Hamilton Bancorp, Inc.
Form 10-Q
November 14, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission File No. 001-35693

Hamilton Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**46-0543309**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization) 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 every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]

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

Large accelerated filer [ ] Accelerated filer [ ]
Non-accelerated filer [X] Smaller reporting company [X]

Emerging growth company [ ]

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

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

YES [ ] NO [X]

The Registrant's common stock, par value $0.01 per share, consisted of 3,416,414 shares issued and outstanding as of November 14, 2018.

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Hamilton Bancorp, Inc. and Subsidiary

Form 10-Q

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Part I. – Financial Information

Item 1. Financial Statements

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

September 30, 2018 and March 31, 2018

	September 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Assets		
Assets		
Cash and due from banks	**$14,536,572**	$15,488,396
Federal funds sold	**7,489,263**	7,880,019
Cash and cash equivalents	**22,025,835**	23,368,415
Certificates of deposit held as investment	**499,144**	499,189
Securities available for sale, at fair value	**68,862,989**	75,404,136
Federal Home Loan Bank stock, at cost	**2,782,400**	3,122,400
Loans	**375,939,704**	390,420,885
Allowance for loan losses	**(3,030,929)**	(2,821,903)
Net loans and leases	**372,908,775**	387,598,982
Premises and equipment, net	**3,842,489**	3,945,825
Foreclosed real estate	**587,978**	457,778
Accrued interest receivable	**1,506,290**	1,468,382
Bank-owned life insurance	**17,684,501**	17,455,850
Income taxes refundable	**40,000**	40,000
Goodwill and other intangible assets	**9,113,731**	9,176,764
Other assets	**2,333,117**	2,995,741
Total Assets	**$502,187,249**	$525,533,462
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	**$28,816,887**	$29,557,943
Interest-bearing deposits	**359,653,728**	375,585,032
Total deposits	**388,470,615**	405,142,975
Borrowings	**53,551,896**	60,672,140
Advances by borrowers for taxes and insurance	**1,216,584**	1,962,665
Other liabilities	**3,488,645**	3,679,550
Total liabilities	**446,727,740**	471,457,330

Commitments and contingencies	**-**	-
Shareholders' Equity		
Common stock, $.01 par value, 100,000,000 shares authorized. Issued and outstanding: 3,416,414 shares at September 30, 2018 and 3,407,613 shares at March 31, 2018	**34,164**	34,076
Additional paid in capital	**32,364,652**	32,113,534
Retained earnings	**27,464,461**	25,920,490
Unearned ESOP shares	**(2,073,680)**	(2,073,680)
Accumulated other comprehensive loss	**(2,330,088)**	(1,918,288)
Total shareholders' equity	**55,459,509**	54,076,132
Total Liabilities and Shareholders' Equity	**$502,187,249**	$525,533,462

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

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HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations (Unaudited)

Three and Six Months Ended September 30, 2018 and 2017

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Interest revenue				
Loans, including fees	**$4,403,945**	$3,938,627	**$8,811,889**	$7,786,639
U.S. treasuries, government agencies and FHLB stock	**63,214**	46,513	**116,903**	79,198
Municipal and corporate bonds	**94,654**	112,571	**189,065**	226,540
Mortgage-backed securities	**265,395**	314,572	**540,403**	653,478
Federal funds sold and other bank deposits	**113,532**	26,738	**224,251**	81,146
Total interest revenue	**4,940,740**	4,439,021	**9,882,511**	8,827,001
Interest expense				
Deposits	**920,018**	669,605	**1,795,082**	1,330,063
Borrowed funds	**272,439**	158,634	**531,028**	292,904
Total interest expense	**1,192,457**	828,239	**2,326,110**	1,622,967
Net interest income	**3,748,283**	3,610,782	**7,556,401**	7,204,034
Provision for loan losses	**242,496**	120,000	**302,496**	280,000
Net interest income after provision for loan losses	**3,505,787**	3,490,782	**7,253,905**	6,924,034
Noninterest revenue				
Service charges	**120,966**	118,851	**241,549**	238,050
Gain on sale of investment securities	**-**	10,381	**-**	10,381
Gain on sale of loans held for sale	**16,331**	-	**25,873**	-
Earnings on bank-owned life insurance	**115,126**	123,818	**228,651**	246,393
Other	**43,793**	41,394	**90,917**	66,112
Total noninterest revenue	**296,216**	294,444	**586,990**	560,936
Noninterest expenses				
Salaries	**1,527,455**	1,510,515	**2,995,036**	2,970,512
Employee benefits	**334,301**	348,313	**746,144**	741,487
Occupancy	**243,186**	239,415	**515,014**	500,253
Advertising	**14,958**	14,170	**31,982**	41,198
Furniture and equipment	**78,972**	85,754	**169,271**	169,738
Data processing	**208,888**	181,506	**401,541**	346,356
Legal services	**67,623**	119,104	**123,962**	220,994
Other professional services	**103,219**	212,519	**201,535**	392,820
Deposit insurance premiums	**112,821**	73,762	**213,930**	130,890
Foreclosed real estate expense and losses	**9,302**	113	**9,302**	1,299

Other operating	**436,740**	431,717	**889,207**	854,366
Total noninterest expense	**3,137,465**	3,216,888	**6,296,924**	6,369,913
Income before income taxes	**664,538**	568,338	**1,543,971**	1,115,057
Income tax expense	**-**	157,585	**-**	311,927
Net Income	**$664,538**	$410,753	**$1,543,971**	$803,130
Net income per common share:				
Basic	**$0.21**	$0.13	**$0.48**	$0.25
Diluted	**$0.21**	$0.13	**$0.48**	$0.25

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

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HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income (Unaudited)

Three and Six Months Ended September 30, 2018 and 2017

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Net income	**$664,538**	$410,753	**$1,543,971**	$803,130
Other comprehensive (loss) income:				
Unrealized (loss) gain on investment securities available for sale	**(345,784)**	87,905	**(605,645)**	637,248
Reclassification adjustment for realized gain on investment securities available for sale included in net income	**-**	(10,381)	**-**	(10,381)
Total unrealized (loss) gain on investment securities available for sale	**(345,784)**	77,524	**(605,645)**	626,867
Unrealized gain (loss) on derivative transactions	**95,806**	26,710	**193,845**	(183,238)
Income tax expense relating to investment securities available for sale and derivative transactions	**-**	41,114	**-**	174,990
Other comprehensive (loss) income	**(249,978)**	63,120	**(411,800)**	268,639
Total comprehensive income	**$414,560**	$473,873	**$1,132,171**	$1,071,769

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

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HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Six Months Ended September 30, 2018 and 2017

	Common stock	Additional paid-in capital	Retained earnings	Unearned ESOP shares	Accumulated other comprehensive loss	Total shareholders' equity
Balances at April 1, 2017	**$ 34,111**	**$31,656,235**	**$31,730,673**	**$(2,221,800)**	**$ (1,407,989)**	**$59,791,230**
Net income	-	-	803,130	-	-	803,130
Unrealized gain on available for sale securities, net of tax effect of $ 247,268	-	-	-	-	379,600	379,600
Unrealized loss on derivative transactions securities, net of tax effect of $(72,278)	-	-	-	-	(27,326)	(27,326)
Stock based compensation - options	-	114,784	-	-	-	114,784
Restricted stock - compensation and activity	-	115,638	-	-	-	115,638
Balances at September 30, 2017	**$ 34,111**	**$31,886,657**	**$32,533,803**	**$(2,221,800)**	**$ (1,055,715)**	**$61,177,056**
Balances at April 1, 2018	**$ 34,076**	**$32,113,534**	**$25,920,490**	**$(2,073,680)**	**$ (1,918,288)**	**$54,076,132**
Net income	**-**	**-**	**1,543,971**	**-**	**-**	**1,543,971**
Unrealized loss on available for sale securities, net of tax effect of $ -0-	**-**	**-**	**-**	**-**	**(605,645)**	**(605,645)**
Unrealized gain on derivative transactions, net of tax effect of $ -0-	**-**	**-**	**-**	**-**	**193,845**	**193,845**
Stock based compensation - options	**-**	**123,028**	**-**	**-**	**-**	**123,028**
Restricted stock - compensation and activity	**88**	**128,090**	**-**	**-**	**-**	**128,178**
Balances at September 30, 2018	**$ 34,164**	**$32,364,652**	**$27,464,461**	**$(2,073,680)**	**$ (2,330,088)**	**$55,459,509**

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

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HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

Six Months Ended September 30, 2018 and 2017

	Six Months Ended September 30, 2018	2017
Cash flows from operating activities		
Interest received	**$10,055,633**	**$9,265,972**
Fees and commissions received	**332,677**	**305,462**
Interest paid	**(2,590,648)**	**(2,011,560)**
Cash paid to suppliers and employees	**(5,354,929)**	**(5,193,587)**
Origination of loans held for sale	**(1,280,300)**	**-**
Proceeds from sale of loans held for sale	**1,306,173**	**-**
Net cash provided by operating activities	**2,468,606**	**2,366,287**
Cash flows from investing activities		
Proceeds from maturing and called securities available for sale, including principal pay downs	**7,618,325**	**8,524,350**
Proceeds from sale of investment securities available for sale	**-**	**4,243,760**
Purchase of investment securities available for sale	**(1,985,000)**	**(1,208,480)**
Purchase (redemption) of Federal Home Loan Bank stock	**340,000**	**(701,200)**
Loans made, net of principal repayments	**14,328,852**	**(29,464,001)**
Purchase of premises and equipment	**(63,665)**	**(349,306)**
Proceeds from sale of foreclosed real estate	**19,641**	**35,896**
Net cash provided (used) by investing activities	**20,258,153**	**(18,918,981)**
Cash flows from financing activities		
Net increase (decrease) in		
Deposits	**(16,517,191)**	**(18,468,720)**
Advances by borrowers for taxes and insurance	**(746,081)**	**(573,435)**
Proceeds from borrowings	**24,000,000**	**25,000,000**
Payments of borrowings	**(31,000,000)**	**(8,004,682)**
Interest rate swap on FHLB borrowings	**193,845**	**(99,604)**
Issuance of restricted stock	**88**	**-**
Net cash (used) provided by financing activities	**(24,069,339)**	**(2,146,441)**
Net increase (decrease) in cash and cash equivalents	**(1,342,580)**	**(18,699,135)**
Cash and cash equivalents at beginning of period	**23,368,415**	**29,353,921**
Cash and cash equivalents at end of period	**$22,025,835**	**$10,654,786**

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

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HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

(Continued)

	Six Months Ended September 30,	
	2018	**2017**
Reconciliation of net income to net cash provided by operating activities		
Net income	**$1,543,971**	**$803,130**
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of premiums on certificates of deposit	**45**	**45**
Amortization of premiums on securities	**302,178**	**466,542**
Gain on sale of investment securities	**-**	**(10,380)**
Loss on sale of foreclosed real estate	**211**	**1,299**
Gain on loans held for sale	**(25,873)**	**-**
Loan discount accretion	**(72,593)**	**121,389**
Deposit premium amortization	**(155,168)**	**(231,196)**
Borrowing premium amortization	**(120,244)**	**(262,799)**
Core deposit intangible asset amortization	**63,032**	**63,032**
Premises and equipment depreciation and amortization	**167,001**	**158,784**
Stock based compensation	**251,118**	**230,422**
Provision for loan losses	**302,496**	**280,000**
Decrease (increase) in		
Accrued interest receivable	**(37,908)**	**(173,469)**
Loans held for sale	**25,873**	**-**
Cash surrender value of life insurance	**(228,651)**	**(246,393)**
Income taxes refundable and deferred income taxes	**-**	**311,926**
Other assets	**662,624**	**224,291**
Increase (decrease) in		
Accrued interest payable	**10,874**	**105,402**
Deferred loan origination fees	**(18,600)**	**24,464**
Other liabilities	**(201,780)**	**499,798**
Net cash provided by operating activities	**$2,468,606**	**$2,366,287**
Noncash investing activity		
Real estate acquired through foreclosure	**$130,200**	**$17,305**

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

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Notes to Consolidated Financial Statements (Unaudited)

September 30, 2018

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

Nature of Operations

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

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

On October 23, 2018, the Company and Orrstown Financial Services, Inc. ("Orrstown"), the parent company of Orrstown Bank located in Shippensburg, Pennsylvania, signed a definitive agreement and plan of merger under which the Company will merge with and into Orrstown, with Orrstown as the surviving company. Immediately, thereafter, Hamilton Bank will merge with and into Orrstown Bank, with Orrstown Bank as the surviving institution. At the effective time of the merger, each share of Hamilton Bancorp's common stock will be converted into the right to

receive (1) $4.10 in cash, subject to adjustment as set forth in the Merger Agreement and (2) 0.54 shares of common stock of Orrstown. The Merger Agreement provides each party with specified termination rights. If the Merger is not consummated under specified circumstances, Hamilton Bancorp has agreed to pay Orrstown a termination fee of $2.2 million. The transaction is expected to close in the second quarter of calendar 2019.

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.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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, checking, and money market accounts. Its primary lending products consist of real estate mortgages, along with commercial and consumer loans. Hamilton Bancorp's primary source of revenue is derived from loans to customers, who are predominately small and middle-market businesses and middle-income individuals.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting and with instructions for Form 10–Q and Regulation S–X as promulgated by the Securities and Exchange Commission (the "SEC"). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the preceding unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. We derived the balances as of March 31, 2018 from audited financial statements. Operating results for the three and six months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2019, or any other period. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2018.

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 September 30, 2018 and March 31, 2018 were classified as available for sale.

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

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

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.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 a 48 month look back period for net charge-offs. Prior to September 30, 2018, we reviewed both a 36 and 48 month look back period individually for net charge-offs to develop a range in which the allowance for loan losses should be within. The range has grown smaller over the past year to a point where the difference in the two calculations of the allowance for loan loss is deemed immaterial. As a result, and for efficiency purposes, we began to only utilize a historical charge-off period of 48 months in determining the necessary allowance for loan losses. We believe, although similar in amount, that a 48-month period is more representative of our charge-off history. This period may change in the future depending on the performance of the loan portfolio. In addition, we also adjusted the environmental factors of the legacy and acquired loan portfolios so that they are not the same for each loan portfolio going forward. The environmental factors for each acquired loan portfolio and the legacy loan portfolio will be evaluated on their own merits so as to stand on their own characteristics. These changes at September 30, 2018 resulted in additional provisions of $294,000 and were primarily related to the acquired loan portfolios and the adjustment of their environmental factors.

Management considers a number of factors in estimating the required level of the allowance. These factors include: historical loss experience in the loan portfolios; the levels and trends in past-due and nonaccrual loans; the status of nonaccrual loans and other loans identified as having the potential for further deterioration; credit risk and industry concentrations; trends in loan volume; the effects of any changes in lending policies and procedures or underwriting standards; and a continuing evaluation of the economic environment. As part of the estimation process, management keeps the net charge-off history as a percentage of loans, as it pertains to each loan segment, constant across all risk ratings and alters the qualitative factors either up or down based upon the respective risk rating for each loan segment.

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

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

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

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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.

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

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

Income Taxes. The Bank recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax

assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets and liabilities are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that all or some portion of the deferred tax assets will not be realized.

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Note 2: New Accounting Pronouncements

Recent Accounting Pronouncements

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

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

ASU No. 2017-04, Simplifying the Test for Goodwill Impairment. This update removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under the ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This guidance clarifies the definition of a business and assists entities with evaluating whether transactions should be accounted for

as acquisitions (or disposals) of assets or businesses. Under this guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or group of similar assets), the assets acquired would not represent a business. In addition, in order to be considered a business, an acquisition would have to include at a minimum an input and a substantive process that together significantly contribute to the ability to create an output. The amended guidance also narrows the definition of outputs by more closely aligning it with how outputs are described in FASB guidance for revenue recognition. This guidance was effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. The Company adopted this guidance effective April 1, 2018 and it did not have a material impact on our consolidated financial statements.

ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This update addresses diversity on how certain cash receipts and payments are reflected in the statement of cash flows. The update made the following changes that may affect the Company: (1) Debt Prepayment or Debt Extinguishment Costs: Cash payments for debt prepayment or debt extinguishment costs should be classified as cash flows for financing activities. (2) Proceeds from the settlement of Bank-Owned Life Insurance Policies: Cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash flows from investing activities. The cash payments for premiums on bank-owned policies may be classified as cash flows from investing activities, operating activities, or a combination of investing and operating activities. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and is required to be applied retrospectively to all periods presented. The company adopted this guidance April 1, 2018, which did not result in a change in the classification in the statement of cash flows and did not have a material impact on our consolidated financial statements.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

ASU 2016-13, Financial Instruments – Credit Losses. The main objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the guidance in this update replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The guidance in this update for public business entities is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating this guidance to determine the impact adoption will have on its consolidated financial statements. Hamilton Bancorp is in the process of implementing a committee and has begun to gather loan information and consider acceptable methodologies to comply with this ASU. The implementation team will meet periodically to discuss the latest developments and updates via webcasts, publications, and conferences. Due to the pending merger with Orrstown, we will not be entering into a contract with an outside vendor as originally planned to assist with implementing CECL due to the timing of required adoption and the pending merger. If the merger agreement is terminated for any reason, the Company will engage an outside vendor at that time to assist with the implementation of this pronouncement utilizing information we have continued to gather.

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

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

intent and application of the guidance. The Company is assessing the guidance under ASU 2016-02 and 2018-10 to determine its impact on the Company's consolidated financial statements.

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. This ASU does not apply to revenue associated with financial instruments including loans and securities that are accounted for under U.S. GAAP. Consequently, adoption of the ASU did not have a significant impact on the Company's consolidated financial statements and related disclosures since the primary source of revenue for the Company is derived from interest and dividends earned on loans, investment securities and other financial instruments that are outside the scope of the ASU. The Company has assessed its revenue streams and reviewed its contracts with customers that are affected by the new guidance. This

includes fees on deposits, gains and losses on the sale of foreclosed real estate, credit and debit card interchange fees, merchant card services, and administrative services for customer deposit account such as ATM and wire transfer transactions. The Company's revenue recognition pattern for revenue streams within the scope of the ASU has not changed significantly from current practice and is immaterial to our financial statements. This guidance was effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this guidance effective April 1, 2018 and it did not have a material impact on our consolidated financial statements.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Note 3: Earnings per Share

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

Both the basic and diluted earnings per share for the three and six months ended September 30, 2018 and 2017 are summarized below:

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	**Six Months Ended September 30, 2018**	Six Months Ended September 30, 2017
Net income	**$664,538**	$410,753	**$1,543,971**	$803,130
Weighted average common shares outstanding - basic	**3,209,046**	3,188,895	**3,209,046**	3,188,895
Weighted average common shares outstanding - diluted	**3,214,841**	3,196,516	**3,214,841**	3,196,516
Income per common share - basic and diluted	**$0.21**	$0.13	**$0.48**	$0.25
Anti-dilutive shares	**174,465**	124,169	**174,465**	124,169

Note 4: Investment Securities Available for Sale

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

September 30, 2018	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
U.S. government agencies	**$2,746,829**	**$ -**	**$35,162**	**$2,711,667**
Municipal bonds	**12,376,464**	**-**	**884,033**	**11,492,431**
Corporate bonds	**2,000,000**	**-**	**50,868**	**1,949,132**
Mortgage-backed securities	**55,208,284**	**3,390**	**2,501,915**	**52,709,759**
	$72,331,577	**$ 3,390**	**$3,471,978**	**$68,862,989**

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

There were no sales of investment securities during the three and six months ended September 30, 2018. Proceeds from the sale of investment securities were $4,243,760 during the three and six months ended September 30, 2017, with gains of $23,352 and losses of $12,971.

