax assets of $7.5 million, which were based upon a 34 percent corporate tax rate, had to be re-evaluated to reflect the new tax rate of 21 percent. This one-time non-cash adjustment is estimated to be $2.2 million and is recorded through income tax expense. The effective income tax rates for the three-month periods ending December 31, 2017 and 2016 are skewed due to the deferred tax revaluation adjustment and the low pre-tax income with offsetting tax-exempt items, respectively. 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 December 31, 2017, the Company reported net deferred tax assets of $5.2 million compared to $8.0 million at March 31, 2017. The change is primarily due to the revaluation of the deferred tax assets resulting from the passage of the *Tax Cuts and Job Act* discussed earlier, along with a decrease in net operating loss (NOL) carryforwards attributable to the net income reported for the first nine months 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 $54,000 at December 31, 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 December 31, 2017.

Results of Operations for the Nine Months Ended December 31, 2017 and 2016 (unaudited)

General. Net income for the nine months ended December 31, 2017 was a loss of $1.1 million, or $0.35 per common share, compared to net income of $48,000, or $0.01 per common share for the same period ended December 31, 2016. The decrease in net income was a result of the passage of the *Tax Cuts and Job Act* (the "Act") that was signed into law on December 22, 2017. The Act amended the Internal Revenue Code to reduce income tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Act reduces the federal corporate income tax rate from a maximum 35 percent to a flat 21 percent tax rate. As a result, our net deferred tax assets of $7.5 million, which were based upon a 34 percent corporate tax rate, had to be re-evaluated to reflect the new tax rate of 21 percent. This one-time non-cash adjustment is estimated to be $2.2 million and is recorded through income tax expense. Pre-tax income for the nine-month period ended December 31, 2017, however, was $1.5 million compared to a loss of $18,000 for the nine-month period ended December 31, 2016; a period-over-period increase of $1.6 million The increase in pre-tax income resulted from a $583,000 increase in net interest income, a $183,000 increase in noninterest revenue, a $415,000 decrease in the provision for loan losses, and a $376,000 decrease in noninterest expenses.

Table of Contents

Net Interest Income. Net interest income increased $583,000, or 5.7%, to $10.8 million for the nine months ended December 31, 2017 compared to $10.3 million for the nine months ended December 31, 2016. The increase in net interest income was due to a $977,000 increase in interest revenue, partially offset by a $395,000 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 $12.8 million, or 2.8%, for the first nine months of fiscal 2018 compared to the same period in fiscal 2017, while the average yield increased 18 basis points to 3.79% from 3.61%. The average balances increased period-over-period due in part to the acquisition of Fraternity, which occurred in May 2016. Over this same period, the Bank was also able to increase the average balance of higher interest-earning assets, particularly loans, both organically and through loan purchases.

Partially offsetting the increase in interest revenue was the $395,000 increase in interest expense for the nine-month period ended December 31, 2017 compared to the same period a year ago. This increase was due to the growth in the average balance of interest-bearing liabilities, particularly higher yielding borrowings, as well as an increase in the average cost of interest-bearing liabilities. The average balance of interest-bearing liabilities increased $10.3 million, or 2.5%, for the first nine months of fiscal 2018 compared to the same period in fiscal 2017, while the average yield increased 10 basis points to 0.81% from 0.71%. The increase in interest-bearing liabilities was impacted by the growth in borrowings that were used to help in funding a growing loan portfolio and a decreasing deposit base. Our net interest margin increased 8 basis points from 2.99% to 3.07% for the same two periods.

Interest Revenue. Interest revenue increased $977,000, or 7.9% to $13.4 million during the nine months ended December 31, 2017 compared to $12.4 million for the nine months ended December 31, 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.

