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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from _______________ to _______________

Commission File No. 001-35693

Hamilton Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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

(410) 823-4510

(Registrant's telephone number)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	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 August 14, 2017.

Table of Contents

Hamilton Bancorp, Inc. and Subsidiaries

Form 10-Q

Index

Table of Contents

Part I. – Financial Information

Item 1. Financial Statements

HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Financial Condition

June 30, 2017 and March 31, 2017

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

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

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

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Operations (Unaudited)

Three Months Ended June 30, 2017 and 2016

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

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

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

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Comprehensive Income (Unaudited)

Three Months Ended June 30, 2017 and 2016

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

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

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Three Months Ended June 30, 2017 and 2016

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

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

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

Three Months Ended June 30, 2017 and 2016

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

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

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

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

(Continued)

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

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

6

HAMILTON BANCORP, INC AND SUBSIDIARY

Form 10-Q

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2017

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

Nature of Operations

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

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

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

On September 11, 2015, the Company completed its acquisition of Fairmount Bancorp, Inc. ("Fairmount Bancorp") through the merger of Fairmount Bancorp, the parent company of Fairmount Bank, with and into the Company pursuant to the Agreement and Plan of Merger dated as of April 15, 2015, by and between the Company and Fairmount Bancorp. As a result of the merger, each shareholder of Fairmount Bancorp received a cash payment equal to thirty dollars ($30.00) for each share of Fairmount Bancorp common stock, or an aggregate of approximately $15.4 million. Immediately following the merger of Fairmount Bancorp into the Company, Fairmount Bank was merged with and into the Bank, with the Bank as the surviving entity.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and with instructions for Form 10–Q and Regulation S–X as promulgated by the Securities and Exchange Commission (the “SEC”). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the preceding unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. We derived the balances as of March 31, 2017 from audited financial statements. Operating results for the three months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2018, or any other period. For further information, refer to the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended March 31, 2017. Certain amounts from prior period financial statements have been reclassified to conform to the current period’s presentation.

Summary of Significant Accounting Policies

The accounting and reporting policies of Hamilton Bancorp, Inc. and Subsidiary (“Hamilton”) conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”) and to general practices in the banking industry. The more significant policies follow:

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

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

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

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

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

Loans Receivable. The Bank makes mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout the Baltimore metropolitan area. The ability of the Bank's debtors to repay their loans is dependent upon the real estate and general economic conditions in this area.

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

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

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

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

Reduction of the stated interest rate;

Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk;

Reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement; or

Reduction of accrued interest

Accounting for Certain Loans or Debt Securities Acquired in a Transfer. The loans acquired from the Company's acquisition of Fraternity on May 13, 2016 and Fairmount on September 11, 2015 (see Note 3 "Acquisitions") were recorded at fair value at the acquisition date and no separate valuation allowance was established. The initial fair values were determined by management, with the assistance of an independent valuation specialist, based on estimated expected cash flows discounted at appropriate rates. The discount rates were based on market rates for new originations of comparable loans and did not include a separate factor for loan losses as that was included in the estimated cash flows.

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

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

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

Note 2: New Accounting Pronouncements

Recent Accounting Pronouncements

ASU No. 2017-09, Compensation – Stock Compensation (Topic 718). The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the following are met: 1.) The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification, 2.) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified and, 3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this. This guidance is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

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

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

Table of Contents

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

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

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

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

Table of Contents

ASU No. 2016-01, Financial Instruments – Recognition and Measurement of Financial Assets and Liabilities. This ASU requires equity investments to be measured at fair value with changes in fair value recognized in net income, excluding equity investments that are consolidated or accounted for under the equity method of accounting. The amendment allows equity investments without readily determinable fair values to be measured at cost minus impairment, with a qualitative assessment required to identify impairment. The amendment also requires public companies to use exit prices to measure the fair value of financial instruments purposes; requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statement; it eliminates the disclosure requirements related to measurement assumptions for the fair value of instruments measured at amortized cost. In addition, for liabilities measured at fair value under the fair value option, to present in other comprehensive income changes in fair value due to changes in instrument specific credit risk. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. This update eliminates the requirement to retrospectively adjust the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill. These adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date that if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. The update also requires the nature of and reason for the business combination, to be disclosed in the consolidated financial statements. ASU 2015-16 became effective for fiscal years beginning after December 15, 2015, and was not material to the consolidated financial statements. All measurement period adjustments related to the acquisition of Fairmount and Fraternity were recorded in the period in which the adjustments were determined.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance in this update is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, but not before the original effective date of December 15, 2016. The Company is evaluating the guidance in this update but does not believe it will have a material impact on its consolidated financial statements.