As of September 30, 2018, and March 31, 2018, all mortgage-backed securities are backed by U.S. Government-Sponsored Enterprises (GSE's), except one private label mortgage-backed security that was acquired in the Fraternity acquisition in May 2016 with a book value of $38,258 and fair value of $38,858 as of September 30, 2018.

As of September 30, 2018, and March 31, 2018, the Company had one security pledged to the Federal Reserve Bank with a book value of $744,186 at both dates and a fair value of $713,599 and $723,023, respectively.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

	Available for Sale			
	September 30, 2018		March 31, 2018	
	Amortized cost	**Fair value**	Amortized cost	Fair value
Maturing				
Within one year	**$2,002,643**	**$1,998,068**	$2,009,160	$1,995,625
Over one to five years	**1,228,815**	**1,180,880**	1,231,928	1,196,368
Over five to ten years	**3,573,299**	**3,476,232**	3,578,827	3,500,641
Over ten years	**10,318,536**	**9,498,050**	10,368,499	9,686,082
Mortgage-backed securities, in monthly installments	**55,208,284**	**52,709,759**	61,078,665	59,025,420
	$72,331,577	**$68,862,989**	$78,267,079	$75,404,136

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 September 30, 2018 and March 31, 2018.

	Less than 12 months		**12 months or longer**		**Total**	
September 30, 2018	**Gross unrealized losses**	**Fair value**	**Gross unrealized losses**	**Fair value**	**Gross unrealized losses**	**Fair value**
U.S. government agencies	**$-**	**$-**	**$35,162**	**$2,711,667**	**$35,162**	**$2,711,667**
Municipal bonds	**-**	**-**	**884,033**	**11,492,431**	**884,033**	**11,492,431**
Corporate bonds	**-**	**-**	**50,868**	**1,949,132**	**50,868**	**1,949,132**
Mortgage-backed securities	**185,975**	**6,707,755**	**2,315,940**	**45,756,778**	**2,501,915**	**52,464,533**
	$185,975	**$6,707,755**	**$3,286,003**	**$61,910,008**	**$3,471,978**	**$68,617,763**

	Less than 12 months		12 months or longer		Total	
		Fair		Fair		Fair

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

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

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

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Notes to Consolidated Financial Statements (Continued)

Note 5: Loans Receivable and Allowance for Loan Losses

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

	September 30, 2018				March 31, 2018			
	Legacy (1)	Acquired	Total Loans	% of Total	Legacy (1)	Acquired	Total Loans	% of Total
Real estate loans:								
One-to four-family:								
Residential (2)	$83,090,271	$68,932,853	$152,023,124	40 %	$85,248,184	$72,749,066	$157,997,250	41 %
Residential construction	3,639,139	-	3,639,139	1 %	5,450,827	-	5,450,827	1 %
Investor (3)	7,880,161	17,002,668	24,882,829	7 %	9,275,031	17,460,809	26,735,840	7 %
Commercial	105,679,013	10,017,465	115,696,478	31 %	100,403,769	11,762,485	112,166,254	29 %
Commercial construction	2,529,160	928,008	3,457,168	1 %	5,763,784	1,352,019	7,115,803	2 %
Total real estate loans	202,817,744	96,880,994	299,698,738	80 %	206,141,595	103,324,379	309,465,974	80 %
Commercial business (4)	36,134,376	1,755,200	37,889,576	10 %	38,302,739	1,841,226	40,143,965	10 %
Home equity loans	14,183,532	5,184,176	19,367,708	5 %	13,956,327	6,039,462	19,995,789	5 %
Consumer (5)	16,973,316	719,527	17,692,843	5 %	18,849,448	766,063	19,615,511	5 %
Total Loans	270,108,968	104,539,897	374,648,865	100%	277,250,109	111,971,130	389,221,239	100%
Net deferred loan origination fees and costs	(194,146)	-	(194,146)		(212,746)	-	(212,746)	
Loan premium (discount)	1,773,078	(288,093)	1,484,985		1,922,428	(510,036)	1,412,392	
	$271,687,900	$104,251,804	$375,939,704		$278,959,791	$111,461,094	$390,420,885	

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

(2) "Legacy" one-to four-family residential real estate loans at March 31, 2018 includes $19.2 million of various loan pools purchased in the second half of fiscal 2018.

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

(4) "Legacy" commercial business loans at March 31, 2018 includes a $15.5 million pool of commercial lease loans purchased in June 2017 and $3.2 million in guaranteed SBA loans purchased in second half of fiscal 2018.

(5) "Legacy" consumer loans at March 31, 2018 includes $19.9 million of purchased loan pools consisting of recreational vehicles that were purchased in August and December 2017.

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

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 and six-month periods ended September 30, 2018 and 2017. The allowance for loan losses allocated to each portfolio segment is not necessarily indicative of future losses in any particular portfolio segment and does not restrict the use of the allowance to absorb losses in other portfolio segments.

Three Months Ended September 30, 2018	**Residential Real Estate**	**Investor Real Estate**	**Commercial Real Estate**	**Commercial Construction**	**Commercial Business**	**Home Equity**	**Consumer**	**Unallocated**	**Total**
Allowance for credit losses:									
Beginning balance	**$601,211**	**$63,506**	**$1,355,886**	**$14,793**	**$609,372**	**$68,267**	**$123,952**	**$-**	**$2,836,987**
Charge-offs	**(5,722)**	**(2,531)**	**-**	**-**	**(75,000)**	**-**	**-**	**-**	**(83,253)**
Recoveries	**1,475**	**-**	**31,320**	**-**	**-**	**-**	**1,904**	**-**	**34,699**
Provision for credit losses	**68,712**	**253,596**	**(74,765)**	**(2,403)**	**(1,761)**	**4,564**	**(27,180)**	**21,733**	**242,496**
Ending balance	**$665,676**	**$314,571**	**$1,312,441**	**$12,390**	**$532,611**	**$72,831**	**$98,676**	**$21,733**	**$3,030,929**

Six Months Ended September 30, 2018	Residential Real Estate	Investor Real Estate	Commercial Real Estate	Commercial Construction	Commercial Business	Home Equity	Consumer	Unallocated	Total
Allowance for credit losses:									
Beginning balance	$ 608,723	$ 51,690	$ 1,253,383	$ 33,430	$ 673,982	$ 69,459	$ 131,236	$ -	$ 2,821,903
Charge-offs	(13,769)	(8,111)	(31,320)	-	(75,000)	-	(2,465)	-	(130,665)
Recoveries	2,242	64	31,320	-	-	-	3,569	-	37,195
Provision for credit losses	68,480	270,928	59,058	(21,040)	(66,371)	3,372	(33,664)	21,733	302,496
Ending balance	$ 665,676	$ 314,571	$ 1,312,441	$ 12,390	$ 532,611	$ 72,831	$ 98,676	$ 21,733	$ 3,030,929
Allowance allocated to:									
Legacy Loans:									
Individually evaluated for impairment	$ 257,866	$ 1,857	$ -	$ -	$ -	$ -	$ -	$ -	$ 259,723
Collectively evaluated for impairment	260,437	50,278	1,272,762	11,381	528,363	57,845	98,491	21,733	2,301,290
Acquired Loans:									
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	147,373	262,436	39,679	1,009	4,248	14,986	185	-	469,916

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Three Months Ended September 30, 2017	Residential Real Estate	Investor Real Estate	Commercial Real Estate	Commercial Construction	Commercial Business	Home Equity	Consumer	Unallocated	Total
Allowance for credit losses:									
Beginning balance	$544,557	$64,471	$1,312,158	$26,987	$343,094	$64,661	$1,600	$ -	$2,357,528
Charge-offs	(8,907)	(11,044)	-	-	-	-	(486)	-	(20,437)
Recoveries	-	12,822	-	-	206	-	872	-	13,900
Provision for credit losses	(7,362)	(13,994)	48,275	(14,913)	(16,170)	(2,091)	126,255	-	120,000
Ending balance	$528,288	$52,255	$1,360,433	$12,074	$327,130	$62,570	$128,241	$ -	$2,470,991

Six Months Ended September 30, 2017	Residential Real Estate	Investor Real Estate	Commercial Real Estate	Commercial Construction	Commercial Business	Home Equity	Consumer	Unallocated	Total
Allowance for credit losses:									
Beginning balance	$553,539	$35,275	$1,375,894	$9,031	$149,461	$70,071	$1,544	$ -	$2,194,815
Charge-offs	(8,907)	(15,122)	-	-	-	-	(486)	-	(24,515)
Recoveries	-	18,129	-	-	381	-	2,181	-	20,691
Provision for credit losses	(16,344)	13,973	(15,461)	3,043	177,288	(7,501)	125,002	-	280,000
Ending balance	$528,288	$52,255	$1,360,433	$12,074	$327,130	$62,570	$128,241	$ -	$2,470,991
Allowance allocated to:									
Legacy Loans:									
Individually evaluated for impairment	$270,329	$-	$-	$-	$-	$-	$-	$ -	$270,329
Collectively evaluated for impairment	257,959	52,255	1,360,433	12,074	327,130	62,570	128,241	-	2,200,662
Acquired Loans:									

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

September 30, 2018	**Residential Real Estate**	**Investor Real Estate**	**Commercial Real Estate**	**Commercial Construction**	**Commercial Business**	**Home Equity**	**Consumer**	**Total**
Legacy Loans:								
Individually evaluated for impairment	**$1,710,906**	**$59,426**	**$4,251,209**	**$-**	**$769,307**	**$7,254**	**$7,208**	**$6,805,310**
Collectively evaluated for impairment	**85,018,504**	**7,820,735**	**101,427,804**	**2,529,160**	**35,365,069**	**14,176,278**	**16,966,108**	**263,303,6**
Ending balance	**$86,729,410**	**$7,880,161**	**$105,679,013**	**$2,529,160**	**$36,134,376**	**$14,183,532**	**$16,973,316**	**$270,108,9**
Acquired Loans:								
Individually evaluated for impairment	**$1,002,307**	**$499,838**	**$196,697**	**$-**	**$-**	**$-**	**$57,772**	**$1,756,614**
Collectively evaluated for impairment	**67,930,546**	**16,502,829**	**9,820,768**	**928,008**	**1,755,200**	**5,184,176**	**661,756**	**102,783,2**
Ending balance	**$68,932,853**	**$17,002,667**	**$10,017,465**	**$928,008**	**$1,755,200**	**$5,184,176**	**$719,528**	**$104,539,8**

September 30, 2017	Residential Real Estate	Investor Real Estate	Commercial Real Estate	Commercial Construction	Commercial Business	Home Equity	Consumer	Total

Legacy Loans:								
Individually evaluated for impairment	$1,684,871	$5,294	$4,707,655	$-	$702,352	$22,564	$-	$7,122,736
Collectively evaluated for impairment	73,121,605	9,622,035	90,250,315	2,081,647	33,340,191	13,641,850	20,178,064	242,235,70
Ending balance	$74,806,476	$9,627,329	$94,957,970	$2,081,647	$34,042,543	$13,664,414	$20,178,064	$249,358,44
Acquired Loans:								
Individually evaluated for impairment	$1,260,264	$210,988	$201,573	$-	$-	$-	$64,237	$1,737,062
Collectively evaluated for impairment	76,403,162	18,212,904	11,912,984	1,058,534	1,668,783	6,459,424	838,003	116,553,79
Ending balance	$77,663,426	$18,423,892	$12,114,557	$1,058,534	$1,668,783	$6,459,424	$902,240	$118,290,85

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Past due loans, segregated by age and class of loans, as of and for the six months ended September 30, 2018 and as of and for the year ended March 31, 2018, were as follows:

	September 30, 2018			**March 31, 2018**		
	Legacy	**Acquired**	**Total**	**Legacy**	**Acquired**	**Total**
Current	**$264,810,304**	**$102,404,079**	**$367,214,383**	**$270,807,643**	**$109,972,473**	**$380,780,116**
Accruing past due loans:						
30-59 days past due:						
Real estate loans:						
Residential	**85,928**	**234,284**	**320,212**	**63,618**	**689,364**	**752,982**
Investor	**-**	**-**	**-**	**-**	**-**	**-**
Commercial	**-**	**-**	**-**	**-**	**-**	**-**
Commercial construction	**-**	**160,000**	**160,000**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**135,502**	**-**	**135,502**
Home equity loans	**-**	**33,031**	**33,031**	**-**	**-**	**-**
Consumer	**67,955**	**54,050**	**122,005**	**148,876**	**-**	**148,876**
Total 30-59 days past due	**153,883**	**481,365**	**635,248**	**347,996**	**689,364**	**1,037,360**
60-89 days past due:						
Real estate loans:						
Residential	**9,330**	**678,017**	**687,347**	**70,291**	**-**	**70,291**
Investor	**-**	**-**	**-**	**-**	**-**	**-**
Commercial	**-**	**-**	**-**	**-**	**-**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**134,524**	**-**	**134,524**
Home equity loans	**-**	**-**	**-**	**-**	**-**	**-**
Consumer	**28,773**	**-**	**28,773**	**28,300**	**-**	**28,300**
Total 60-89 days past due	**38,103**	**678,017**	**716,120**	**233,115**	**-**	**233,115**
90 or more days past due:						
Real estate loans:						
Residential	**-**	**-**	**-**	**-**	**-**	**-**
Investor	**224,296**	**113,449**	**337,745**	**734,818**	**471,423**	**1,206,241**
Commercial	**-**	**-**	**-**	**-**	**-**	**-**

Commercial construction	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total 90 or more days past due	224,296	113,449	337,745	734,818	471,423	1,206,241
Total accruing past due loans	416,282	1,272,831	1,689,113	1,315,929	1,160,787	2,476,716
Non-accruing loans:						
Real estate loans:						
Residential	397,300	305,198	702,498	526,584	338,060	864,644
Investor	59,426	361,092	420,518	60,949	300,872	361,821
Commercial	4,251,209	196,697	4,447,906	4,356,264	198,938	4,555,202
Commercial construction	-	-	-	-	-	-
Commercial business	167,239	-	167,239	165,285	-	165,285
Home equity loans	-	-	-	12,605	-	12,605
Consumer	7,208	-	7,208	4,850	-	4,850
Non-accruing loans:	4,882,382	862,987	5,745,369	5,126,537	837,870	5,964,407
Total Loans	$270,108,968	$104,539,897	$374,648,865	$277,250,109	$111,971,130	$389,221,239
Nonaccrual interest not accrued:						
Real estate loans:						
Residential	$2,068	$5,797	$7,865	$8,250	$53,120	$61,370
Investor	1,475	8,256	9,731	8,513	15,604	24,117
Commercial	245,071	959	246,030	294,619	-	294,619
Commercial construction	-	-	-	-	-	-
Commercial business	13,166	-	13,166	12,891	-	12,891
Home equity loans	-	-	-	436	-	436
Consumer	147	-	147	385	-	385
Total nonaccrual interest not accrued	$261,927	$15,012	$276,939	$325,094	$68,724	$393,818

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Impaired loans as of and for the three and six months ended September 30, 2018 and 2017, and the year ended March 31, 2018, was as follows:

	Impaired Loans at September 30, 2018			**Three months ended September 30, 2018**		**Six months ended September 30, 2018**	
Legacy:	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:							
Real estate loans:							
Residential	**$631,126**	**$467,785**	**$ -**	**$470,171**	**$ 3,309**	**$477,820**	**$ 4,100**
Investor	**69,151**	**27,869**	**-**	**29,105**	**-**	**29,690**	**-**
Commercial	**6,399,358**	**4,251,209**	**-**	**4,251,209**	**-**	**4,265,903**	**53,278**
Commercial construction	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial business	**1,595,928**	**769,307**	**-**	**821,814**	**23,022**	**850,675**	**44,937**
Home equity loans	**7,254**	**7,254**	**-**	**7,279**	**54**	**12,148**	**133**
Consumer	**7,208**	**7,208**	**-**	**7,234**	**75**	**7,392**	**159**
With an allowance recorded:							
Real estate loans:							
Residential	**$1,257,297**	**$1,243,121**	**$257,866**	**$1,245,847**	**$ 12,419**	**$1,250,755**	**$ 24,918**
Investor	**53,596**	**31,557**	**1,857**	**31,257**	**-**	**30,479**	**-**
Commercial	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Home equity loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total legacy impaired	**10,020,918**	**6,805,310**	**259,723**	**6,863,916**	**38,879**	**6,924,862**	**127,525**
Acquired (1):							
With no related allowance recorded:							
Real estate loans:							
Residential	**1,096,210**	**1,002,307**	**-**	**1,005,999**	**5,856**	**1,008,837**	**16,979**
Investor	**769,766**	**499,838**	**-**	**501,079**	**4,944**	**500,429**	**9,137**
Commercial	**246,697**	**196,697**	**-**	**196,697**	**618**	**197,398**	**2,481**
Commercial construction	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Commercial business	-	-	-	-	-	-	-
Home equity loans	**38,310**	**-**	**-**	**-**	**329**	**-**	**650**
Consumer	**91,462**	**57,772**	**-**	**58,052**	**1,134**	**58,812**	**2,581**
With an allowance recorded:							
Real estate loans:							
Residential	-	-	-	-	-	-	-
Investor	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Total acquired impaired	**2,242,445**	**1,756,614**	**-**	**1,761,827**	**12,881**	**1,765,476**	**31,828**
Total impaired	**$12,263,363**	**$8,561,924**	**$259,723**	**$8,625,743**	**$ 51,760**	**$8,690,338**	**$159,353**