Interest and fees on loans increased $865,000, or 7.8%, to $11.9 million for the nine months ended December 31, 2017, compared to $11.0 million for the nine months ended December 31, 2016. The increase in interest and fees on loans is due to a $43.2 million increase in the average balance of net loans from $310.9 million to $354.1 million period-over-period. The increase in average loans is attributable to the loans acquired in the Fraternity acquisition, which was completed in May 2016, as well as organic growth generated by our commercial lending area and strategic loan purchases over the past year. Partially offsetting the revenue derived from an increase in the average balance of loans is a 25-basis point decline in the average yield earned on loans from 4.73% for the nine months ended December 31, 2016 to 4.48% for the nine months ended December 31, 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 $160,000 to $1.4 million for the nine months ended December 31, 2017 from $1.2 million for the nine months ended December 31, 2016. The average balance of investment securities increased by $4.3 million, or 4.6%, to $97.3 million for the nine months ended December 31, 2017 from $93.0 million for the same period last year, while the average yield also increased 14 basis points to 1.91% from 1.77% for the same two periods. The largest increase in investment securities was in mortgage-backed securities, which increased $3.2

million to $73.6 million for the nine months ended December 31, 2017 from $70.4 million for the same period last year. The average balance of investment securities also increased for the nine-month period-over-period by $1.0 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. Investment balances have been declining since that time due to the need to provide liquidity to fund loan growth and a declining deposit base.

Table of Contents

Interest Expense. Interest expense increased $395,000, or 18.3%, to $2.5 million for the nine months ended December 31, 2017 compared to $2.2 million for the same period in fiscal 2017. The primary reason for this increase is due to the increase in the average balance and cost of borrowings, and to a lesser extent the increase in the cost of interest-bearing deposits, partially offset by a decrease in the average balance of those same deposits. For the nine-month period ended December 31, 2017, average interest-bearing borrowings were $44.0 million compared to an average balance of $25.5 million for the same period a year ago. The borrowings primarily consisted of advances from the Federal Home Loan Bank and have been utilized to help with funding a growing loan portfolio and a declining deposit base over the first nine months of fiscal 2018. At December 31, 2017, the Bank had $62.6 million in outstanding advances from the FHLB, including $13.0 million in borrowings assumed through the Fraternity and Fairmount acquisitions. Overall borrowings carried an average rate of 1.52% for the nine months ended December 31, 2017 compared to 1.01% for the nine-period ended December 31, 2016. Borrowing from the FHLB in today's low interest rate environment can be a more cost-effective means to obtain funds if deposits are not growing compared to selling investment securities that are earning a higher yield.

The average balance of interest-bearing deposits decreased $8.2 million to $373.2 million for the nine months ended December 31, 2017 from $381.4 million for the nine months ended December 31, 2016. The average cost of deposits though increased from 0.68% to 0.73% for those same periods. We have begun to increase the rates on a portion of our deposit products and run various deposit promotions as the demand for deposits is becoming more competitive in the marketplace. During the second quarter of fiscal 2018 and last quarter of fiscal 2017, we began to run a money market promotion with a 6-month promotional rate as a means to attract core deposits. As a result, the average cost associated with money market accounts increased from 0.33% to 0.52% for the nine-month periods ended December 31, 2016 and 2017, respectively.

For the nine-month period ended December 31, 2017, the average interest-bearing deposit balances increased for all types of deposits, except certificates of deposits, when compared to the same period last year. These increases are 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 core interest-bearing deposits increased $11.7 million, or 9.8%, to $132.0 million for the nine months ended December 31, 2017 compared to $120.3 million for the nine months ended December 31, 2016. The average balance of time deposits, however, decreased $19.2 million, or 7.6%, to $241.2 million for the nine months ended December 31, 2017 compared to $261.1 million for the nine months ended December 31, 2016. The decrease in time deposits is related to the competitive interest rate market, as well as the decrease in our customer base that is attributable to an aging demographic. To compensate for this decline, the Company entered into a contract and began utilizing a certificate of deposit subscription service in the third quarter of fiscal 2018. As a result, we have been able to obtain $10.6 million in certificate of deposits in the third quarter of fiscal 2018 through this service. The cost of these deposits is more expensive than traditional certificates of deposit because of the ability to provide the funding needed in a timely manner, but can be less costly than borrowing from the Federal Home Loan Bank or other source. We will continue to utilize this service as a funding source when other less costly means are not able to meet our funding requirements.