Note 3: Acquisition

Fraternity Community Bancorp, Inc.

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

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

Table of Contents

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

	As recorded by Fraternity Community Bancorp, Inc.	Fair Value Adjustments		As recorded by Hamilton Bancorp, Inc.
Identifiable assets:				
Cash and cash equivalents	$15,196,058	$-		$15,196,058
Investment securities available for sale	17,570,712	-		17,570,712
FHLB Bank Stock	782,600	-		782,600
Loans	108,872,041	(67,858)	A	108,804,183
Allowance For Loan Loss	(1,550,000)	1,550,000	A	-
Premises and equipment	691,095	78,711	B	769,806
Bank-Owned Life Insurance	5,058,041	-		5,058,041
Deferred income taxes	2,743,481	(410,377)	C	2,333,104
Other assets	2,877,665	-		2,877,665
Total identifiable assets	$152,241,693	$1,150,476		$153,392,169
Identifiable liabilities:				
Non-interest bearing deposits	1,242,187	-		1,242,187
Interest bearing deposits	107,648,792	1,098,131	D	108,746,923
Borrowings	15,000,000	793,537	E	15,793,537
Other liabilities	4,023,914	-		4,023,914
Total identifiable liabilities	$127,914,893	$1,891,668		$129,806,561
Net tangible assets acquired	24,326,800	(741,192)		23,585,608
Definite lived intangible assets acquired	-	242,020		242,020
Goodwill	-	1,877,243		1,877,243
Net intangible assets acquired	-	2,119,263		2,119,263
Total cash consideration	$24,326,800	$1,378,071		$25,704,871

Explanation of fair value adjustments:

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

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

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

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

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

Prior to the end of the May 13, 2016 measurement period, if information became available which indicated the purchase price allocations require adjustments, we included such adjustments in the purchase price allocation retrospectively.

Of the total estimated purchase price, we have allocated $23.6 million to net tangible assets acquired and we have allocated $242,020 to the core deposit intangible which is a definite lived intangible asset. We have allocated the remaining purchase price to goodwill, which is deductible for income tax purposes. We will amortize the core deposit intangible on a straight-line basis over its estimated useful life of eight years. We will evaluate goodwill annually for impairment.

Table of Contents

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

	Contractually Required Payments Receivable	**Non-Accretable Credit Adjustments**	**Cash Flows Expected To Be Collected**	**Accretable FMV Adjustments**	**Carrying Value of Loans Receivable**
Performing loans acquired	$107,474,993	$ -	$107,474,993	$ 301,672	$107,776,665
Impaired loans acquired	1,397,048	(314,484)	1,082,564	(55,046)	1,027,518
Total	**$108,872,041**	**$ (314,484)**	**$108,557,557**	**$ 246,626**	**$108,804,183**

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

We had an independent third party assist us to determine the fair value of cash flows on $107,474,993 of performing loans. The valuation took into consideration the loans' underlying characteristics, including account types, remaining terms, annual interest rates, interest types, past delinquencies, timing of principal and interest payments, current market rates, loan to value ratios, loss exposures, and remaining balances. These performing loans were segregated into pools based on loan and payment type and in some cases, risk grade. The effect of this fair valuation process was a net accretable premium adjustment of $301,672 at acquisition.

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

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

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

Table of Contents

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

	Three months ended June 30,	
	2017	2016
Legal	$-	$46,419
Professional services	-	87,050
Other	-	54,682
Total merger related expenses	$-	$188,151

Note 4: Earnings per Share

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

Both the basic and diluted earnings per share for the three months ended June 30, 2017 and 2016 are summarized below:

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

During the three months ending June 30, 2016, none of the common stock equivalents were dilutive due to the loss reported during that period.

Note 5: Investment Securities Available for Sale

The amortized cost and fair value of securities at June 30, 2017 and March 31, 2017, are summarized as follows:

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

Table of Contents

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

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

As of June 30, 2017 and March 31, 2017, all mortgage-backed securities are backed by U.S. Government-Sponsored Enterprises (GSE's), except one private label mortgage-backed security that was acquired in the Fraternity acquisition in May 2016 with a book value of $93,282 and fair value of $98,333 as of June 30, 2017.

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

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

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

17

Table of Contents

The following table presents the Company's investments' gross unrealized losses and the corresponding fair values by investment category and length of time that the securities have been in a continuous unrealized loss position at June 30, 2017 and March 31, 2017.