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

	Impaired Loans at September 30, 2017			**Three months ended September 30, 2017**		**Six months ended September 30, 2017**	
Legacy:	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:							
Real estate loans:							
Residential	**$515,922**	**$379,988**	**$ -**	**$384,968**	**$ 321**	**$387,950**	**$ 967**
Investor	**9,909**	**5,294**		**5,344**	**-**	**5,451**	**-**
Commercial	**6,594,464**	**4,707,655**	**-**	**4,707,655**	**-**	**4,712,233**	**1,077**
Commercial construction	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial business	**1,109,333**	**702,352**	**-**	**710,139**	**24,086**	**725,401**	**49,238**
Home equity loans	**48,781**	**22,564**	**-**	**22,997**	**77**	**23,611**	**240**
Consumer			**-**	**-**	**-**	**-**	**-**
With an allowance recorded:							
Real estate loans:							
Residential	**1,332,333**	**1,304,883**	**270,329**	**1,316,635**	**12,748**	**1,317,648**	**25,550**
Investor	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Home equity loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total legacy impaired	**9,610,742**	**7,122,736**	**270,329**	**7,147,738**	**37,232**	**7,172,294**	**77,072**
Acquired (1):							
With no related allowance recorded:							
Real estate loans:							
Residential	**1,447,903**	**1,260,264**	**-**	**1,271,653**	**14,444**	**1,277,955**	**27,264**
Investor	**210,983**	**210,988**	**-**	**213,788**	**2,999**	**206,636**	**6,810**
Commercial	**251,573**	**201,573**	**-**	**202,395**	**1,900**	**203,121**	**3,813**
Commercial construction	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Home equity loans	**42,927**	**-**	**-**	**-**	**313**	**-**	**600**
Consumer	**101,550**	**64,237**	**-**	**64,832**	**1,356**	**65,271**	**3,126**
With an allowance recorded:							

Real estate loans:							
Residential	-	-	-	-	-	-	-
Investor	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Total acquired impaired	**2,054,936**	**1,737,062**	**-**	**1,752,668**	**21,012**	**1,752,983**	**41,613**
Total impaired	**$11,665,678**	**$8,859,798**	**$270,329**	**$8,900,406**	**$ 58,244**	**$8,925,277**	**$118,685**

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

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

Commercial business	-	-	-	-	-
Home equity loans	-	-	-	-	-
Consumer	-	-	-	-	-
Total acquired impaired	2,149,926	1,625,815	-	1,870,380	78,532
Total impaired	$12,423,053	$8,720,339	$266,256	$9,644,505	$250,008

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

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Notes to Consolidated Financial Statements (Continued)

The following table documents changes in the carrying amount of acquired impaired loans (Purchased Credit Impaired or “PCI”) for the six months ended September 30, 2018 and 2017, along with the outstanding balance at the end of the period:

	September 30, 2018	September 30, 2017
Recorded investment at beginning of period	$1,021,424	$1,341,935
Accretion	2,089	725
Reductions for payments	(101,846)	(113,688)
Recorded investment at end of period	$921,667	$1,228,972
Oustanding principal balance at end of period	$1,122,792	$1,549,586

A summary of changes in the accretable yield for PCI loans for the six months ended September 30, 2018 and 2017 is as follows:

	September 30, 2018	September 30, 2017
Accretable yield, beginning of period	$ 31,895	$ 59,639
Accretion	(2,089)	(725)
Reclassification from nonaccretable difference	-	-
Accretable yield, end of period	$ 29,806	$ 58,914

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 September 30, 2018 and March 31, 2018 follows:

September 30, 2018	Number of contracts	Performing	Nonperforming	Total
Real estate loans:				
Residential	**16**	**$1,304,276**	**$ 230,953**	**$1,535,229**
Investor	**-**	**-**	**-**	**-**
Commercial	**2**	**-**	**1,195,421**	**1,195,421**
Commercial construction	**-**	**-**	**-**	**-**
Commercial business	**1**	**602,067**	**-**	**602,067**
Home equity loans	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**
	19	**$1,906,343**	**$ 1,426,374**	**$3,332,717**

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

March 31, 2018	Number of contracts	Performing	Nonperforming	Total
Real estate loans:				
Residential	15	$1,230,166	$ 312,964	$1,543,130
Investor	-	-	-	-
Commercial	2	-	1,195,421	1,195,421
Commercial construction	-	-	-	-
Commercial business	1	605,488	-	605,488
Home equity loans	-	-	-	-
Consumer	-	-	-	-
	18	$1,835,654	$ 1,508,385	$3,344,039

The following table presents the number of contracts and the dollar amount of TDRs that were added during the six-month period ended September 30, 2018 and 2017. There were no TDRs added during the three-month period ended September 30, 2018 and 2017. 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 September 30, 2018.

	Loans Modified as a TDR for the six months ended			
	September 30, 2018		September 30, 2017	
Troubled Debt Restructurings	**Number of contracts**	**Outstanding recorded investment**	Number of contracts	Outstanding recorded investment
Real estate loans:				
One-to four-family	**1**	**$ 20,866**	1	$ 1,931

There were no TDRs that defaulted in the three or six months ended September 30, 2018 and 2017. Payment default under a TDR is defined as any TDR that is 90 days or more past due following the time that the loan was modified or the inability of the TDR to make the required payment subsequent to the modification.

In calculating the allowance for loan losses, individual TDRs are evaluated for impairment. TDRs are evaluated for impairment based upon either the present value of cash flows or, if collateral dependent, the lower of cost or fair value of the underlying collateral. If it is determined that the cash flows or underlying collateral is less than the carrying

amount of the loan, the difference in value will be charged-off through earnings, unless the TDR is performing, in which case a specific reserve may be set-up for that TDR.

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.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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.

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.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

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The following tables present the September 30, 2018 and March 31, 2018, 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 September 30, 2018 or March 31, 2018.

	September 30, 2018			**March 31, 2018**		
	LEGACY	**ACQUIRED**	**TOTAL**	**LEGACY**	**ACQUIRED**	**TOTAL**
Risk Rating:						
Rating - Pass:						
Real estate loans:						
Residential	**$83,998,596**	**$66,964,649**	**$150,963,245**	$87,863,805	$70,901,293	$158,765,098
Investor	**7,820,735**	**16,224,450**	**24,045,185**	9,214,082	16,719,346	25,933,428
Commercial	**101,427,804**	**9,820,768**	**111,248,572**	92,955,370	11,563,547	104,518,917
Commercial construction	**2,529,160**	**928,008**	**3,457,168**	5,763,784	1,352,019	7,115,803
Commercial Business	**35,967,137**	**1,755,200**	**37,722,337**	37,978,293	1,841,226	39,819,519
Home Equity	**14,176,278**	**5,046,158**	**19,222,436**	13,935,732	5,928,787	19,864,519
Consumer	**16,962,733**	**688,356**	**17,651,089**	18,733,489	733,669	19,467,158
Total Pass	**262,882,443**	**101,427,589**	**364,310,032**	266,444,555	109,039,887	375,484,442
Rating - Special Mention:						
Real estate loans:						
Residential	**2,324,604**	**965,897**	**3,290,501**	2,365,652	925,521	3,291,173
Investor	**-**	**279,685**	**279,685**	-	297,209	297,209
Commercial	**-**	**-**	**-**	3,092,135	-	3,092,135
Commercial construction	**-**	**-**	**-**	-	-	-
Commercial Business	**-**	**-**	**-**	134,524	-	134,524
Home Equity	**-**	**138,018**	**138,018**	-	110,675	110,675
Consumer	**10,583**	**-**	**10,583**	96,474	-	96,474
Total Special Mention	**2,335,187**	**1,383,600**	**3,718,787**	5,688,785	1,333,405	7,022,190
Rating - Substandard:						
Real estate loans:						
Residential	**406,210**	**1,002,307**	**1,408,517**	469,554	922,252	1,391,806
Investor	**59,426**	**498,533**	**557,959**	60,949	444,254	505,203
Commercial	**4,251,209**	**196,697**	**4,447,906**	4,356,264	198,938	4,555,202
Commercial construction	**-**	**-**	**-**	-	-	-

Commercial Business	**167,239**	**-**	**167,239**	189,922	-	189,922
Home Equity	**7,254**	**-**	**7,254**	20,595	-	20,595
Consumer	**-**	**31,171**	**31,171**	19,485	32,394	51,879
Total - Substandard	**4,891,338**	**1,728,708**	**6,620,046**	5,116,769	1,597,838	6,714,607
Rating - Doubtful	**-**	**-**	**-**	-	-	-
Rating - Loss	**-**	**-**	**-**	-	-	-
TOTAL LOANS	**$270,108,968**	**$104,539,897**	**$374,648,865**	$277,250,109	$111,971,130	$389,221,239

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

The Bank's maximum exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the credit commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. The Bank has established an off-balance sheet reserve for potential losses associated with any outstanding commitment or unused line of credit. The off-balance sheet reserve is a percentage of the outstanding commitment or unused line of credit that is based upon a discounted charge-off history associated with each respective loan segment. The reserve at September 30, 2018 and March 31, 2018 totaled $52,000 and $50,000, respectively. At September 30, 2018, 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 September 30, 2018 and March 31, 2018:

Outstanding Commitment and Used Lines of Credit	**September 30, 2018**	**March 31, 2018**
Unused commercial lines of credit	**$11,536,470**	$9,187,810
Unused home equity lines of credit	**23,299,018**	22,560,376
Unused consumer lines of credit	**26,845**	29,331
Residential construction loan commitments	**7,814,167**	4,234,076
Commercial construction loan commitments	**2,535,935**	8,968,416
Home equity loan commitments	**353,000**	389,600
Commercial loan commitments	**3,359,375**	5,125,000
Standby letter of credit	**416,449**	250,224

Note 6: Goodwill and Other Intangible Asset

The Company’s intangible assets (goodwill and core deposit intangible) at September 30, 2018 consisted 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 conducted our annual impairment test of goodwill as of December 31, 2017. In addition, due to the significant increase in tax expense resulting from the recording of a valuation allowance on our net deferred tax assets in the fourth quarter of fiscal 2018, we concluded that a triggering event had occurred. Therefore, we performed an additional goodwill impairment analysis as of March 31, 2018. Based upon the impairment tests performed as of December 31, 2017 and March 31, 2018, the fair values exceeded the carrying values of our only reporting unit. As a result, no impairment to goodwill was recorded for the 2018 fiscal year. The core deposit intangible assets are being amortized straight-line over a life of eight years.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

The following table presents the changes in the net book value of intangible assets for the six months ended September 30, 2018 and 2017:

	Goodwill	Core deposit intangible
Balance April 1, 2017	$8,563,530	$739,298
Amortization	-	(63,032)
Balance September 30, 2017	**8,563,530**	**676,266**

	Goodwill	Core deposit intangible
Balance April 1, 2018	$8,563,530	$613,234
Amortization	-	(63,033)
Balance September 30, 2018	**$8,563,530**	**$550,201**

At September 30, 2018, future expected annual amortization associated with the core deposit intangible is as follows:

Year ending March 31,	Amount
2019	**63,035**
2020	**123,737**
2021	**98,070**
2022	**98,070**
2023	**98,070**
2024	**64,177**
2025	**5,042**
	$550,201

Note 7: 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 $758,000 and $751,000 under collateral arrangements as of September 30, 2018 and March 31, 2018, 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 September 30, 2018 and were designated as cash flow hedges of certain Federal Home Loan Bank advances. The purpose of the cash flow hedges is to match-fund longer-term assets with longer-term borrowings to reduce potential interest rate risk and cost by swapping a variable rate borrowing for a fixed rate borrowing. The aggregate fair value of the swaps is recorded in other assets (liabilities) with changes in fair value associated with the effective portion recorded in other comprehensive income (loss) and the ineffective portion recorded in other non-interest income (expense). The cash flow hedges were determined to be ineffective beginning with the quarter ended September 30, 2017. As such, a gain of $540 and $921 of ineffectiveness has been reported in noninterest revenue for the three and six-month periods ended September 30, 2018, respectively, compared to a loss of $3,679 reported as an offset to noninterest revenue for the three and six-month period ended September 30, 2017.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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
Total Notional Amount	$11,550,000				

Interest revenue/(expense) recorded on the swap transactions totaled $906 and ($1,832) for the three and six months ended September 30, 2018 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 September 30, 2018 and March 31, 2018:

	September 30, 2018		March 31, 2018	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Included in assets:				
Interest rate swaps related to FHLB Advances	**$11,550,000**	**$412,230**	$11,550,000	$217,464

The following tables present the net gain (loss) recorded in accumulated other comprehensive income (loss) and the Consolidated Statements of Operations relating to the cash flow derivative instruments for the three and six-month periods ended September 30, 2018 and 2017:

Three Month and Period Ended September 30, 2018	Three Month and Period Ended September 30, 2017

	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	**Amount of Gain (Loss) Reclassified from OCI to Interest Income**	**Amount of Gain (Loss) Recognized in Other Noninterest Revenue (Ineffective Portion)**	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI to Interest Income	Amount of Gain (Loss) Recognized in Other Noninterest Revenue (Ineffective Portion)
Interest Rate Contract	$95,806	$ -	$ 540	$26,710	$ -	$ (3,679)

	Six Month and Period Ended September 30, 2018			Six Month and Period Ended September 30, 2017		
	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	**Amount of Gain (Loss) Reclassified from OCI to Interest Income**	**Amount of Gain (Loss) Recognized in Other Noninterest Revenue (Ineffective Portion)**	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI to Interest Income	Amount of Gain (Loss) Recognized in Other Noninterest Revenue (Ineffective Portion)
Interest Rate Contract	**$193,845**	**$ -**	**$ 921**	$(183,238)	$ -	$ (3,679)

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 $3.0 million at September 30, 2018. 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:

	September 30, 2018			March 31, 2018		
	Notional Amount	**Principal Amount**	**Fair Value**	Notional Amount	Principal Amount	Fair Value
Included in Loans and Leases:						
Commercial real estate loan	**$-**	**$3,049,540**	**$2,927,163**	$-	$3,091,892	$3,022,744
Included in Other Assets:						

Interest Rate Swap	**$3,049,540**	**$-**	**$122,377**	$3,091,892	-	$69,148

No gain or loss was recognized in earnings with respect to the interest rate swap for the three or six months ended September 30, 2018 and 2017 due to the fact the gain or increase in the fair value of the commercial real estate loan was offset by the loss or decrease in the fair value of the interest rate swap.

Note 8: Deposits

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

	September 30, 2018			March 31, 2018		
	Amount	% of Total		Amount	% of Total	
Savings	**$38,539,878**	**9.9**	**%**	$42,499,381	10.6	%
Noninterest-bearing checking	**28,816,887**	**7.4**	**%**	29,557,943	7.3	%
Interest-bearing checking	**28,727,675**	**7.4**	**%**	27,219,286	6.7	%
Money market accounts	**57,641,094**	**14.8**	**%**	58,466,228	14.4	%
Time deposits	**234,488,724**	**60.4**	**%**	246,988,613	61.0	%
	$388,214,258	**100.0**	**%**	$404,731,451	100.0	%
Premium on deposits asssumed	**256,357**			411,524		
Total deposits	**$388,470,615**			$405,142,975		

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Note 9: Lines of Credit and Federal Home Loan Bank Advances

The Bank may borrow up to $5.0 million from a correspondent bank under a secured federal funds line of credit and $1.0 million under an unsecured federal funds line of credit. The Bank would be required to pledge investment securities to draw upon the secured line of credit. There were no borrowings under these lines of credit at September 30, 2018 and March 31, 2018.

Borrowings consist of advances from the Federal Home Loan Bank (FHLB). The Bank may borrow up to 25 percent of its assets under a line of credit agreement with the FHLB. Advances under the line of credit are secured by certain loans owned by the Bank. As of September 30, 2018, and March 31, 2018, the Bank had $76.7 million and $68.3 million, respectively, of available credit from the FHLB. Advances are limited by the balance of loans available for pledge. The amount of loans that were deemed eligible to pledge as collateral totaled $117.5 million at September 30, 2018 and $127.1 million at March 31, 2018. As a condition of obtaining the line of credit from the FHLB, the FHLB also requires the Bank purchase shares of capital stock in the FHLB. Information relating to borrowings at September 30, 2018 and March 31, 2018 is presented below.

	September 30, 2018			March 31, 2018		
	Amount	**Rate**	**Maturity Date**	Amount	Rate	Maturity Date
FHLB advance (1)	**$5,550,000**	**2.27%**	**12/10/2018**	$5,550,000	1.84%	6/11/2018
FHLB advance (2)	**6,000,000**	**2.36%**	**12/29/2018**	6,000,000	1.90%	6/29/2018
FHLB advance	**1,000,000**	**2.43%**	**12/31/2018**	1,000,000	2.60%	7/2/2018
FHLB advance	**3,000,000**	**2.33%**	**8/26/2019**	1,000,000	3.05%	7/3/2018
FHLB advance	**3,000,000**	**1.59%**	**8/26/2019**	5,000,000	3.94%	7/23/2018
FHLB advance	**1,500,000**	**1.95%**	**11/25/2019**	1,000,000	1.74%	7/31/2018
FHLB advance	**1,500,000**	**1.78%**	**11/27/2019**	1,000,000	1.40%	8/21/2018
FHLB advance	**3,000,000**	**2.31%**	**2/3/2020**	4,000,000	1.94%	8/27/2018
FHLB advance	**1,000,000**	**2.86%**	**8/4/2020**	3,000,000	1.41%	8/27/2018
FHLB advance	**2,000,000**	**2.56%**	**8/27/2020**	5,000,000	3.38%	9/19/2018
FHLB advance	**1,000,000**	**2.15%**	**11/30/2020**	1,000,000	2.60%	10/2/2018
FHLB advance	**2,000,000**	**2.28%**	**12/28/2020**	1,000,000	1.95%	12/31/2018
FHLB advance	**2,000,000**	**2.49%**	**2/1/2021**	3,000,000	1.38%	7/31/2019
FHLB advance	**3,000,000**	**2.93%**	**7/26/2021**	3,000,000	1.96%	8/26/2019
FHLB advance	**2,000,000**	**3.01%**	**8/4/2021**	3,000,000	1.59%	8/26/2019
FHLB advance	**1,000,000**	**2.88%**	**8/23/2021**	3,000,000	1.42%	8/26/2019
FHLB advance	**3,000,000**	**1.48%**	**8/25/2021**	1,500,000	1.95%	11/25/2019
FHLB advance	**2,000,000**	**2.68%**	**8/27/2021**	1,500,000	1.78%	11/27/2019

FHLB advance	**3,000,000**	**2.79%**	**8/29/2022**	3,000,000	2.31%	2/3/2020
FHLB advance	**2,000,000**	**3.14%**	**9/19/2022**	1,000,000	2.15%	11/30/2020
FHLB advance	**3,000,000**	**2.70%**	**8/28/2023**	2,000,000	2.28%	12/28/2020
FHLB advance	**2,000,000**	**3.20%**	**9/19/2023**	2,000,000	2.49%	2/1/2021
FHLB advance	-	-	-	3,000,000	1.48%	8/25/2021
	53,550,000			60,550,000		
Premium on FHLB advances assumed	**1,896**			122,140		
Total borrowings	**$53,551,896**			$60,672,140		

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

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Note 10: Regulatory Capital Ratios

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

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

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

Under the revised prompt corrective action requirements, as of January 1, 2015, insured depository institutions are required to meet the following in order to qualify as “well capitalized:” (1) a common equity Tier 1 risk-based capital ratio of 6.5%; (2) a Tier 1 risk-based capital ratio of 8%; (3) a total risk-based capital ratio of 10% and (4) a Tier 1 leverage ratio of 5%. As of September 30, 2018, the Bank met all capital adequacy requirements under the Basel III Capital Rules to be considered “well capitalized” under prompt corrective action rules.