Noninterest-bearing deposits allow us to fund growth in interest-earning assets at minimal cost. Average noninterest-bearing deposits increased $6.1 million, or 25.9%, to $29.6 million for the nine months ended December 31, 2017, compared to $23.5 million for the nine months ended December 31, 2016. This increase resulted from the efforts of our cash management personnel and commercial loan officers working with commercial clients to move their deposit relationship to Hamilton Bank and the acquisition of Fraternity.

Table of Contents

Average Balances, Interest and Yields. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest revenue from average interest-earning assets, the dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing 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.

	Nine Months Ended December 31, (dollars in thousands)					
	2017			**2016**		
	Average Balance	**Interest**	**Yield/ Cost**	**Average Balance**	**Interest**	**Yield/ Cost**
Interest-earning assets:						
Cash and cash equivalents	**$19,636**	**$100**	**0.68 %**	$54,294	$148	0.36 %
Investment securities (1)	**23,635**	**446**	**2.52 %**	22,607	408	2.41 %
Mortgage-backed securities	**73,637**	**951**	**1.72 %**	70,397	829	1.57 %
Loans receivable, net (2)	**354,132**	**11,891**	**4.48 %**	310,922	11,026	4.73 %
Total interest-earning assets	**471,040**	**13,388**	**3.79 %**	458,220	12,411	3.61 %
Noninterest-earning assets	**43,526**			39,905		
Total assets	**$514,566**			$498,125		
Interest-bearing liabilities:						
Certificates of deposit	**$241,176**	**$1,753**	**0.97 %**	$261,096	$1,759	0.90 %
Money Market	**62,308**	**243**	**0.52 %**	60,441	148	0.33 %
Statement savings	**43,771**	**41**	**0.12 %**	42,956	49	0.15 %
NOW accounts	**25,966**	**7**	**0.04 %**	16,910	3	0.02 %
Total interest-bearing deposits	**373,221**	**2,044**	**0.73 %**	381,403	1,959	0.68 %
Borrowings	**44,022**	**503**	**1.52 %**	25,547	193	1.01 %
Total interest-bearing liabilities	**417,243**	**2,547**	**0.81 %**	406,950	2,152	0.71 %
Noninterest-bearing liabilities and equity:						
Noninterest-bearing deposits	**29,585**			23,501		
Other noninterest-bearing liabilities	**6,604**			6,460		
Total liabilities	**453,432**			436,911		
Total shareholders’ equity	**61,134**			61,214		
Total liabilities and shareholders’ equity	**$514,566**			$498,125		
Net interest income		**$10,841**			$10,259	
Net interest rate spread (3)			**2.98 %**			2.91 %
Net interest-earning assets (4)	**$53,797**			$51,270		
Net interest margin (5)			**3.07 %**			2.99 %
Average interest-earning assets to average interest-bearing liabilities	**112.89 %**			112.60 %		

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

Table of Contents

Provision for Loan Losses. We establish provisions for loan losses that are charged to operations in order to maintain the allowance for loan losses at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. There was $625,000 charged to the provision for loan losses for the nine months ended December 31, 2017 compared to a provision for loan loss of $1.0 million for the nine months ended December 31, 2016. The $625,000 provision for loan loss recorded for the first nine months of fiscal 2018 is attributable to the overall growth within the loan portfolio and net charge-offs of $210,000. The growth within the loan portfolio is in part due to the residential mortgage, commercial business, and consumer loan portfolios purchased throughout the year. For the nine-month period ending December 31, 2016, $622,000 of the $1.0 million charged to the provision for loan loss was related to a charge-off associated with one commercial real estate relationship. The remaining provision, for the most part, was not a product of charge-offs, as reflected in the table below.

The allowance for loan losses was $2.6 million, or 39.3% of non-performing loans at December 31, 2017 compared to $2.1 million, or 67.8% of non-performing loans at December 31, 2016. The lower percentage overall at December 31, 2017 is due to two commercial real estate relationships with a combined book balance of $4.5 million that are on nonaccrual. If these loans were excluded, the allowance for loan losses as a percentage of non-performing loans at December 31, 2017 would be 100.9%. These loans are reported at the estimated fair value of their underlying collateral and any respective charge-offs have been taken either this quarter or in prior periods.