	Less than 12 months		12 months or longer		Total	
June 30, 2017	Gross Unrealized losses	Fair value	Gross Unrealized losses	Fair value	Gross Unrealized losses	Fair value
U.S. government agencies	**$13,142**	**$2,749,979**	**$-**	**$-**	**$13,142**	**$2,749,979**
Municipal bonds	**618,977**	**14,273,701**	**-**	**-**	**618,977**	**14,273,701**
Corporate bonds	**-**	**-**	**80,504**	**1,919,496**	**80,504**	**1,919,496**
Mortgage-backed securities	**761,162**	**57,857,120**	**269,104**	**7,075,161**	**1,030,266**	**64,932,281**
	$1,393,281	**$74,880,800**	**$349,608**	**$8,994,657**	**$1,742,889**	**$83,875,457**

	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

Note 6: Loans Receivable and Allowance for Loan Losses

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

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

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

"Legacy" and loans acquired from Fraternity Community Bancorp, Inc. and Fairmount Bancorp, Inc. "Acquired".

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

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

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

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

A substantial portion of the Bank's loan portfolio is real estate loans secured by residential and commercial real estate properties located in the Baltimore metropolitan area. Loans are extended only after evaluation of a customer's creditworthiness and other relevant factors on a case-by-case basis. The Bank generally does not lend more than 75% - 95% of the appraised value of a property, depending on the type of loan, and requires private mortgage insurance on residential mortgages with loan-to-value ratios in excess of 80%. In addition, the Bank generally obtains personal guarantees of repayment from borrowers and/or others for construction loans and disburses the proceeds of those and similar loans only as work progresses on the related projects.

Table of Contents

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

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

The following table details activity in the allowance for loan losses by portfolio segment for the three months ended June 30, 2017 and 2016. The allowance for loan losses allocated to each portfolio segment is not necessarily indicative of future losses in any particular portfolio segment and does not restrict the use of the allowance to absorb losses in other portfolio segments.

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

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

Table of Contents

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

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

Table of Contents

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

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

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

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

Table of Contents

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

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

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

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

Table of Contents

	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.

Table of Contents

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

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

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

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

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

A summary of TDRs at June 30, 2017 and March 31, 2017 follows:

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

Table of Contents

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

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

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

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

	Defaulted During the Three	Defaulted During the Three Months

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

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

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

Table of Contents

Credit quality indicators

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

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

Pass

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

Special Mention

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

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

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

Substandard

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

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

Doubtful

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

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

Table of Contents

Loss

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

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

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

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

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

Table of Contents

The Bank's maximum exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the credit commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. The Bank has established an off-balance sheet reserve for potential losses associated with any outstanding commitment or unused line of credit. The off balance sheet reserve is a percentage of the outstanding commitment or unused line of credit that is based upon a discounted charge-off history associated with each respective loan segment. The reserve at June 30, 2017 and March 31, 2017 totaled $63,000 and $55,000, respectively. At June 30, 2017, management is not aware of any accounting loss to be incurred by funding these loan commitments at this time.

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

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

Note 7: Goodwill and Other Intangible Asset

The Company's intangible assets (goodwill and core deposit intangible) at March 31, 2017 consists of assets recorded in December 2009 associated with the acquisition of a branch office in Pasadena, Maryland and the acquisition of Fairmount and Fraternity in September 2015 and May 2016, respectively. Only the goodwill related to the branch office acquisition in the amount of $2.7 million is deductible for tax purposes. We evaluate goodwill and other intangible assets for impairment on an annual basis. The core deposit intangible asset is being amortized straight-line over a life of eight years.

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

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

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

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

The post acquisition adjustment to goodwill shown in the table above for the prior year period represents a $451,000 write-down of several owner-occupied residential investor loans to one borrower that were acquired in the Fairmount acquisition and recording of a deferred tax asset of $544,000 for the net operating loss (NOL) from Fairmount's final tax return. With regards to the investor loans, information we were not aware of at the time of the acquisition became available during the quarter ended June 30, 2016. Had we known this information at the time of the acquisition, we would have deemed these loans as impaired and valued them accordingly.

Table of Contents

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

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

Note 8: Derivative – Interest Rate Swap Agreement

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

Interest Rate SWAPS Designated as Cash Flow Hedges

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

Table of Contents

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

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

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

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

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

Interest Rate SWAPS Designated as Fair Value Hedges

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

During the second quarter of fiscal 2016, the Company entered into the interest rate swap agreement with a $3.3 million notional amount to convert a fixed rate commercial real estate loan at 3.99% into a variable rate for a term of approximately 10 years. The notional amount of the interest rate swap and the offsetting commercial real estate loan were $3.2 million at June 30, 2017. The derivative is designated as a fair value hedge.

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

The fair value hedge is summarized below:

	June 30, 2017			March 31, 2017		
	Notional Amount	**Principal Amount**	**Fair Value**	Notional Amount	Principal Amount	Fair Value
Included in Loans and Leases:						