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

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

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Act"), banking regulatory agencies must adopt a revised definition of "well capitalized" for financial institutions and holding companies with assets of less than $10 billion and that are not determined to be ineligible by their primary federal regulator due to their risk profile (a "qualifying community bank"). The new definition will expand the ways that a qualifying community bank may meet its capital requirements and be deemed "well qualified." The new rule will establish a "community bank leverage ratio" equal to the tangible equity capital divided by the average total consolidated assets. A qualifying community bank that exceeds a to-be-determined threshold for this new leverage ratio, which regulators must set at between 8% and 10%, will be considered to be well capitalized and to have met generally applicable leverage capital requirements, generally applicable risk-based capital requirements, and any other capital or leverage requirements to which such financial institution or holding company is subject.

In addition, as a result of the Act, the Federal Reserve Board amended its small bank holding company and savings and loan holding company policy statement to provide that holding companies with consolidated assets of less than $3 billion that are (i) not engaged in significant nonbanking activities, (ii) do not conduct significant off-balance sheet activities, and (iii) do not have a material amount of SEC-registered debt or equity securities, other than trust preferred securities, that contribute to an organization's complexity, are no longer subject to regulatory capital requirements.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

The following table presents actual and required capital ratios as of September 30, 2018 and March 31, 2018 for Hamilton Bank and the Company under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of January 1, 2015 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules are fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

	Actual		Minimum Capital Required - Basel III Phase-In Schedule		Minimum Capital Required - Basel III Fully Phased-In		To be well capitalized (1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)							
September 30, 2018								
Common equity tier 1 capital (to risk-weighted assets)								
Hamilton Bank	**$42,984**	**12.20%**	**$22,469**	**6.375%**	**$24,672**	**7.00%**	**$22,910**	**6.50%**
Hamilton Bancorp	**49,116**	**13.89%**	**22,537**	**6.375%**	**24,747**	**7.00%**	**22,979**	**6.50%**
Total risk-based capital (to risk-weighted assets)								
Hamilton Bank	**46,067**	**13.07%**	**34,805**	**9.875%**	**37,008**	**10.50%**	**35,245**	**10.00%**
Hamilton Bancorp	**52,199**	**14.77%**	**34,910**	**9.875%**	**37,120**	**10.50%**	**35,352**	**10.00%**
Tier 1 capital (to risk-weighted assets)								
Hamilton Bank	**42,984**	**12.20%**	**27,756**	**7.875%**	**29,959**	**8.50%**	**28,196**	**8.00%**
Hamilton Bancorp	**49,116**	**13.89%**	**27,840**	**7.875%**	**30,049**	**8.50%**	**28,282**	**8.00%**
Tier 1 capital (to adjusted total assets)								
Hamilton Bank	**42,984**	**8.61%**	**19,962**	**4.000%**	**19,962**	**4.00%**	**24,952**	**5.00%**
Hamilton Bancorp	**49,116**	**9.62%**	**20,415**	**4.000%**	**20,415**	**4.00%**	**25,519**	**5.00%**
March 31, 2018								
Common equity tier 1 capital (to risk-weighted assets)								
Hamilton Bank	$39,126	10.61%	$23,498	6.375%	$25,802	7.00%	$23,959	6.50%
Hamilton Bancorp	47,308	12.79%	23,582	6.375%	25,894	7.00%	24,044	6.50%
Total risk-based capital (to risk-weighted assets)								

Hamilton Bank	41,998	11.39%	36,399	9.875%	38,703	10.50%	36,860	10.00%
Hamilton Bancorp	50,180	13.57%	36,529	9.875%	38,841	10.50%	36,992	10.00%
Tier 1 capital (to risk-weighted assets)								
Hamilton Bank	39,126	10.61%	29,027	7.875%	31,331	8.50%	29,488	8.00%
Hamilton Bancorp	47,308	12.79%	29,131	7.875%	31,443	8.50%	29,593	8.00%
Tier 1 capital (to adjusted total assets)								
Hamilton Bank	39,126	7.64%	20,497	4.000%	20,497	4.00%	25,621	5.00%
Hamilton Bancorp	47,308	9.15%	20,674	4.000%	20,674	4.00%	25,843	5.00%

(1) - Under prompt corrective action

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

In its regulatory report filed as of September 30, 2018, the Bank exceeded all regulatory capital requirements and was considered “well capitalized” under regulatory guidelines. Management is not aware of any events that would have caused this classification to change. Failure to meet the capital requirements could affect, among other things, the Bank's ability to accept brokered deposits and may significantly affect the operations of the Bank. Management has no plans that should change the classification of the capital adequacy.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Note 11: Stock Based Compensation

In November 2013, the Company's shareholders approved a new Equity Incentive Plan (the "2013 Equity Incentive Plan''). The 2013 Equity Incentive Plan allows for up to 148,120 shares to be issued to employees, executive officers or Directors in the form of restricted stock, and up to 370,300 shares to be issued to employees, executive officers or Directors in the form of stock options. At September 30, 2018, there were 92,701 restricted stock awards issued and outstanding and 268,204 stock option awards granted under the 2013 Equity Incentive Plan.

Stock Options:

Under the above plan, the exercise price for stock options is the market price at date of grant. The maximum option term is ten years and the options granted shall vest in five equal annual installments of 20% with the first installment becoming exercisable on the first anniversary of the date of grant and succeeding installments on each anniversary thereafter. The Company plans to issue new shares to satisfy share option exercises. The total cost that has been incurred for the stock option plan was $61,514 and $123,028 for the three and six months ended September 30, 2018 and $57,392 and $114,784 for the three and six months ended September 30, 2017, respectively.

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

The fair value of options granted to date was determined using the following weighted-average assumptions as of grant date.

Grant Date	Number of	Risk Free	Expected Term	Expected Stock	Dividend Yield	Fair Value of

	Options Granted	Interest Rate		(in years)	Price Volatility				Options Granted
February 3, 2014	225,150	2.07	%	7.0	27.30	%	0.00	%	$ 4.65
November 1, 2016	19,000	1.61	%	7.0	27.17	%	0.00	%	$ 4.35
February 3, 2017	3,700	2.27	%	7.0	27.26	%	0.00	%	$ 5.18
April 1, 2018	20,354	2.67	%	7.0	19.61	%	0.00	%	$ 4.05

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

September 30, 2018:	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at April 1, 2018	**242,350**	**$ 13.84**	6.1
Granted	**20,354**	**14.25**	9.5
Exercised	**-**	**-**	-
Forfeited, exchanged or expired	**-**	**-**	-
Outstanding at September 30, 2018	**262,704**	**$ 13.87**	5.9
Vested at September 30, 2018	**180,260**	**$ 13.85**	5.4

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

March 31, 2018:	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at April 1, 2017	242,350	$ 13.84	7.1
Granted	-	-	-
Exercised	-	-	-
Forfeited, exchanged or expired	-	-	-
Outstanding at March 31, 2018	242,350	$ 13.84	6.1
Vested at March 31, 2018	180,260	$ 13.84	5.8

As of September 30, 2018, there was $207,678 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.0 years. The intrinsic value of a stock option is the amount that the market value of the underlying stock exceeds the exercise price of the option. Based upon a fair market value of $14.31 at September 30, 2018, the options outstanding had an intrinsic value of $117,650.

Restricted Stock:

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

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

Weighted-Average

September 30, 2018:	Shares	Fair Value
Nonvested shares at April 1, 2018	**19,440**	**$ 13.74**
Granted	**8,801**	**14.25**
Vested	**(80)**	**14.00**
Forfeited	**-**	**-**
Nonvested shares at September 30, 2018	**28,161**	**$ 13.90**

Fair Value of shares vested at September 30, 2018 **$923,567**

March 31, 2018:	Shares	Weighted-Average Fair Value
Nonvested shares at April 1, 2017	36,220	$ 13.76
Granted	-	-
Vested	(16,780)	13.78
Forfeited	-	-
Nonvested shares at March 31, 2018	19,440	$ 13.74

Fair Value of shares vested at March 31, 2018 $918,555

The Company recorded restricted stock awards expense of $64,089 and $128,178 during the three and six months ended September 30, 2018 and $57,819 and $115,638 during the three and six months ended September 30, 2017, respectively. As of September 30, 2018, there was $222,681 of total unrecognized compensation cost related to nonvested shares granted under the 2013 stock incentive plan. The cost is expected to be recognized over a weighted-average period of 1.9 years.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Note 12: Fair Value Measurements

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

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

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

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

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

Fair value measurements on a recurring basis

Securities available for sale – If quoted prices are available in an active market for identical assets, securities are classified within Level 1 of the hierarchy. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. As of September 30, 2018, and March 31, 2018, the Bank has categorized its investment securities available for sale as follows:

September 30, 2018	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
U.S. government agencies	**$ -**	**$2,711,667**	**$-**	**$2,711,667**
Municipal bonds	**-**	**11,492,431**	**-**	**11,492,431**
Corporate bonds		**-**	**1,949,132**	**1,949,132**
Mortgage-backed securities	**-**	**52,709,759**	**-**	**52,709,759**
Total investment securities available for sale	**$ -**	**$66,913,857**	**$1,949,132**	**$68,862,989**

March 31, 2018	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
U.S. government agencies	$ -	$2,718,649	$-	$2,718,649
Municipal bonds	-	11,705,991	-	11,705,991
Corporate bonds		-	1,954,076	1,954,076
Mortgage-backed securities	-	59,025,404	16	59,025,420
Total investment securities available for sale	$ -	$73,450,044	$1,954,092	$75,404,136

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Derivative – Interest rate swap agreements – The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). The quantitative models that are used utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. As of September 30, 2018, and March 31, 2018, the bank has categorized its interest rate swaps and related loan as follows:

September 30, 2018	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Loans - Commercial real estate loan	$ -	$2,927,163	$ -	$2,927,163
Derivative - Interest rate swap designated as fair value hedge	-	122,377	-	122,377
Derivatives - Interest rate swaps designated as cash flow hedge	-	412,230	-	412,230

March 31, 2018	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Loans - Commercial real estate loan	$ -	$3,022,744	$ -	$3,022,744
Derivative - Interest rate swap designated as fair value hedge	-	69,148	-	69,148
Derivatives - Interest rate swaps designated as cash flow hedge	-	217,464	-	217,464

The following table presents the valuation and unobservable inputs for Level 3 assets measured at fair value on a recurring basis at September 30, 2018:

Description	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
Investment securities	$1,949,132	3rd party valuation	Discount to reflect current market conditions	0.00% - 10.00%

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

	Six Months Ended September 30, 2018	Fiscal Year Ended March 31, 2018
Balance, beginning of year	**$1,954,092**	$1,930,786
Transfers in:		
Corporate bonds	**-**	1,954,076
Mortgage-backed securities	**-**	16
Municipal bonds	**-**	-
Transfers out:		
Corporate bonds	**-**	-
Mortgage-backed securities	**16**	2,473
Municipal bonds	**-**	1,928,313
Change in valuation	**(4,944)**	-
Balance, end of year	**$1,949,132**	$1,954,092

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Fair value measurements on a nonrecurring basis

Impaired Loans - The Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values. As of September 30, 2018, and March 31, 2018, the fair values consist of loan balances of $8,561,924 and $8,720,339 that have been written down by $259,723 and $266,256, respectively, as a result of specific loan loss allowances.

Foreclosed real estate – The Bank's foreclosed real estate is measured at the lower of carrying value or fair value less estimated cost to sell. At September 30, 2018 and March 31, 2018, the fair value of foreclosed real estate was estimated to be $587,978 and $457,778, respectively. Fair value was determined based on offers and/or appraisals. Cost to sell the assets was based on standard market factors. The Company has categorized its foreclosed assets as Level 3.

September 30, 2018	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Impaired loans	**$ -**	**$ -**	**$8,302,201**	**$8,302,201**
Foreclosed real estate	**-**	**-**	**587,978**	**587,978**

March 31, 2018	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Impaired loans	$ -	$ -	$8,454,083	$8,454,083
Foreclosed real estate	-	-	457,778	457,778

The following table presents the valuation and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis at September 30, 2018:

	Valuation	Unobservable	Range of

Description	Fair Value	Methodology	Inputs	Inputs
Impaired loans, net of allowance	$8,302,201	Appraised value	Discount to reflect current market conditions	0.00% - 25.00%
		Discounted cash flows	Discount rates	2.63% - 7.25%
Foreclosed real estate	$587,978	Appraised value	Discount to reflect current market conditions	0.00% - 25.00%

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

	Six Months Ended September 30, 2018	Fiscal Year Ended March 31, 2018
Balance at beginning of period	**$ 457,778**	$503,094
Transfer to foreclosed real estate	**150,052**	23,834
Write-down of foreclosed real estate	**-**	(31,955)
Proceeds from sale of foreclosed real estate	**(19,641)**	(35,896)
Loss on sale of foreclosed real estate	**(211)**	(1,299)
Balance at end of period	**$ 587,978**	$457,778

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

	September 30, 2018		March 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Level 1 inputs				
Cash and cash equivalents	**$22,025,835**	**$22,025,835**	$23,368,415	$23,368,415
Level 2 inputs				
Federal Home Loan Bank stock	**2,782,400**	**2,782,400**	3,122,400	3,122,400
Bank-owned life insurance	**17,684,501**	**17,684,501**	17,455,850	17,455,850
Level 3 inputs				
Certificates of deposit held as investment	**499,144**	**484,051**	499,189	492,751
Loans receivable, net of unearned income	**372,890,164**	**362,598,185**	387,328,993	385,818,260
Financial liabilities				
Level 2 inputs				
Deposits	**388,470,615**	**389,242,489**	405,142,975	405,026,957
Advance payments by borrowers for taxes and insurance	**1,216,584**	**1,216,584**	1,962,665	1,962,665
Borrowings	**53,551,896**	**52,396,435**	60,672,140	60,494,922

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

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

Beginning in the first quarter 2018, the fair value of loans is determined using an exit price methodology as prescribed by ASU 2016-01, which became effective for the Company during in the first quarter ended June 30, 2018. The exit price estimation of fair value is based on the present value of the expected cash flows. The projected cash flows are

based on the contractual terms of the loans, adjusted for prepayments and use of a discount rate based on the relative risk of the cash flows, taking into account the loan type, maturity of the loan, liquidity risk, servicing costs, and a required return on debt and capital (Level 3). In addition, an incremental liquidity discount is applied to certain loans, using historical sales of loans during periods of similar economic conditions as a benchmark. In comparison, loan fair values as of March 31, 2018 were estimated based on an entrance price methodology. As a result, the fair value adjustments as of September 30, 2018 and March 31, 2018 are not comparable.

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

The fair value of interest-bearing checking, savings, and money market deposit accounts is equal to the carrying amount due to these products having no stated maturity. The fair value of fixed-maturity time deposits is estimated based on interest rates currently offered for deposits of similar remaining maturities.

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

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

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

Statements included in this management's discussion and analysis include non-GAAP financial measures and should be read along with the accompanying tables which provide a reconciliation of non-GAAP financial measures to GAAP financial measures. The Company's management uses these non-GAAP financial measures, including tangible common equity, in its analysis of the Company's performance. The tangible common equity non-GAAP reconciliation, which includes tangible book value per share, is presented within the "Summary of Recent Performance and Other Activities" section below.

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

Safe Harbor Statement for Forward-Looking Statements

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

Forward-looking statements are not guarantees of future performance. Numerous risks and uncertainties could cause or contribute to the Company's actual results, performance, and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government, legislative and regulatory changes, the quality and composition of the loan and investment securities portfolio, loan demand, deposit flows, competition, and changes in accounting principles and guidelines. Additional factors that may affect our results are discussed in Part II, Item 1A of this form 10-Q and Item 1A of Hamilton Bancorp, Inc.'s Annual Report on Form 10-K filed June 29, 2018 with the Securities and Exchange Commission under the sections titled *"Risk Factors"*. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

General

Hamilton Bancorp, Inc. (the “Company”) is a Maryland corporation incorporated on June 7, 2012 by Hamilton Bank (the “Bank”) to be its holding company following the Bank’s conversion from the mutual to the stock form of organization (the “Conversion”). The Conversion was completed on October 10, 2012. On that same date, the Company completed its public stock offering and issued 3,703,000 shares of its common stock for aggregate proceeds of $37,030,000, and net proceeds of $35,580,000. The Company’s business is the ownership of the outstanding capital stock of the Bank. On December 21, 2017, the Bank converted its charter from a federal savings bank to a Maryland state-chartered commercial bank and now operates under the laws of the State of Maryland. In conjunction with the Bank’s charter conversion, Hamilton Bancorp converted from a savings and loan holding company to a bank holding company. The charter conversion is part of the bank’s strategic plan which will allow it to continue to focus on growth opportunities in commercial, consumer and mortgage lending as well as small business and retail banking. The Maryland Office of the Commissioner of Financial Regulation will serve as the Bank's primary regulator with federal oversight provided by the Federal Deposit Insurance Corporation. Hamilton Bancorp will continue to be regulated by the Federal Reserve Board.

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Founded in 1915 and celebrating over 100 years of service, the Bank is a community-oriented financial institution, dedicated to serving the financial service needs of consumers and businesses within its market area, which is considered greater Maryland, southern Pennsylvania, Washington D.C., and northern Virginia. We offer a variety of deposit products and provide loans secured by real estate located in our market area. Our real estate loans consist primarily of one-to four-family mortgage loans, as well as commercial real estate loans, and home equity loans and lines of credit. We also offer commercial term and line of credit loans and, to a limited extent, consumer loans. We currently operate out of our corporate headquarters in Towson, Maryland and our seven full-service branch offices located in Baltimore City, Cockeysville, Towson, Rosedale, Ellicott City and Pasadena, Maryland. The Company does not own or lease any property but instead uses the premises, equipment and other property of the Bank.