During the nine months ended December 31, 2017, loan charge-offs totaled $236,000 with recoveries of $26,000, compared to $724,000 in charge-offs and $46,000 in recoveries during the nine months ended December 31, 2016. During fiscal year 2018, we expect that we will continue our emphasis in organically 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.

	Nine Months Ended December 31,	
	2017	**2016**
	(dollars in thousands)	
Allowance for loan losses at beginning of period	**$2,195**	$1,702
Charge-offs:		
Real estate loans:		
Residential	**9**	96

Investor	**126**	-
Commercial	**100**	622
Construction	**-**	-
Commercial business	**-**	2
Home equity	**-**	-
Consumer	**1**	4
Total charge-offs	**236**	724
Recoveries	**26**	46
Net charge-offs	**210**	678
Provision for loan losses	**625**	1,040
Allowance for loan losses at end of period	**$2,610**	$2,064
Allowance for loan losses to non-performing loans	**39.33%**	67.78%
Allowance for loan losses to total loans outstanding at the end of the period	**0.67%**	0.62%
Net charge-offs to average loans outstanding during the period (annualized)	**0.08%**	0.28%

Table of Contents

Noninterest Revenue. Noninterest revenue increased $183,00, or 21.8%, to $1.0 million for the nine months ended December 31, 2017, compared to $840,000 for the nine months ended December 31, 2016. The following table outlines the changes in noninterest revenue for the nine-month periods.

	Nine months ended December 31,			
	2017	2016	$ Change	% Change
Service charges	**$347,201**	$319,489	$27,712	8.7
(Loss) gain on sale of investment securities	**(2,356)**	23,720	(26,076)	(109.9)
Gain on sale of loans held for sale	**-**	23,047	(23,047)	(100.0)
Gain (loss) on sale of property and equipment	**212,743**	(11,043)	223,786	(2,026.5)
Earnings on bank-owned life insurance	**369,991**	364,928	5,063	1.4
Other fees and commissions	**95,972**	119,937	(23,965)	(20.0)
Total noninterest revenue	**$1,023,551**	$840,078	$183,473	21.8

Noninterest revenue was impacted during the nine months ended December 31, 2017 by increases in service charges, gain on sale of property and equipment, and earnings on bank-owned life insurance, partially offset by decreases in gain on sale of investments and loans held for sale, along with other fees and commissions.

Service charges associated with retail and commercial deposit products increased $28,000, or 8.7% during the nine months ended December 31, 2017 compared to the same period a year ago due to an $11.3 million increase in our checking accounts period-over-period. Management is continually focused on growing core deposits, particularly checking accounts, which typically generate more service fee income. We continuously review and evaluate our retail fee structure on transactional accounts to be more in-line with our market area. Customers, however, have become more cost conscious of fees and better manage their deposit relationship with the Bank.

The $213,000 gain on sale of property and equipment for the nine months ended December 31, 2017 is related specifically to the December 2017 sale of our Pigtown branch in Baltimore City, along with various furniture and equipment that was associated with the property. This branch is being relocated within the same community, but to a smaller, more efficient space that will provide operational cost savings. We are continuing to operate from the existing location in accordance with the sales agreement with the buyer until the new location is renovated and opened, which is expected to be in March 2018.

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 May 2016. The revenue earned from an increase in the average balance, is partially offset by a decrease in the rate earned on the outstanding BOLI policies, else revenue would have been higher. The revenue earned from BOLI is exempt for tax purposes.

Offsetting the increases in noninterest revenue for the nine months ended December 31, 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 to better manage interest rate risk in a rising rate environment. During the second half of fiscal 2017, however, the Company began to hold in portfolio our residential loan originations to partially offset the increased run-off associated with this loan type. Consequently, there were no loans sold during the first nine months of fiscal 2018 compared to the same period last last year in which several loans were sold at a gain of $23,000.

Other fees and commissions include loan fees charged to customers, merchant credit card fees, and other smaller fees. The decrease with respect to the nine months ended December 31, 2017 compared to nine months ended December 31, 2016, is primarily related to loan fees. Loan fees include various charges to customers for loan applications, processing, and/or extensions. Loan fees for the nine months ending December 31, 2017 declined $40,000 to $49,000, compared to $89,000 for the same period a year ago.