On May 13, 2016, the Company acquired Fraternity Community Bancorp, Inc. (“Fraternity”), the parent company of Fraternity Federal Savings and Loan in an all cash transaction for $25.7 million. In addition, the Company acquired Fairmount Bancorp, Inc. (“Fairmount”), the parent company of Fairmount Bank on September 11, 2015 in an all cash transaction for $14.2 million. Both acquisitions combined added three branches to our branch structure in the Baltimore area.

On October 23, 2018, the Company and Orrstown, the parent company of Orrstown Bank, signed a definitive agreement and plan of merger under which the Company will merge with and into Orrstown, with Orrstown as the surviving company. Immediately, thereafter, Hamilton Bank will merge with and into Orrstown Bank, with Orrstown Bank as the surviving institution. Hamilton shareholders will receive a combination of cash and stock. Upon completion of the transaction, the combined company is expected to have approximately $2.5 billion in assets, $1.7 billion in loans, and $2.1 billion in deposits. The transaction is expected to close in the second quarter of calendar 2019.

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

Summary of Recent Performance and Other Activities

The Company and its wholly owned subsidiary, Hamilton Bank, continued to show improvement in overall earnings, as well as revenue and loan growth during the three months ended September 30, 2018 compared to the same period a year ago. Net income improved from $411,000 to $665,000 for the comparable periods, an increase of $254,000 or 61.8%, while interest revenue grew from $4.4 million to $4.9 million, an increase of $502,000. These increases are reflective of the overall growth of the loan portfolio over the past year due to organic and purchased loans and the Company’s focus on managing operating expenses. Interest revenue was partially offset by a $364,000 increase in interest expense over this same period due to the rise in interest rates.

Non-interest revenue of $296,000 remained relatively unchanged for the three months ended September 30, 2018 compared to $294,000 for the three months ended September 30, 2017. On a comparative basis, there were increases relating to gain on sale of loans and other noninterest revenue, partially offset by a reduction in earnings on bank-owned life insurance (BOLI) and gains on sale of investment securities. In the prior year period, the Company made a decision to hold in portfolio the majority of our residential loan originations versus selling them in the secondary market to partially offset the increased run-off associated with this loan type. Beginning in fiscal 2019, however, we again started to sell qualified residential loan originations into the secondary market as a means to generate noninterest revenue and diversify our income stream. For the three and six months ended September 30, 2018 we recorded gains of $16,331 and $25,873 on the sale of these loans, respectively.

Non-interest expense for the quarter ended September 30, 2018 declined modestly to $3.1 million from $3.2 million for the quarter ended September 30, 2017. We have been able to manage a growing loan portfolio from an operational cost basis and increase our interest revenue as noted earlier. This is reflected in the improvement of the Company’s efficiency ratio which has improved from 82.4% for the three months ended September 30, 2017 to 77.6% for the three months ended September 30, 2018. We have experienced significant decline in both legal and other professional services expense quarter-over-quarter related to costs incurred in the prior year, including costs associated with our charter conversion and payments under non-compete agreements that were a part of the Fraternity Community Bancorp, Inc. acquisition in May 2016. Offsetting these declines were increases in data processing expense and Federal Deposit Insurance Corporation (FDIC) insurance premiums. Management remains committed to managing our operational expenses and achieving higher efficiencies.

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For the three and six months ended September 30, 2018, the Company did not report any income tax expense due to the release of a portion of the valuation allowance on our net deferred tax assets established in the prior fiscal year. Management concluded, based upon analysis and substantive evidence, particularly negative evidence associated with being in a three-year cumulative loss position, that it is more likely than not that the Company will be unable to generate sufficient taxable income in the foreseeable future to fully utilize the net deferred tax assets. If, in the future, the Company generates taxable income on a sustained basis sufficient to support the deferred tax assets, the need for a deferred tax valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation at that time. The establishment of a valuation allowance on our deferred tax assets for financial reporting purposes does not affect how the net operating loss carryforwards may be utilized on our subsequent income tax returns. Income tax expense for the periods reported is based upon year-to-date results and is not reflective of annual earnings.

The following highlights contain additional financial data and events relating to the three and six months ended September 30, 2018 compared to the same periods ended September 30, 2017:

The Company reported net income of $665,000, or $0.21 per common share, and $1.5 million, or $0.48 per common share for the three and six months ended September 30, 2018, respectively, compared to net income of $411,000, or $0.13 per common share, and $803,000, or $0.25 per common share for the comparable periods ended September 30, 2017. This represents an increase of 92.0% in earnings per share for the six-month comparable periods.

Net interest income for the three months ended September 30, 2018 was $3.7 million, or $138,000 higher than the same period a year ago. For the six months ended September 30, 2018, net interest income increased $352,000, or 4.9%, to $7.6 million compared to $7.2 million for the same six-month period a year ago.

The net interest margin increased 6 basis points from 3.12% to 3.18% for the three months ended September 30, 2017 and 2018, respectively, due to the increase in net interest income. The net interest margin for the six months ended September 30, 2018 also improved from 3.10% to 3.12% for the same reason.

Return on average assets and equity for the first half of fiscal 2019 improved to 0.59% and 5.57%, compared to 0.31% and 2.64% for the first half of fiscal 2018; a 90.3% and 111.0% improvement, respectively.

Efficiency ratio improved from 82.0% for the six months ended September 30, 2017 to 77.3% for the six months ended September 30, 2018; an improvement of 5.7%. The improvement is attributable to increased revenue and the reduction of non-interest expenses, including legal and other professional services.

Total assets declined $23.3 million from $525.5 million at March 31, 2018 to $502.2 million at September 30, 2018. The decline in overall assets is primarily attributable to a decline in investments and gross loans.

Cash and cash equivalents decreased $1.3 million, or 5.7%, to $22.0 million at September 30, 2018, compared to $23.4 million at March 31, 2018, and investments also declined $6.5 million from $75.4 million to $68.9 million over the same period. The decline in the investment portfolio is related to normal principal paydowns on mortgage-backed securities.

Gross loans decreased $14.6 million, or 3.7%, from $389.2 million to $374.6 million. The decrease is due to principal paydowns and pay-offs within the loan portfolio, including $9.6 million in pay-offs related to one commercial relationship that totaled $6.3 million and a commercial real estate nonaccrual loan for $3.3 million.

The allowance for loan losses to nonperforming loans improved to 49.8% from 27.9% over the quarter ended September 30, 2018. This improvement resulted from the pay-off on a $3.3 million nonaccrual loan in which past due interest and all expenses incurred were collected and a $194,000 increase in the allowance for loan losses over the quarter.,

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Annualized net charge-offs to average loans improved to 0.05% for the six-month period ended September 30, 2018 compared to 0.26% for the fiscal year ended March 31, 2018, while the allowance for loan losses as a percentage of gross loans increased from 0.73% to 0.81% over this same period.

Total deposits decreased $16.7 million to $388.5 million at September 30, 2018, while borrowings decreased $7.1 million to $53.5 million. The decline in deposits was largely related to higher costing time deposits which declined by $12.5 million; while lower costing core deposits declined by $4.0 million. Core deposits at September 30, 2018 made up 39.6% of total deposits compared to 38.9% and 40.1% at March 31, 2018 and September 30, 2017, respectively.

At September 30, 2018 the Company had a book value of $16.23 per common share and a tangible book value of $13.57 per common share compared to $15.87 and $13.18, respectively, at March 31, 2018. Book value and tangible book value increased as a result of the net income reported for the quarter. Tangible book value, a non-GAAP measure, was determined as follows:

	September 30, 2018	March 31, 2018
Tangible book value per common share:		
Total shareholders' equity	**$55,459,509**	$54,076,132
Less: Goodwill and other intangible assets	**(9,113,731)**	(9,176,764)
Tangible common equity (Non-GAAP)	**$46,345,778**	$44,899,368
Outstanding common shares	**3,416,414**	3,407,613
Book value per common share (GAAP)	**$16.23**	$15.87
Tangible book value per common share (Non-GAAP)	**$13.57**	$13.18

The Company maintained strong liquidity based upon the amount and make-up of its investment portfolio. At September 30, 2018 the Bank was deemed “well capitalized” under federal regulations.

Strategic Plan

We have based our 2019-2021 strategic plan on the objective of improving shareholder value and growth through creating sustainable and profitable growth given the current and expected economic and competitive environment in the financial services industry. Our short-term goals include continuing the growth of operating revenue, changing the mix of our deposits base to be more concentrated in lower costing core deposits, collecting payments on non-accrual and past due loans, enhancing and improving credit quality, expanding fee income, maintaining a branch network that is economical and efficient, and using technology to improve efficiencies and enhance the customer experience.

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

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

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Low-Cost Funding Strategies – Focusing on utilizing and growing low-cost core deposits as the primary funding source for loans. Given the current environment for higher-returns on investments, the retention of deposit customers along with targeted sales strategies will be important to growing deposits. Comprehensive marketing plans for increasing brand awareness in our market and promotion of products and services will be required, along with a seamless, fully integrated delivery experience for our customers that leverages technology and optimizes efficiencies. These strategies will apply to not just consumers, but to all commercial and small business customers.

Capital to Support Growth – Increasing the capital and value of the holding company's stock through sustainable, consistent earnings, prudent capital management and enhancement of overall "franchise value". We will continually evaluate the Bank's capital needs and, if additional capital is needed, evaluate the most suitable type of capital, whether it be subordinated-debt or common or preferred stock.

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

Critical Accounting Policies

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

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

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

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

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

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

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

If the estimated value of investments is less than the cost or amortized cost, we evaluate whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of the investment. If such an event or change has occurred and we determine that the impairment is other-than-temporary, we record the impairment of the investment in the period in which the event or change occurred. We also consider how long a security has been in a loss position in determining if it is other than temporarily impaired. Management also assesses the nature of the unrealized losses taking into consideration factors such as changes in risk-free interest rates, general credit spread widening, market supply and demand, creditworthiness of the issuer, and quality of the underlying collateral. At September 30, 2018, all of our securities were either issued by U.S. government agencies, U.S. government-sponsored enterprises, municipalities, or corporations.

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

Based on our annual impairment testing as of December 31, 2017, there was no evidence of impairment with respect to the Company's goodwill or intangible assets. Subsequent to this testing, there was a triggering event at March 31,

2018 associated with the establishment of a valuation allowance on our deferred tax asset. Due to this event, we again performed impairment testing on our goodwill and intangible assets and concluded that there was still no impairment.

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

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

Analysis of Financial Condition at September 30, 2018 and March 31, 2018

Assets. Total assets decreased $23.3 million to $502.2 million at September 30, 2018 from $525.5 million at March 31, 2018. The decrease is primarily attributable to a $14.6 million reduction in gross loans, a $6.5 million decrease in the investment portfolio, and a $1.3 million decline in cash and cash equivalents.

Cash and Cash Equivalents. Cash and cash equivalents at September 30, 2018 totaled $22.0 million compared to $36.1 million and $23.4 million at June 30, 2018 and March 31, 2018, respectively; a 64.1% decline over the last quarter. The higher balances through June 30, 2018 were a result of proceeds received from principal paydowns and/or pay-offs within the loan portfolio and a declining investment portfolio from normal principal payments associated with the mortgage-backed security portfolio. Excluding funds needed for liquidity and operational needs, management intends to utilize any excess cash for future loan growth and/or possible repayment of maturing advances.

Investment Securities. Our investment portfolio consists primarily of investment grade securities including U.S. government agency and government-sponsored entity (“GSEs”) securities, securities issued by states, counties and municipalities, corporate bonds, and mortgage-backed securities. At September 30, 2018, all securities are classified as available for sale. While we usually intend to hold investment securities until maturity, this classification provides us the opportunity to divest of securities that may no longer meet our liquidity objectives. During the six months ended September 30, 2018, we did not sell any securities.

Investment securities decreased $6.5 million, or 8.7%, to $68.9 million at September 30, 2018, from $75.4 million at March 31, 2018. The decrease is attributable to $7.1 million in cash flows resulting from normal principal payments associated with our collateralized mortgage obligation and mortgage-backed security portfolios, partially offset by the purchase of one security during the six-month period with a book value of $2.0 million. The fair value of the investment portfolio declined $606,000 from an unrealized net loss position of $2.9 million at March 31, 2018 to an unrealized net loss position of $3.5 million at September 30, 2018. The decrease in fair value of the investment portfolio is a result of the increase in interest rates over the past six months.

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

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Loans. Excluding loan premiums and loan origination fees and costs, gross loans receivable decreased by $14.6 million, or 3.7%, to $374.6 million at September 30, 2018 from $389.2 million at March 31, 2018. The decrease is primarily attributable to normal principal pay-downs and pay-offs within the loan portfolio, including $6.3 million in pay-offs associated with one commercial relationship and $3.3 million attributed to one nonaccrual loan in which we collected all of our principal and past due interest, plus all legal and other expenses incurred. Included in gross loans at September 30, 2018 are acquired loans with a book balance of $104.5 million associated with the prior acquisitions of Fraternity and Fairmount institutions (these loans are reflected in the "acquired" loan column of the table below). At September 30, 2018, gross loans receivable represented 74.6% of total assets compared to 68.6% of total assets a year ago. The following table details the composition of loans and the related percentage mix and growth of total loans:

	September 30, 2018				March 31, 2018				Year
	Legacy	**Acquired**	**Total**	**Percent of Total**	Legacy	Acquired	Total	Percent of Total	Amo
Real estate loans:									
One-to four-family:									
Residential	**$83,090,271**	**$68,932,853**	**$152,023,124**	**40.6%**	$85,248,184	$72,749,066	$157,997,250	40.6%	$(5,9
Residential construction	**3,639,139**	**-**	**3,639,139**	**1.0%**	5,450,827	-	5,450,827	1.4%	(1,8
Investor	**7,880,161**	**17,002,668**	**24,882,829**	**6.6%**	9,275,031	17,460,809	26,735,840	6.9%	(1,8
Commercial	**105,679,013**	**10,017,465**	**115,696,478**	**30.9%**	100,403,769	11,762,485	112,166,254	28.8%	3,5
Commercial construction	**2,529,160**	**928,008**	**3,457,168**	**0.9%**	5,763,784	1,352,019	7,115,803	1.8%	(3,6
Total real estate loans	**202,817,744**	**96,880,994**	**299,698,738**	**80.0%**	206,141,595	103,324,379	309,465,974	79.5%	(9,7
Commercial business	**36,134,376**	**1,755,200**	**37,889,576**	**10.1%**	38,302,739	1,841,226	40,143,965	10.4%	(2,2
Home equity loans	**14,183,532**	**5,184,176**	**19,367,708**	**5.2%**	13,956,327	6,039,462	19,995,789	5.1%	(62
Consumer	**16,973,316**	**719,527**	**17,692,843**	**4.7%**	18,849,448	766,063	19,615,511	5.0%	(1,9
Gross loans	**$270,108,968**	**$104,539,897**	**$374,648,865**	**100.0%**	$277,250,109	$111,971,130	$389,221,239	100.0%	$(14

The Company's largest category of loans continues to be residential one-to four-family loans as a result of the loans acquired in the Fraternity and Fairmount acquisitions. This segment of our loan portfolio comprises 40.6% of the entire loan portfolio at September 30, 2018, the same percentage as of March 31, 2018 despite a decrease of $6.0 million. During the last half of fiscal 2017 and into fiscal 2018 we retained in portfolio many of the traditional residential mortgage loans we originated, versus selling them in the secondary market, due to the increase in normal attrition within this loan segment resulting from our acquisitions. Prior to that time, we generally sold these loans in the secondary market at a premium to assist with managing interest rate risk and to enhance non-interest revenue. At the beginning of this year, we began to once again sell most newly originated residential loans that qualify into the secondary market versus putting them in portfolio for those same reasons. To date we have originated and sold $1.3 million in loans into the secondary market. Because of this, we expect the one-to four-family residential loan portfolio to continue to decline as we focus more on the growth within the commercial portfolio to replace the residential

run-off and assist with managing interest rate risk.

As a means to supplement our residential loan portfolio, the Company began to promote its one-to-four family residential construction lending program several years ago. During the first half of fiscal 2019, the Bank originated commitments of $6.2 million in residential construction loans. At September 30, 2018 we have $8.4 million in residential construction commitments, of which $3.6 million in funds have been advanced; compared to $8.7 million in residential construction commitments at March 31, 2018 of which $5.4 million in funds had been advanced. The construction period on residential homes is typically nine to twelve months, at which time the Bank is often repaid through permanent financing by a third party.

Real estate investor loans represent funds advanced to borrowers for the purchase or refinance of non-owner occupied one-to-four family properties. These loans made up $24.9 million, or 6.6%, of gross loans at September 30, 2018, including a remaining balance of $17.0 million of such loans acquired from Fraternity and Fairmount. This type of lending typically involves more risk than originating owner-occupied one-to-four family residential mortgages. The Bank typically refrains from originating this type of loan.

The Bank continues to focus on growth through origination and/or purchase of both commercial real estate and commercial business loans as these loans offer higher rates of return and shorter maturity periods than typical retail lending. Over the six months ended September 30, 2018, we saw strong organic growth within our commercial real estate loan portfolio. We organically originated $11.5 million in commercial real estate loans and transferred or reclassed nearly $2.0 million more from commercial construction loans over this period. This resulted in an overall increase, after several loan pay-offs and normal principal payments, of nearly $3.5 million within this loan segment. Commercial business loans declined from $40.1 million to $37.9 million, a decrease of 5.6% or $2.3 million. Commercial business loans, although relatively stable, can fluctuate based upon demands or pay-downs on respective lines of credit. Overall commercial loans, including commercial construction loans, have declined since March 31, 2018 due to $6.3 million in pay-offs associated with one commercial relationship that had several commercial loans with the Bank and the pay-off of a nonaccrual commercial real estate loan with a book balance of $3.3 million.

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Bank-Owned Life Insurance. We invest in bank-owned life insurance ("BOLI") to provide us with a funding source for our benefit plan obligations. BOLI also provides us noninterest income that is tax-exempt. Our investment in BOLI increased by $129,000 to $17.7 million at September 30, 2018. The increase is attributable to the increase in cash surrender value of the underlying insurance policies. Federal regulations generally limit our investment in BOLI to 25% of our Tier 1 capital plus our allowance for loan losses. Our amount of BOLI at September 30, 2018 exceeded these limits because of the BOLI we acquired in the Fraternity acquisition in May 2016 and the increase in cash surrender value of these policies over the years. Due to the amount of BOLI currently held, the Company has no plans to purchase additional BOLI at this time.

Deposits. Total deposits (excluding premiums on acquired deposits) decreased $16.5 million, or 4.1%, to $388.2 million at September 30, 2018 from $404.7 million at March 31, 2018. The Company continues to focus on generating lower cost, core deposits (which includes all deposits other than certificates of deposit) to support continued loan growth. Core deposits accounted for 39.6% of total deposits at September 30, 2018, compared to 39.0% at March 31, 2018.

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

	September 30, 2018		March 31, 2018		Year-To-Date Growth	
	Total	**Percent of Total**	Total	Percent of Total	Amount	Growth Percent
Savings	**$38,539,878**	**9.9 %**	$42,499,381	10.6 %	$(3,959,503)	-9.3 %
Noninterest-bearing checking	**28,816,887**	**7.4 %**	29,557,943	7.3 %	(741,056)	-2.5 %
Interest-bearing checking	**28,727,675**	**7.4 %**	27,219,286	6.7 %	1,508,389	5.5 %
Money market accounts	**57,641,094**	**14.8 %**	58,466,228	14.4 %	(825,134)	-1.4 %
Time deposits	**234,488,724**	**60.4 %**	246,988,613	61.0 %	(12,499,889)	-5.1 %
	$388,214,258	**100.0 %**	$404,731,451	100.0 %	$(16,517,193)	-4.1 %
Premium on deposits asssumed	**256,357**		411,524		(155,167)	
Total deposits	**$388,470,615**		$405,142,975		$(16,672,360)	

Our strategy with respect to deposits has been to maintain our current certificate of deposit base as needed to support loan demand by pricing more competitively in the marketplace or through short-term certificate of deposit promotions, as we focus on growing our core deposits at a faster pace to reduce our overall cost of funds. During the first half of fiscal 2019, however, we have not been as aggressive in maintaining our certificates of deposits based upon funding and liquidity needs. Over this period, time deposits have decreased $12.5 million, or 5.1%, to $234.5 million at September 30, 2018. As interest rates have risen in the past six months, the market competition for time deposits has gotten more competitive with respect to pricing. We have strategically decided not to price at the top of the market, unless through a promotional deposit product, or match competitor pricing in certain circumstances as a means to manage interest expense. Core deposits though have also decreased $4.0 million, or 2.5%, from $157.7 million at March 31, 2018 to $153.7 million at September 30, 2018. There may be instances though when funding demands are more immediate. To meet these demands, the Company entered into a contract and began utilizing a

certificate of deposit subscription service in the third quarter of fiscal 2018. The cost of these deposits is more expensive than traditional certificates of deposit because of the ability to provide the funding needed in a timely manner; but can be less costly than borrowing from the Federal Home Loan Bank or other sources. During the first six months of fiscal 2019 we did not need to utilize this service to originate deposits to support any additional funding requirements.

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Borrowings. Borrowings consist of both short and long-term advances from the Federal Home Loan Bank (FHLB). At September 30, 2018, outstanding advances from the FHLB decreased $7.1 million, or 11.75, to $53.6 million compared to $60.7 million at March 31, 2018. Approximately $6.0 million of this decline occurred during the quarter ended September 30, 2018. During the first half of fiscal 2019 we have had $29.0 million in borrowings that have either matured or been called. We elected to rollover $22.0 million of those borrowings and pay-off $7.0 million to date.

At September 30, 2018, $7.0 million of the total advances are considered short-term and mature in less than one year, while the remaining $46.6 million in advances are considered long-term and mature in more than one year (See Note 7 of the Notes to Consolidated Financial Statements). Included in long-term advances is $11.6 million in advances that mature on a quarterly basis; however, they are associated with several cash flow hedge transactions and will be continuously renewed over the expected life of the hedged transactions. The hedge transactions currently have an average life of 5.8 years. Excluding the advances associated with the hedge transactions, the longest outstanding borrowing is for $2.0 million and matures in September 2023.

The FHLB borrowings provide an alternative means to support the cash outflow needed to fund new loan originations in coordination with deposit growth. FHLB borrowings can provide a less expensive means to support cash outflow when compared to selling higher yielding investment securities. These obligations are secured by our residential and home equity loan portfolios. At September 30, 2018, we had the ability to borrow approximately $76.7 million in additional funds from the FHLB, subject to our pledging sufficient assets. These obligations will be repaid as our cash position strengthens.

Equity. Total equity increased $1.4 million or 2.6%, to $55.5 million at September 30, 2018 from $54.1 million at March 31, 2018. The change in equity is primarily attributable to net income of $1.5 million reported for the first six months of fiscal 2019, along with a $251,000 increase in additional paid in capital resulting from the expense derived from equity awards granted in prior periods and a $194,000 increase in the market value of our cash flow hedge on FHLB borrowings. These increases were partially offset by a $412,000 decline in accumulated other comprehensive loss associated with the decrease in the fair value of the investment portfolio. The fair value of the investment portfolio decreased while the fair value of our cash flow hedge increased due to rising interest rates that occurred over that same period. The Company’s book value per common share was $16.23 at September 30, 2018 compared to $15.87 at March 31, 2018. At September 30, 2018, the Bank remains “well capitalized” as defined under federal regulations.

Analysis of Asset Quality at September 30, 2018, March 31, 2018, and September 30, 2017

The Bank’s asset quality remains a primary focus of management and the Board of Directors. Nonperforming assets at September 30, 2018, were $6.7 million, an increase of $957,000 from March 31, 2018 and a $293,000 increase from September 30, 2017. Nonperforming assets to total assets decreased from 1.45% at March 31, 2018 to 1.33% at

September 30, 2018. Nonperforming assets for the respective periods were as follows:

	At or For The Three Months Ended September 30, 2018	At or For The Year Ended March 31, 2018	At or For The Three Months Ended September 30, 2017
	(dollars in thousands)		
Nonaccruing loans	**$5,745**	$5,964	$ 5,488
Accruing loans delinquent more than 90 days	**338**	1,206	407
Foreclosed real estate	**588**	458	483
Total nonperforming assets	**$6,671**	$7,628	$ 6,378
Asset Quality Ratios:			
Nonperforming loans to gross loans	**1.62 %**	1.84 %	1.60 %
Nonperforming assets to total assets	**1.33 %**	1.45 %	1.24 %
Net charge-offs (annualized) to average loans	**0.05 %**	0.26 %	0.00 %

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Nonaccrual loans decreased to $5.7 million at September 30, 2018 compared to $6.0 million at March 31, 2018. During the first six months of fiscal 2019, nonaccrual loans reached a high of $8.9 million due to the addition of one commercial real estate relationship at the end of the first quarter with a recorded value of $3.1 million. The borrower continues to make timely payments under the original terms of that loan and has never been delinquent; however, review of their financial information indicates they do not have sufficient cash flow to service the debt thus we have placed it on nonaccrual status. To date there is no impairment associated with this relationship based upon the most recently obtained appraised value. In July 2018, another commercial real estate loan that was already on nonaccrual, with a recorded value of $3.3 million, was resolved and paid-off with no loss to the Bank. Proceeds from the pay-off included payment of principal, past due interest and all legal and other expenses incurred. The net of these two loans are primarily responsible for the $219,000 decrease in nonaccrual loans from March 31, 2018 to September 30, 2018.

As of September 30, 2018, there are two commercial real estate relationships totaling $4.4 million that are a part of the $5.7 million in nonaccrual loans, including the one relationship that was added in the first quarter of fiscal 2019 that was previously discussed. Both relationships have been reviewed for impairment and recorded at their fair value based upon recent appraisals, one of which has incurred $1.9 million in write-downs through charge-offs over the past two years. Management continues to actively explore options and work with the borrowers to obtain the best outcome for the Bank, which may or may not result in new or additional write-downs.

There were $167,000 in nonaccrual commercial business loans at September 30, 2018 compared to $165,000 at March 31, 2018. The recorded book balance of $167,000 in loans is primarily comprised of four commercial lease loans to different borrowers with a combined contractual balance of $613,000 and charge-offs totaling $454,000. The purpose of the loans was to provide funding to purchase medical equipment related to cosmetic surgery. Based upon the inability to generate sufficient revenue, the borrowers stopped making payments on the leases or asked for the equipment to be repossessed. All four loans are fully guaranteed by the respective borrowers.

The remaining balance of nonaccrual loans at September 30, 2018 consisted of $702,000 in one-to four-family residential mortgage loans, including two loans with a book balance of $275,000 that were acquired loans, and $421,000 in residential investor loans. The majority of the residential investor loans were acquired in the Fairmount acquisition.

Included in nonperforming assets are accruing loans delinquent more than 90 days. These loans represent loans that are on accrual status and making payments, however, such loans are 90 days past their contractual maturity date, and therefore reported as nonperforming. At March 31, 2018, these loan balances were elevated as they related to several borrowing relationships that are comprised of many smaller investor (residential non-owner occupied) loans that matured at the same time. The decline over the first half of fiscal 2019 is a result of the Bank’s credit department working diligently to obtain the necessary financial information from these borrowers so that these loans can either be renewed or extended accordingly.

Delinquencies 30-89 days past due increased $81,000 to $1.4 million at September 30, 2018 from $1.3 million at March 31, 2018. This increase is attributable to an increase in delinquencies associated with one-to four-family residential mortgage loans and commercial construction loans over this period, partially offset by a decrease in commercial business loans. One-to four-family residential loan delinquencies increased $184,000 from $823,000 at March 31, 2018 to $1.0 million at September 30, 2018, including one loan with a recorded balance of $557,000; while commercial construction loans increased $160,000 over this same six-month period due to one loan that became past due. Commercial business loans, however, decreased from $270,000 at March 31, 2018 to none being reported at September 30, 2018. The decrease is related to one commercial business loan that made the necessary payments and became current, while another loan became 90 days past due and was moved to nonaccrual. The Bank is monitoring the delinquent loans closely and working with the borrowers to develop a payment plan to make the loans current again. If the borrowers are unable to bring these loans current or re-pay or re-finance the respective loans, there could be future charge-offs associated with these loans based upon collateral values.

Foreclosed real estate at September 30, 2018 increased $130,000 from $458,000 at March 31, 2018 to $588,000 at September 30, 2018 and consisted of six properties. One of the six properties consist of semi-developed land with a fair value of $411,000. The property is listed for sale and is participated with another financial institution, with Hamilton being the lead lender. The remaining five properties totaling $177,000 are comprised of one-to-four family residential mortgage loans, including one property with a value of $130,000 that was added during the second quarter of fiscal 2019. The remaining four properties are all participations in which Hamilton owns less than 15% of and is not the lead lender.

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The Bank recorded a $302,000 provision for loan loss during the first six months of fiscal 2019 compared to a $280,000 provision for loan loss for the same period a year ago. The provision for loan loss for the six months ended September 30, 2018 was a result of $93,000 in net charge-offs and roughly $294,000 in additional reserves associated with the revaluation of our environmental factors (see Note 1 of the Financial Statements under *Summary of Significant Accounting Policies* for further discussion), partially offset by a decline in loan balances; compared to prior year provisions which were primarily related to growth within the loan portfolio. The allowance for loan losses at September 30, 2018 totaled $3.0 million, or 0.81% of gross loans, compared to the same $2.8 million, or 0.73% of gross loans, at March 31, 2018. The change in percentage was due to in part to both the decrease in overall loan balances and the increase in the allowance for loan losses itself. This overall percentage remains relatively low compared to peers as a result of our acquired loan portfolios. Loans acquired in an acquisition are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. We continue to monitor and manage the acquired loan portfolio to determine if additional provisions are necessary in relation to the estimated fair value placed on those loans at acquisition date as determined by management.

The activity in the allowance for loan losses for the nine-month period ended September 30, 2018 includes $130,000 in charge-offs, offset by $37,000 in recoveries and a $302,000 provision for loan losses. We currently review the adequacy of the allowance for loan losses on a quarterly basis and are proactively managing problem assets. Based upon our analysis, we believe this allowance appropriately reflects the inherent risk of loss in our loan portfolio at September 30, 2018. We estimate the allowance for loan losses based upon a four-year charge-off history and certain environmental factors.

Results of Operations for the Three Months Ended September 30, 2018 and 2017 (unaudited)

General. Net income for the quarter ended September 30, 2018 was $665,000, or $0.21 per common share, compared to net income of $411,000, or $0.13 per common share for the quarter ended September 30, 2017, a quarter-over-quarter increase of $254,000. The increase in net income was driven by an increase in net interest income associated with growth in loans over the past year, lower noninterest expense, and no tax expense due to the establishment of a full valuation allowance on our net deferred tax assets at the end of fiscal 2018; partially offset by an increase in our provision for loan losses.

Net Interest Income. Net interest income increased $138,000, or 3.8%, to $3.7 million for the three-months ended September 30, 2018 compared to $3.6 million for the three-months ended September 30, 2017. The increase in net interest income was due to a $502,000 increase in interest revenue, partially offset by a $364,000 increase in interest expense. The increase in interest revenue was due to an increase in the average balance of interest-earning assets, particularly higher yielding loans, as well as an increase in the average yield on interest-earning assets. The average balance in interest-earning assets increased $10.0 million, or 2.1%, for the quarter ended September 30, 2018 compared to the same period in fiscal 2018, while the average yield increased 35 basis points to 4.19% from 3.84%, respectively. The average balances increased quarter-over-quarter due to organic loan growth and the purchase of several pools of loans in the second half of fiscal 2018, including residential mortgage loan pools totaling $19.2 million and several guaranteed SBA loans equal to $3.2 million.

The increase in interest expense for the quarter ended September 30, 2018 compared to the same quarter last year was the result of a 33 basis points increase in the average cost of interest-bearing liabilities. The average cost of interest-bearing liabilities increased from 0.80% for the three months ended September 30, 2017 to 1.13% for the three months ended September 30, 2018. In addition, the average balance of interest-bearing liabilities also increased $7.2 million from $413.8 million to $420.9 million. The increase resulted from the growth in average borrowings, partially offset by a decrease in average interest-bearing deposits. The net interest margin increased 6 basis point from 3.12% for the three months ended September 30, 2017 to 3.18% for the three months ended September 30, 2018.

Interest Revenue. Interest revenue increased $502,000, or 11.3% to $4.9 million during the three months ended September 30, 2018 compared to $4.4 million for the three months ended September 30, 2017. The increase resulted from increases in interest and fees on loans and interest on federal funds sold and other bank deposits, partially offset by a decrease in interest from investment securities.

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Interest and fees on loans increased $465,000, or 11.8%, to $4.4 million for the three months ended September 30, 2018, compared to $3.9 million for the three months ended September 30, 2017. The increase in interest and fees on loans is due to a $20.3 million increase in the average balance of net loans from $354.4 million to $374.8 million quarter-over-quarter. The increase in average loans is attributable to organic growth generated by our commercial lending area and strategic loan purchases that occurred in the second half of fiscal 2018. In addition, the average yield earned on loans increased 25 basis points from 4.45% for the quarter ended September 30, 2017 to 4.70% for the quarter ended September 30, 2018. The increase in yield is a result of interest revenue recognized during the quarter relating to pay-off on a $3.3 million nonaccrual loan and the collection of past due interest, as well as overall higher rates on new loan originations due to rising interest rates.

Interest revenue on investment securities decreased $50,000 to $423,000 for the three months ended September 30, 2018 from $474,000 for the three months ended September 30, 2017. The decrease is related to the average balance of investment securities decreasing $23.0 million, or 23.4%, to $75.0 million for the three months ended September 30, 2018 from $97.9 million for the same period last year, while the average yield increased 33 basis points to 2.26% from 1.93%. The largest decrease in investment securities was in mortgage-backed securities, which decreased $19.0 million to $54.8 million for the three months ended September 30, 2018 from $73.8 million for the same period last year. The average balance of investment securities also decreased quarter-over-quarter by $3.9 million. The decrease in average investments is attributable to both normal principal paydowns related to mortgage-backed securities over the past twelve months, along with $11.6 million in securities that were sold between August and December 2017. One investment security, with a book value of $2.0 million, was purchased during the first quarter of fiscal 2019.

Interest Expense. Interest expense increased $364,000, or 44.0%, to $1.2 million for the three months ended September 30, 2018 compared to $828,000 for the same period in fiscal 2018, due to the increase in the average cost of both interest-bearing deposits and borrowings. The average cost of interest-bearing deposits increased 29 basis points from 0.72% for the three months ended September 30, 2017 to 1.01% for the three months ended September 30, 2018. The increase in average cost was partially offset by a decrease in the average balance of interest-bearing deposits. The average balance of interest-bearing deposits decreased $5.7 million, or 1.5%, to $365.8 million for the three months ended September 30, 2018 from $371.4 million for the three months ended September 30, 2017. Due to the increase in costs, the interest expense associated with interest-bearing deposits increased $252,000, or 37.7%, period-over-period.

For the three-month period ended September 30, 2018, average interest-bearing deposit balances, other than checking accounts, decreased for all types of deposits when compared to the same period a year ago. As interest rates have risen over the past year, the market competition for deposits, in particular time deposits and money market accounts, has become more competitive with respect to pricing. We have strategically decided not to price our deposits at the top of the market, unless through a promotional deposit product, or to match competitor pricing in certain circumstances as a means to manage interest expense. The Company continues to focus on generating lower cost, core deposits (which includes all deposits other than certificates of deposit) to support continued loan growth. The average balance of core interest-bearing deposits decreased $3.9 million, or 2.9%, to $133.3 million for the three-month period ended September 30, 2018 compared to $129.4 million for the three months ended September 30, 2017. The average balance of time deposits also decreased $1.8 million, or less than 1.0%, to $236.4 million for the quarter ended September 30, 2018 compared to $238.2 for the quarter ended September 30, 2017.

Noninterest-bearing deposits allow us to fund growth in interest-earning assets at minimal cost. Average noninterest-bearing deposits decreased $396,000, or 1.3%, to $29.7 million for the three months ended September 30, 2018, compared to $30.1 million for the three months ended September 30, 2017. Our cash management personnel and commercial loan officers remain focused in working with commercial clients to move their core deposit relationships to Hamilton Bank and provide lower cost of funds.

For the three-month period ended September 30, 2018, average borrowings were $55.2 million compared to an average balance of $42.3 million for the same period a year ago. The increase in borrowings is associated with funds needed to purchase several loan portfolios over the last half of fiscal 2018 and a declining deposit base. The borrowings primarily consisted of advances from the Federal Home Loan Bank. At September 30, 2018, the Bank had $53.6 million in outstanding advances from the FHLB, a decrease of $6.0 million since June 30, 2018. The borrowings carried an average rate of 1.97% for the three months ended September 30, 2018; a 47 basis points increase from 1.50% for the same period a year ago. Borrowing from the FHLB in today’s low interest rate environment can be a more cost-effective means to obtain funds if deposits are not growing compared to selling investment securities that are earning a higher yield.