Table of Contents

Gains on investment securities are also reported as noninterest revenue. During fiscal 2018 we sold investment securities with a book value of $11.6 million and recognized a loss of $2,000 for the nine months ended December 31, 2017. For the comparable nine-month period ended December 31, 2016, investment securities with a book value of $4.3 million were sold and a gain of $24,000 was recognized.

Noninterest Expense. Noninterest expense decreased $376,000, or 3.7%, to $9.7 million for the nine months ended December 31, 2017 compared to $10.1 million for the nine months ended December 31, 2016. The following table outlines the changes in noninterest expense for those periods.

	Nine months ended December 31,			
	2017	2016	$ Change	% Change
Salaries and benefits	**$5,531,033**	$5,149,222	$381,811	7.4
Occupancy	**759,848**	709,081	50,767	7.2
Advertising	**63,685**	91,635	(27,950)	(30.5)
Furniture and equipment	**262,632**	290,818	(28,186)	(9.7)
Data processing	**522,469**	583,407	(60,938)	(10.4)
Legal services	**374,610**	161,278	213,332	132.3
Other professional services	**611,699**	808,309	(196,610)	(24.3)
Merger related expenses	**-**	219,417	(219,417)	(100.0)
Branch consolidation expense	**-**	437,424	(437,424)	(100.0)
Deposit insurance premiums	**222,359**	251,759	(29,400)	(11.7)
Foreclosed real estate expense and losses	**45,005**	6,530	38,475	589.2
Other operating	**1,306,791**	1,367,726	(60,935)	(4.5)
Total noninterest expense	**$9,700,131**	$10,076,606	$(376,475)	(3.7)

The decline in noninterest expense is primarily the result of non-recurring costs incurred in the prior year period ended December 31, 2016, including $219,000 in merger related expenses associated with the completion of our most recent acquisition of Fraternity and $437,000 in costs relating to the closing of one of our branch locations due to branch overlap from that same acquisition. Merger related expenses include fees paid to attorneys, investment bankers and accountants, data conversion, as well as other related costs. Excluding the acquisition and branch consolidation expense, overall operating expenses for the comparative periods has increased slightly as a result of a growing loan portfolio and revenue base. The elimination of acquisition related costs and the economies of scale achieved through those same acquisitions is reflected in the improvement of our efficiency ratio from 90.8% for the nine months ended December 31, 2016 to 81.7% for the nine months ended December 31, 2017. We are realizing the benefit of operating as a larger financial institution and the ability to offset expenses against greater revenue.

Certain noninterest expenses, including furniture and equipment, data processing, and other operating expenses, 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. Advertising expense decreased because we hired a full-time marketing director versus outsourcing to a third-party vendor. Federal deposit insurance premiums were lower due to a decrease in the average rate assessed by the Federal Deposit Insurance Corporation, the government agency that insures deposits, while other professional services decreased in part due to the end of our contractual obligation under a consulting and non-compete agreement with one of the former Fraternity executives.

The largest increase in noninterest expenses for the nine-month period-over-period was in salaries and benefits, which increased $382,000. During the nine months ended December 31, 2017, the Company made strategic new hires that are focused on branch efficiency and new products. In addition, annual increases were awarded and annual bonus accruals are adjusted based upon certain matrices. In the prior year period, the bonus accrual was stopped and reversed based upon the net loss reported at that time. Also included in salaries and benefits for the nine months ended December 31, 2017 and 2016, is $241,000 and $237,000 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 an 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 $104,000 and $89,000 in expense, respectively, associated with equity awards granted to directors.

Legal expense for the nine months ended December 31, 2017 increased over the same period a year ago. The increase in legal costs is due in part to management's engagement of counsel to assist with our charter conversion from a federal savings bank to a Maryland commercial bank. The charter conversion was approved and effective December 21, 2017. The charter conversion should reduce regulatory costs going forward. In addition, counsel has been sought to assist with compiling and reviewing agreements associated with loan purchases, as well as advise on the relocation of our Ellicott City and Pigtown branches and other compliance issues. 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 relocation of our Ellicott City branch within the same geographic area of Howard County during the second quarter of fiscal 2018. Due to 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 period associated with the relocation that were not capitalized. The new branch location in Ellicott City opened in July 2017.