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

	Three Months Ended September 30, (dollars in thousands)					
	2018			**2017**		
	Average Balance	**Interest**	**Yield/ Cost**	**Average Balance**	**Interest**	**Yield/ Cost**
Interest-earning assets:						
Interest bearing deposits with banks	**$22,421**	**$ 114**	**2.03%**	$10,217	$ 27	1.06%
Investment securities (1)	**20,161**	**158**	**3.13%**	24,076	159	2.64%
Mortgage-backed securities	**54,804**	**265**	**1.93%**	73,836	314	1.70%
Loans receivable, net (2)	**374,765**	**4,404**	**4.70%**	354,437	3,939	4.45%
Total interest-earning assets	**472,151**	**4,941**	**4.19%**	462,566	4,439	3.84%
Noninterest-earning assets	**39,655**			49,141		
Total assets	**$511,806**			$511,707		
Interest-bearing liabilities:						
Statement savings	**$39,648**	**$ 12**	**0.12%**	$43,655	$ 13	0.12%
Checking accounts	**29,665**	**3**	**0.04%**	26,265	2	0.03%
Money market	**60,062**	**102**	**0.68%**	63,342	80	0.51%
Certificates of deposit	**236,385**	**804**	**1.36%**	238,173	574	0.96%
Total interest-bearing deposits	**365,760**	**921**	**1.01%**	371,435	669	0.72%
Borrowings	**55,187**	**272**	**1.97%**	42,349	159	1.50%
Total interest-bearing liabilities	**420,947**	**1,193**	**1.13%**	413,784	828	0.80%
Noninterest-bearing liabilities and equity:						
Noninterest-bearing deposits	**29,700**			30,096		
Other noninterest-bearing liabilities	**5,063**			6,538		
Total liabilities	**455,710**			450,418		
Total shareholders' equity	**56,096**			61,289		
Total liabilities and shareholders' equity	**$511,806**			$511,707		
Net interest income		**$ 3,748**			$ 3,611	
Net interest rate spread (3)			**3.05%**			3.05%
Net interest-earning assets (4)	**$51,204**			$48,782		
Net interest margin (5)			**3.18%**			3.12%
Average interest-earning assets to average interest-bearing liabilities	**112.16 %**			111.79 %		

(1) Includes U.S agency and treasury securities, municipal and corporate bonds and to a much lesser extent, Federal Home Loan Bank equity securities.

(2) Loans on non-accrual status are included in average loans carrying a zero yield.

(3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing libilities.

(4) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

(5) Net interest margin represents net interest income divided by average total interest-earning assets.

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Provision for Loan Losses. We establish provisions for loan losses that are charged to operations in order to maintain the allowance for loan losses at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. There was $242,000 charged to the provision for loan losses for the three months ended September 30, 2018 compared to a provision for loan loss of $120,000 for the three months ended September 30, 2017. In the current quarter, the $242,000 provision for loan loss recorded is primarily attributable to $48,000 in net charge-offs experienced during the quarter and roughly $294,000 in additional reserves associated with the revaluation of our environmental factors (see Note 1 of the Financial Statements under *Summary of Significant Accounting Policies* for further discussion), partially offset by a decline in loan balances; compared to the provision for the prior year quarter, which was related to growth within the loan portfolio, as reflected in the table below.

The allowance for loan losses was $3.0 million, or 49.8% of non-performing loans at September 30, 2018 compared to $2.5 million, or 41.9% of non-performing loans at September 30, 2017. The increase in the percentage is a result of the decrease in loans over this period, partially offset by a $200,000 increase in nonperforming loans. The $6.1 million in non-performing loans at September 30, 2018 primarily consisted of two commercial real estate relationships totaling $4.3 million. The first relationship has a recorded value of $3.1 million and was placed on nonaccrual in June 2018, while the second relationship has a book value of $1.2 million and has had $1.9 million in charge-offs over the past two years. Both relationships have been recorded at their net realizable fair value based upon recent appraisals. No additional charge-offs are anticipated with these relationships at this time; however, changes in property values and other circumstances may result in additional charge-offs at a later date.

During the three months ended September 30, 2018, loan charge-offs totaled $83,000 with recoveries of $35,000, compared to $21,000 in charge-offs and $14,000 in recoveries during the three months ended September 30, 2017. During fiscal year 2019, we expect that we will continue our emphasis in growing commercial real estate and commercial business loans, which have higher interest rates than one-to four-family mortgage loans, thus are generally considered to bear higher risk than one-to four-family mortgage loans and could contribute to higher loan loss provisions going forward.

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

	Three Months Ended September 30,	
	2018	**2017**
	(dollars in thousands)	
Allowance for loan losses at beginning of period	**$2,837**	$2,358
Charge-offs:		

Real estate loans:		
Residential	**6**	9
Investor	**2**	11
Commercial	**-**	-
Commercial construction	**-**	-
Commercial business	**75**	-
Home equity	**-**	-
Consumer	**-**	1
Total charge-offs	**83**	21
Recoveries	**35**	14
Net charge-offs	**48**	7
Provision for loan losses	**242**	120
Allowance for loan losses at end of period	**$3,031**	$2,471
Allowance for loan losses to non-performing loans	**49.83%**	41.92%
Allowance for loan losses to total loans outstanding at the end of the period	**0.81 %**	0.67 %
Net charge-offs to average loans outstanding during the period (annualized)	**0.05 %**	0.01 %

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Noninterest Revenue. Noninterest revenue increased $2,000 to $296,000 for the three months ended September 30, 2018, compared to $294,000 for the three-months ended September 30, 2017. The following table outlines the changes in noninterest revenue for the three-month periods.

	Three months ended September 30,			
	2018	2017	$ Change	% Change
Service charges	**$120,966**	$118,851	$2,115	1.8
Gain on sale of investment securities	**-**	10,381	(10,381)	(100.0)
Gain on sale of loans held for sale	**16,331**	-	16,331	N/A
Earnings on bank-owned life insurance	**115,126**	123,818	(8,692)	(7.0)
Other fees and commissions	**43,793**	41,394	2,399	5.8
Total noninterest revenue	**$296,216**	$294,444	$1,772	0.6

Service charges associated with retail and commercial deposit products increased slightly during the three-months ending September 30, 2018 compared to the same period a year ago. Management remains focused on growing core deposits, particularly checking accounts, which typically generate more service fee income. The average balance relating to overall checking accounts for the three months ended September 30, 2018 was $59.4 million compared to an average balance of $56.4 million at September 30, 2017, an increase of 5.3%, or $3.0 million. We continue to review and evaluate our fee structure to be more aligned with our market. Customers, however, have become more cost conscious of fees and better manage their deposit relationship with the Bank.

During the three months ended September 30, 2018, the Company was able to enhance noninterest revenue by $16,000 relating to gains on loans sold to the secondary market. In the last quarter of fiscal 2017 and into fiscal 2018, the Company purposely held in portfolio the majority of our residential loan originations to partially offset the increased run-off associated with this loan segment. Beginning in fiscal 2019, however, we again started to sell qualified residential loan originations into the secondary market as a means to generate noninterest revenue and diversify our income stream. . In the prior year three-month period we also realized gains on the sale of investment securities of $10,000 compared to none for the three months ended September 30, 2018.

In addition to these gains, the Company also experienced a $2,000 increase in other noninterest revenue that includes the collection of certain loan fees, merchant card services and other miscellaneous items. Meanwhile, earnings on BOLI declined $9,000 due to a reduction in the cash surrender value of the Company’s outstanding BOLI related to the pay-out of death benefits in the fourth quarter of fiscal 2018.

Noninterest Expense. Noninterest expense decreased $79,000 to $3.1 million for the three-months ended September 30, 2018 compared to $3.2 million the same period a year ago. The following table outlines the changes within

noninterest expense for those periods.

	Three months ended September 30,			
	2018	2017	$ Change	% Change
Salaries and benefits	**$1,861,756**	$1,858,828	$2,928	0.2
Occupancy	**243,186**	239,415	3,771	1.6
Advertising	**14,958**	14,170	788	5.6
Furniture and equipment	**78,972**	85,754	(6,782)	(7.9)
Data processing	**208,888**	181,506	27,382	15.1
Legal services	**67,623**	119,104	(51,481)	(43.2)
Other professional services	**103,219**	212,519	(109,300)	(51.4)
Deposit insurance premiums	**112,821**	73,762	39,059	53.0
Foreclosed real estate expense and losses	**9,302**	113	9,189	(8,131.9)
Other operating	**436,740**	431,717	5,023	1.2
Total noninterest expense	**$3,137,465**	$3,216,888	$(79,423)	(2.5)

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Overall our operating expenses have remained relatively unchanged, despite decreased operating expenses in certain areas related to prior year expenses that were incurred, offset by increases in others due to operating as a larger financial institution. We have been able to manage a growing loan portfolio from an operational cost basis and continue to increase our interest revenue. This is reflected in the improvement of the Company's efficiency ratio which has improved from 82.4% for the three months ended September 30, 2017 to 77.6% for the three months ended September 30, 2018. Management remains committed to reducing operational expenses and achieving higher efficiencies.

Salaries and benefit expense remains our highest operational cost and increased by only $3,000, or less than 1.0%, quarter-over-quarter. This modest increase is due to annual evaluations and respective salary increases, partially offset by unfilled positions and a decrease in employee benefits related to lower costs associated with health insurance and our employee stock ownership plan (ESOP). Health insurance expense decreased due to the timing of an annual rebate we received at the end of the quarter, while the decrease in the ESOP is related to the decrease in the Company's average stock price quarter-over-quarter. Also included in salaries and benefits for the three months ended September 30, 2018 and 2017, is $91,000 and $80,000 in expense, respectively, relating to prior equity awards granted to officers under the Company's Equity Incentive Plan. The equity awards provide for management to have a vested interest in the performance of the company and share in the benefit of an increase in shareholder value. Similarly, other operating expenses for the same periods include $35,000 in each of the comparable periods associated with equity awards granted to Directors.

The Company realized an increase in operating expenses relating to data processing and deposit insurance premiums for the three-month periods ended September 30, 2018 and 2017. Data processing costs increased $27,000 for the comparable quarters due to annual cost increases, along with the introduction of new technology that has made banking easier for our customers, including products such as mobile banking and our on-line consumer loan application. FDIC insurance premiums have also increased $39,000 to $113,000 for the three months ended September 30, 2018 compared to $74,000 for the three months ended September 30, 2017. This increase is attributable to the Company's lower capital position that resulted from the establishment of a valuation allowance on our deferred tax asset at the end of March 2018. A financial institution's FDIC insurance base is determined based upon an institutions average consolidated assets less tangible equity.

Offsetting the increases in noninterest expenses has been a $51,000 reduction in legal expenses and a $109,000 reduction in other professional services. Legal expense has declined because of higher costs incurred in the prior year associated with our charter conversion and consultation with counsel to advise on agreements associated with loan purchases and certain problem loans. Other professional services declined because of costs incurred in the prior year associated with payments under non-compete agreements that were a part of the Fraternity acquisition in May 2016. The terms and the payments under the non-compete agreements were fully satisfied in April 2018. In addition, in the second quarter of the prior year the Company began to utilize the services of a financial consultant to assist the Bank in areas to generate more revenue. Those consulting services were utilized through March 2018.

Income Tax Expense. For the three months ended September 30, 2018, the Company did not report any income tax expense on pre-tax income of $665,000 compared to tax expense of $158,000 for the three months ended September 30, 2017 after pre-tax income of $568,000. There was no tax expense during the current quarter due to the release of a portion of the valuation allowance on our net deferred tax assets established in the prior fiscal year. In accordance with Accounting Standards Codification (ASC) 740, *Accounting for Income Taxes*, at September 30, 2018, the Company has assessed whether the deferred tax assets are more likely than not to be realized based on an evaluative process that considers all available positive and negative evidence. As part of this evaluative process, management considered the following sources of taxable income: 1.) taxable income in prior carryback years; 2.) the future reversals of taxable temporary differences; 3.) tax planning strategies; and 4.) future taxable income exclusive of reversing temporary differences and carryforwards. In making a conclusion, management evaluated all the available positive and negative evidence impacting these sources of taxable income. The first three options are more quantifiable and verifiable; however, management has concluded they are not viable sources of taxable income. As such, the positive evidence that has been most heavily relied upon, but the most subjective, is future taxable income exclusive of reversing temporary differences and carryforwards. Based upon the Company being in a three-year cumulative loss position, which creates negative evidence, and because this evidence is considered significant, management has concluded that there is more negative evidence than positive evidence and therefore, it is more likely than not that the Company will be unable to generate sufficient taxable income in the foreseeable future to fully utilize the net deferred tax assets.

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If, in the future, the Company generates taxable income on a sustained basis sufficient to support the deferred tax assets, the need for a deferred tax valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation at that time. The establishment of a valuation allowance on our deferred tax assets for financial reporting purposes does not affect how the net operating loss carryforwards may be utilized on our subsequent income tax returns. The valuation allowance on the Company's net deferred tax assets decreased $141,000 to $5.4 million at September 30, 2018, from $5.6 million at June 30, 2018 due to book income of $665,000 and adjustments for permanent and temporary book-tax differences. Income tax expense for the periods reported is based upon year-to-date results and is not reflective of annual earnings.

Results of Operations for the Six Months Ended September 30, 2018 and 2017 (unaudited)

General. Net income was $1.5 million, or $0.48 per common share for the six-month period ended September 30, 2018 compared to a net income of $803,000, or $0.25 per common share for the same period in fiscal 2018, a period-over-period increase of $741,000. The increase in net income was driven by an increase in net interest income associated with growth in loans over the past twelve months, lower noninterest expense, and no tax expense due to the establishment of a full valuation allowance on our net deferred tax assets at the end of fiscal 2018.

Net Interest Income. Net interest income increased $352,000, or 4.9%, to $7.6 million for the six months ended September 30, 2018 compared to $7.2 million for the six months ended September 30, 2017. The increase in net interest income was due to a $1.1 million increase in interest revenue, partially offset by a $703,000 increase in interest expense. The increase in interest revenue was due to an increase in the average balance of interest-earning assets, particularly higher yielding loans, as well as an increase in average yield on interest-earning assets. The average balance in interest-earning assets increased $20.4 million, or 4.4%, over the first half of fiscal year 2019 compared to the same period in fiscal 2018, while the average yield increased 28 basis points to 4.08% from 3.80%, respectively. The average balances increased period-over-period due to organic loan growth and the purchase of several pools of loans in the second half of fiscal 2018, including residential mortgage loan pools totaling $19.2 million and several guaranteed SBA loans equal to $3.2 million.

The increase in interest expense for the six-month period ended September 30, 2018 compared to the same period last year was the result of a 30 basis points increase in the average cost of interest-bearing liabilities. The average cost of interest-bearing liabilities increased from 0.78% for the six months ended September 30, 2017 to 1.08% for the six months ended September 30, 2018. In addition, the average balance of interest-bearing liabilities also increased $13.4 million from $415.7 million to $429.1 million. The increase resulted from the growth in average borrowings, partially offset by a decrease in average interest-bearing deposits. The net interest margin increased 2 basis point from 3.10% for the six months ended September 30, 2017 to 3.12% for the six months ended September 30, 2018.

Interest Revenue. Interest revenue increased $1.1 million, or 12.0% to $9.9 million during the six months ended September 30, 2018 compared to $8.8 million for the three months ended September 30, 2017. The increase resulted

from increases in interest and fees on loans and interest on federal funds sold and other bank deposits, partially offset by a decrease in interest on investment securities.

Interest and fees on loans increased $1.0 million, or 13.2%, to $8.8 million for the six months ended September 30, 2018, compared to $7.8 million for the six months ended September 30, 2017. The increase in interest and fees on loans is due to a $31.8 million increase in the average balance of net loans from $345.5 million to $377.2 million period-over-period. The increase in average loans is attributable to organic growth generated by our commercial lending area and strategic loan purchases that occurred in the second half of fiscal 2018. In addition, the average yield earned on loans increased 16 basis points from 4.51% for the six months ended September 30, 2017 to 4.67% for the six months ended September 30, 2018. The increase in yield is a result of interest revenue recognized during the first half of the fiscal year relating to early pay-offs on acquired loans and the associated purchase accounting marks, pay-off on a $3.3 million nonaccrual commercial loan in which all past due interest was collected, as well as overall higher rates on new loan originations due to rising interest rates.

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Interest revenue on investment securities decreased $113,000 to $846,000 for the six months ended September 30, 2018 from $959,000 for the six months ended September 30, 2017. The decrease is related to the average balance of investment securities decreasing $24.2 million, or 24.0%, to $76.6 million for the six months ended September 30, 2018 from $100.8 million for the same period last year, while the average yield increased 31 basis points to 2.21% from 1.90%. The largest decrease in investment securities was in mortgage-backed securities, which decreased $20.0 million to $56.5 million for the six months ended September 30, 2018 from $76.5 million for the same period last year. The average balance of investment securities also decreased period-over-period by $4.2 million. The decrease in average investments is attributable to both normal principal paydowns related to mortgage-backed securities over the past twelve months, along with $11.6 million in securities that were sold between August and December 2017. One investment security, with a book value of $2.0 million, was purchased during the first quarter of fiscal 2019.

Interest Expense. Interest expense increased $703,000, or 43.3%, to $2.3 million for the six months ended September 30, 2018 compared to $1.6 million for the same period in fiscal 2018, due to the increase in the average cost of both interest-bearing deposits and borrowings. The average cost of interest-bearing deposits increased 26 basis points from 0.78% for the six months ended September 30, 2017 to 0.97% for the six months ended September 30, 2018. The increase in average cost was partially offset by a decrease in the average balance of interest-bearing deposits. The average balance of interest-bearing deposits decreased $4.8 million, or 1.3%, to $371.6 million for the six months ended September 30, 2018 from $376.5 million for the six months ended September 30, 2017. Due to the increase in costs, the interest expense associated with interest-bearing deposits increased $465,000, or 35.0%, period-over-period.

For the six-month period ended September 30, 2018, average interest-bearing deposit balances, other than checking accounts, decreased for all types of deposits when compared to the same period a year ago. As interest rates have risen over the past year, the market competition for deposits, in particular time deposits and money market accounts, has gotten more competitive with respect to pricing. We have strategically decided not to price our deposits at the top of the market, unless through a promotional deposit product, or match competitor pricing in certain circumstances as a means to manage interest expense. The Company continues to focus on generating lower cost, core deposits (which includes all deposits other than certificates of deposit) to support continued loan growth. The average balance of core interest-bearing deposits decreased $2.9 million, or 2.2%, to $131.7 million for the six-month period ended September 30, 2018 compared to $134.6 million for the six months ended September 30, 2017. The average balance of time deposits also decreased $1.9 million, or less than 1.0%, to $239.9 million compared to $241.8 for the same periods, respectively.