Foreclosed real estate expense also increased quarter-over-quarter due to a $32,000 write-down of one of the Bank's foreclosed real estate properties during the current quarter. This write-down was based upon a new appraisal obtained on the property. The remainder of foreclosed real estate expense is associated with the property taxes paid on that same property.

Income Tax Expense. We recorded tax expense of $2.7 million for the nine months ended December 31, 2017 after pre-tax income of $1.5 million, compared to a tax benefit of $65,000 for the nine months ended December 31, 2016 after a pre-tax net loss of $18,000. The increase in tax expense for the nine-month period ended December 31, 2017 is directly related to the passage of the *Tax Cuts and Job Act* (the "Act") that was signed into law on December 22, 2017. The Act amended the Internal Revenue Code to reduce income tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Act reduces the federal corporate income tax rate from a maximum 35 percent to a flat 21 percent tax rate. As a result, our net deferred tax assets of $7.5 million, which were based upon

a 34 percent corporate tax rate, had to be re-evaluated to reflect the new tax rate of 21 percent. This one-time non-cash adjustment is estimated to be $2.2 million and was recorded through income tax expense during the quarter ending December 31, 2017. The effective income tax rates for the nine-month periods ending December 31, 2017 and 2016 are skewed due to the deferred tax revaluation adjustment and the low pre-tax income with offsetting tax-exempt items, respectively. 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 December 31, 2017, the Company reported net deferred tax assets of $5.2 million compared to $8.0 million at March 31, 2017. The change is primarily due to the revaluation of the deferred tax assets resulting from the passage of the *Tax Cuts and Job Act* discussed earlier, along with a decrease in net operating loss (NOL) carryforwards attributable to the net income reported for the first nine months 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 $54,000 at December 31, 2017 because the Company believes that a portion of the state operating loss carryforwards and state tax credit carryforwards will not be utilized.

Table of Contents

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 December 31, 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.

We also have the ability to borrow from the FHLB to meet our funding and liquidity needs. At December 31, 2017, we had $62.6 million in borrowings from the FHLB, of which $13.0 million were assumed through acquisitions, and the capacity to borrow approximately $64.8 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 December 31, 2017, cash and cash equivalents totaled $10.1 million and securities classified as available-for-sale amounted to $79.4 million.

Total deposits decreased $20.1 million over the nine months ended December 31, 2017, while decreasing $15.6 million since December 31, 2016, including $16.0 million in deposits in the last half of fiscal 2017 associated with one deposit customer. The $16.0 million in deposits consisted of money market accounts and was expected to be short-term. 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 an increased 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 and potential loan purchases. Certificates of deposit allow us to lock in those funds for an extended period based upon current interest rates. At December 31, 2017, certificates of deposit scheduled to mature within one year totaled $124.5 million, or 50.8% of certificates of deposit. The 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, expectation of rising rates, and local competitive pressures. Whether we retain these deposits will be determined in part by the interest rates we are willing to pay on such deposits. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on certificates of deposit due on or before December 31, 2018.

Table of Contents

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, unused lines of credit and letters of credit. At December 31, 2017, we had $49.8 million in commitments to extend credit outstanding.

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

At December 31, 2017, we exceeded all 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 December 31, 2017, our common equity to Tier 1 capital was $41.1 million, or 11.01%, 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 $41.1 million and $40.1 million, or 8.19% and 8.28% of adjusted total assets, at December 31, 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 $25.1 million, or 5.0% of adjusted assets, as of December 31, 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 December 31, 2017 and March 31, 2017, we had total risk-based capital ratios of 11.73% and 12.81%, respectively, and Tier 1 risk-based capital ratios of 11.01% and 12.13%, respectively. Our regulatory risk weighted capital ratios decreased during the first nine months 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.

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.

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

Table of Contents

SIGNATURES

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

	HAMILTON BANCORP, INC.
Date: February 14, 2018	/s/ Robert A. DeAlmeida Robert A. DeAlmeida President and Chief Executive Officer
Date: February 14, 2018	/s/ John P. Marzullo John P. Marzullo Senior Vice President, Chief Financial Officer and Treasurer