Noninterest-bearing deposits allow us to fund growth in interest-earning assets at minimal cost. Average noninterest-bearing deposits decreased $562,000, or 1.9%, to $29.0 million for the six months ended September 30, 2018, compared to $29.5 million for the six months ended September 30, 2017. Our cash management personnel and commercial loan officers remain focused in working with commercial clients to move their core deposit relationships to Hamilton Bank and provide lower cost of funds.

For the six-month period ended September 30, 2018, average borrowings were $57.4 million compared to an average balance of $39.2 million for the same period a year ago. The increase in borrowings is associated with funds needed to

purchase several loan portfolios over the last half of fiscal 2018 and a declining deposit base. The borrowings consisted of advances from the Federal Home Loan Bank. At September 30, 2018, the Bank had $53.6 million in outstanding advances from the FHLB, a decrease of $6.0 million since June 30, 2018. The borrowings carried an average rate of 1.85% for the six months ended September 30, 2018; a 36 basis points increase from 1.49% for the same period a year ago. Borrowing from the FHLB in today’s low interest rate environment can be a more cost-effective means to obtain funds if deposits are not growing compared to selling investment securities that are earning a higher yield.

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

	Six Months Ended September 30, (dollars in thousands)					
	2018			**2017**		
	Average Balance	**Interest**	**Yield/ Cost**	**Average Balance**	**Interest**	**Yield/ Cost**
Interest-earning assets:						
Cash and cash equivalents	**$30,644**	**$ 224**	**1.46%**	$17,811	$ 81	0.91
Investment securities (1)	**20,134**	**306**	**3.04%**	24,298	306	2.52
Mortgage-backed securities	**56,465**	**540**	**1.91%**	76,496	653	1.71
Loans receivable, net (2)	**377,221**	**8,812**	**4.67%**	345,455	7,787	4.51
Total interest-earning assets	**484,464**	**9,882**	**4.08%**	464,060	8,827	3.80
Noninterest-earning assets	**34,586**			48,919		
Total assets	**$519,050**			$512,979		
Interest-bearing liabilities:						
Statement savings	**$40,849**	**$ 25**	**0.12%**	$44,117	$ 27	0.12
Checking accounts	**30,226**	**5**	**0.03%**	26,450	5	0.04
Money market	**60,640**	**201**	**0.66%**	64,082	169	0.53
Certificates of deposit	**239,914**	**1,564**	**1.30%**	241,804	1,129	0.93
Total interest-bearing deposits	**371,629**	**1,795**	**0.97%**	376,453	1,330	0.71
Borrowings	**57,422**	**531**	**1.85%**	39,211	293	1.49
Total interest-bearing liabilities	**429,051**	**2,326**	**1.08%**	415,664	1,623	0.78
Noninterest-bearing liabilities and equity:						
Noninterest-bearing deposits	**28,962**			29,524		
Other noninterest-bearing liabilities	**5,596**			6,891		
Total liabilities	**463,609**			452,079		
Total shareholders' equity	**55,441**			60,900		
Total liabilities and shareholders' equity	**$519,050**			$512,979		
Net interest income		**$ 7,556**			$ 7,204	
Net interest rate spread (3)			**3.00%**			3.02
Net interest-earning assets (4)	**$55,413**			$48,396		
Net interest margin (5)			**3.12%**			3.10
Average interest-earning assets to average interest-bearing liabilities	**112.92 %**			111.64 %		

(1) Includes U.S agency and treasury securities, municipal and corporate bonds and to a much lesser extent, Federal Home Loan Bank equity securities.

(2) Loans on non-accrual status are included in average loans carrying a zero yield.

(3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing libilities.

(4) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

(5) Net interest margin represents net interest income divided by average total interest-earning assets.

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Provision for Loan Losses. We establish provisions for loan losses that are charged to operations in order to maintain the allowance for loan losses at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. There was $302,000 charged to the provision for loan losses for the six months ended September 30, 2018 compared to a provision for loan loss of $280,000 for the six months ended September 30, 2017. In the first half of fiscal 2019, the $302,000 provision for loan loss recorded is primarily attributable to $93,000 in net charge-offs experienced over this period and roughly $294,000 in additional reserves associated with the revaluation of our environmental factors (see Note 1 of the Financial Statements under *Summary of Significant Accounting Policies* for further discussion), partially offset by a decline in loan balances; compared to the provision for the prior year comparable period, which was related to growth within the loan portfolio, as reflected in the table below.

The allowance for loan losses was $3.0 million, or 49.8% of non-performing loans at September 30, 2018 compared to $2.5 million, or 41.9% of non-performing loans at September 30, 2017. The increase in the percentage is a result of the decrease in loans over this period, partially offset by a $200,000 increase in nonperforming loans. The $6.1 million in non-performing loans at September 30, 2018 primarily consisted of two commercial real estate relationships totaling $4.3 million. The first relationship has a recorded value of $3.1 million and was placed on nonaccrual in June 2018, while the second relationship has a book value of $1.2 million and has had $1.9 million in charge-offs over the past two years. Both relationships have been recorded at their net realizable fair value based upon recent appraisals. No additional charge-offs are anticipated with these relationships at this time; however, changes in property values and other circumstances may result in additional charge-offs at a later date.

During the six months ended September 30, 2018, loan charge-offs totaled $130,000 with recoveries of $37,000, compared to $25,000 in charge-offs and $21,000 in recoveries during the six months ended September 30, 2017. During fiscal year 2019, we expect that we will continue our emphasis in growing commercial real estate and commercial business loans, which have higher interest rates than one-to four-family mortgage loans, thus are generally considered to bear higher risk than one-to four-family mortgage loans and could contribute to higher loan loss provisions going forward.

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

	Six Months Ended September 30,	
	2018	**2017**
	(dollars in thousands)	
Allowance for loan losses at beginning of period	**$2,822**	$2,195
Charge-offs:		

Real estate loans:		
Residential	**14**	9
Investor	**8**	15
Commercial	**31**	-
Construction	**-**	-
Commercial business	**75**	-
Home equity	**-**	-
Consumer	**2**	1
Total charge-offs	**130**	25
Recoveries	**37**	21
Net charge-offs	**93**	4
Provision for loan losses	**302**	280
Allowance for loan losses at end of period	**$3,031**	$2,471
Allowance for loan losses to non-performing loans	**49.83%**	41.92%
Allowance for loan losses to total loans outstanding at the end of the period	**0.81 %**	0.67 %
Net charge-offs to average loans outstanding during the period (annualized)	**0.05 %**	0.00 %

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Noninterest Revenue. Noninterest revenue increased $26,000, or 4.6%, to $587,000 for the six months ended September 30, 2018, compared to $561,000 for the six months ended September 30, 2017. The following table outlines the changes in noninterest revenue for the six-month periods.

	Six months ended September 30,			
	2018	2017	$ Change	% Change
Service charges	**$241,549**	$238,050	$3,499	1.5
Gain on sale of investment securities	**-**	10,381	(10,381)	(100.0)
Gain on sale of loans held for sale	**25,873**	-	25,873	N/A
Earnings on bank-owned life insurance	**228,651**	246,393	(17,742)	(7.2)
Other fees and commissions	**90,917**	66,112	24,805	37.5
Total noninterest revenue	**$586,990**	$560,936	$26,054	4.6

Service charges associated with retail and commercial deposit products increased slightly during the six months ended September 30, 2018 compared to the same period a year ago. Management remains focused on growing core deposits, particularly checking accounts, which typically generate more service fee income. The average balance relating to overall checking accounts for the six months ended September 30, 2018 was $59.2 million compared to an average balance of $56.0 million at September 30, 2017, an increase of 5.7%, or $3.2 million. We continue to review and evaluate our fee structure to be more aligned with our market. Customers, however, have become more cost conscious of fees and better manage their deposit relationship with the Bank.

During the six months ended September 30, 2018, the Company was able to enhance noninterest revenue by $26,000 relating to gains on loans sold to the secondary market. In the last quarter of fiscal 2017 and into fiscal 2018, the Company purposely held in portfolio the majority of our residential loan originations to partially offset the increased run-off associated with this loan segment. Beginning in fiscal 2019, however, we again started to sell qualified residential loan originations into the secondary market as a means to generate noninterest revenue and diversify our income stream. In the prior year six-month period we also realized gains on the sale of investment securities of $10,000 compared to none for the six months ended September 30, 2018.

In addition to these gains, the Company also experienced a $24,000 increase in other noninterest revenue that includes the collection of certain loan fees, merchant card services and other miscellaneous items. Loan fees and merchant card services each increased $3,000 period-over-period. Meanwhile, earnings on BOLI declined $18,000 due to a reduction in the cash surrender value of the Company’s outstanding BOLI related to the pay-out of death benefits in the fourth quarter of fiscal 2018.

Noninterest Expense. Noninterest expense decreased $73,000 to $6.3 million for the six months ended September 30, 2018 compared to $6.4 million the same period a year ago. The following table outlines the changes within noninterest expense for those periods.

	Six months ended September 30,			
	2018	2017	$ Change	% Change
Salaries and benefits	**$3,741,180**	$3,711,999	$29,181	0.8
Occupancy	**515,014**	500,253	14,761	3.0
Advertising	**31,982**	41,198	(9,216)	(22.4)
Furniture and equipment	**169,271**	169,738	(467)	(0.3)
Data processing	**401,541**	346,356	55,185	15.9
Legal services	**123,962**	220,994	(97,032)	(43.9)
Other professional services	**201,535**	392,820	(191,285)	(48.7)
Deposit insurance premiums	**213,930**	130,890	83,040	63.4
Foreclosed real estate expense and losses	**9,302**	1,299	8,003	616.1
Other operating	**889,207**	854,366	34,841	4.1
Total noninterest expense	**$6,296,924**	$6,369,913	$(72,989)	(1.1)

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Overall our operating expenses have remained relatively unchanged, despite decreased operating expenses in certain areas related to prior year expenses that were incurred, offset by increases in others due to operating as a larger financial institution. We have been able to manage a growing loan portfolio from an operational cost basis and continue to increase our interest revenue. This is reflected in the improvement of the Company's efficiency ratio which has improved from 82.0% for the six months ended September 30, 2017 to 77.3% for the six months ended September 30, 2018. Management remains committed to reducing operational expenses and achieving higher efficiencies.

Salaries and benefit expense remains our highest operational cost and increased by $29,000, or less than 1.0%, quarter-over-quarter. This modest increase is due to annual evaluations and respective salary increases and bonus accruals, partially offset by unfilled positions. Included in salaries and benefits for the six months ended September 30, 2018 and 2017, is $182,000 and $161,000 in expense, respectively, relating to prior equity awards granted to officers under the Company's Equity Incentive Plan. The equity awards provide for management to have a vested interest in the performance of the company and share in the benefit of an increase in shareholder value. Similarly, other operating expenses for the same periods include $70,000 in each of the comparable periods associated with equity awards granted to Directors.

The Company realized an increase in operating expenses relating to data processing and deposit insurance premiums for the six-month periods ended September 30, 2018 and 2017. Data processing costs increased $55,000 for the comparable quarters due to annual cost increases, along with the introduction of new technology that has made banking easier for our customers, including products such as mobile banking and our on-line consumer loan application. FDIC insurance premiums have also increased $83,000 to $214,000 for the six months ended September 30, 2018 compared to $131,000 for the six months ended September 30, 2017. This increase is attributable to the Company's lower capital position that resulted from the establishment of a valuation allowance on our deferred tax asset at the end of March 2018. A financial institution's FDIC insurance base is determined based upon an institutions average consolidated assets less tangible equity.

Offsetting the increases in noninterest expenses has been a $97,000 reduction in legal expenses and an $191,000 reduction in other professional services. Legal expense has declined because of higher costs incurred in the prior year associated with our charter conversion and consultation with counsel to advise on agreements associated with loan purchases and certain problem loans. Other professional services declined because of costs incurred in the prior year associated with payments under non-compete agreements that were a part of the Fraternity acquisition in May 2016. The terms and the payments under the non-compete agreements were fully satisfied in April 2018. In addition, in the second quarter of the prior year the Company began to utilize the services of a financial consultant to assist the Bank in areas to generate more revenue. Those consulting services were utilized through March 2018.

Income Tax Expense. For the six months ended September 30, 2018, the Company did not report any income tax expense on pre-tax income of $1.5 million compared to tax expense of $312,000 for the six months ended September 30, 2017 after pre-tax income of $1.1 million. There was no tax expense during the first half of fiscal 2019 due to the release of a portion of the valuation allowance on our net deferred tax assets established in the prior fiscal year. In accordance with Accounting Standards Codification (ASC) 740, *Accounting for Income Taxes*, at September 30, 2018,

the Company has assessed whether the deferred tax assets are more likely than not to be realized based on an evaluative process that considers all available positive and negative evidence. As part of this evaluative process, management considered the following sources of taxable income: 1.) taxable income in prior carryback years; 2.) the future reversals of taxable temporary differences; 3.) tax planning strategies; and 4.) future taxable income exclusive of reversing temporary differences and carryforwards. In making a conclusion, management evaluated all the available positive and negative evidence impacting these sources of taxable income. The first three options are more quantifiable and verifiable; however, management has concluded they are not viable sources of taxable income. As such, the positive evidence that has been most heavily relied upon, but the most subjective, is future taxable income exclusive of reversing temporary differences and carryforwards. Based upon the Company being in a three-year cumulative loss position, which creates negative evidence, and because this evidence is considered significant, management has concluded that there is more negative evidence than positive evidence and therefore, it is more likely than not that the Company will be unable to generate sufficient taxable income in the foreseeable future to fully utilize the net deferred tax assets.

If, in the future, the Company generates taxable income on a sustained basis sufficient to support the deferred tax assets, the need for a deferred tax valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation at that time. The establishment of a valuation allowance on our deferred tax assets for financial reporting purposes does not affect how the net operating loss carryforwards may be utilized on our subsequent income tax returns. The valuation allowance on the Company’s net deferred tax assets decreased $361,000 to $5.4 million at September 30, 2018, from $5.8 million at March 30, 2018 due to book income of $1.5 million and adjustments for permanent and temporary book-tax differences. Income tax expense for the periods reported is based upon year-to-date results and is not reflective of annual earnings.

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Liquidity and Capital Resources

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

We also have the ability to borrow from the FHLB to meet our funding and liquidity needs. At September 30, 2018, we had $53.6 million in borrowings from the FHLB and the capacity to borrow approximately $76.7 million more, subject to our pledging sufficient assets.

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

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

Our most liquid assets are cash and cash equivalents and interest-earning deposits. The level of these assets depends on our operating, financing, lending, and investing activities during any given period. At September 30, 2018, cash and cash equivalents totaled $22.0 million and securities classified as available-for-sale amounted to $68.9 million.

Total deposits decreased $16.7 million over the six months ended September 30, 2018, while total deposits decreased $18.7 million over the same period a year ago. Deposit flows are affected by the level of interest rates, the interest rates and products offered by competitors and other factors. In the first half of fiscal 2018, we continued our focus in growing our lower costing core deposits (considered to be all deposits other than certificates of deposit) to assist in funding organic loan growth. As interest rates have risen over the past year, the market competition for deposits, in particular time deposits and money market accounts, has become more competitive with respect to pricing. We have strategically decided not to price at the top of the market, unless through a promotional deposit product, or match

competitor pricing in certain circumstances as a means to manage interest expense. Certificates of deposit due allow us to lock in those funds for an extended period of time based upon current interest rates. At September 30, 2018, certificates of deposit scheduled to mature within one year totaled $126.2 million, or 53.8% of certificates of deposit. We believe the large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for longer periods due to the current low interest rate environment and local competitive pressures. Whether we retain these deposits will be determined in part by the interest rates we are willing to pay on such deposits. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on certificates of deposit due on or before September 30, 2019.

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In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, unused lines of credit and letters of credit. At September 30, 2018, we had $49.3 million in commitments to extend credit outstanding.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Based on our deposit retention experience and current pricing strategy, we anticipate that a significant portion of maturing time deposits will be retained. However, our retention experience could be impacted by the merger with Orrstown and our depositor's decision to place their funds elsewhere (see Part II – Other Information; Item 1A. Risk Factors for further discussion).

At September 30, 2018, we exceeded all of the applicable regulatory capital requirements for the Bank (See capital tables in Note 10 of the Notes to Consolidated Financial Statements). Our regulatory risk weighted capital ratios increased during the first half of fiscal 2019 as a result of an increase in our capital levels due to the net income recorded for the quarter.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a discussion of our market risk, please refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2018 filed on June 29, 2018. The Company's market risk has not changed materially from that disclosed in the annual report.

Item 4. Controls and Procedures

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

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

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

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Part II – Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

For information regarding the Company's risk factors, see Part I, Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended March 31, 2018, filed with the Securities and Exchange Commission on June 29, 2018. As of September 30, 2018, additional risk factors of the Company related to the Merger with Orrstown are noted below:

The termination fee and the restrictions on third party proposals set forth in the Merger Agreement may discourage others from trying to acquire us.

Until the completion of the Merger, with some exceptions, we are prohibited from soliciting, initiating, encouraging or participating in any discussion of any inquiries or proposals that may lead to an acquisition proposal, such as a merger or other business combination transaction, with any person other than Orrstown. In addition, we have agreed to pay to Orrstown in certain circumstances, including if we terminate the Merger Agreement to enter into a transaction with another party, a termination fee equal to $ 2,212,500. These provisions could discourage other companies from trying to acquire us even though those other companies might be willing to offer greater value to our stockholders than Orrstown has offered in the Merger. Similarly, such a competing company might propose a price lower than it might otherwise have been willing to offer because of the potential added expense of the termination fee that may become payable to Orrstown in certain circumstances under the Merger Agreement.

If the Merger is not completed, we will have incurred significant expenses without realizing the expected benefits of the Merger and could be subject to additional risks.

Prior to completion of the Merger, we will incur or have incurred substantial expenses in connection with the completion of the transactions contemplated by the Merger Agreement. If the Merger is not completed, we would have to recognize these expenses without receiving the Merger consideration. In addition, if the Merger is not

completed, we may experience negative reactions from the financial markets and from our customers and employees. The market price of our common stock may decline significantly, particularly to the extent that the current market price reflects a market assumption that the Merger will be consummated. We also could be subject to litigation related to any failure to complete the Merger or to proceedings commenced by Orrstown against us seeking damages or to compel us to perform our obligations under the Merger Agreement. These factors and similar risks could have an adverse effect on the results of operations, business and stock prices of the Company.

We will be subject to business uncertainties and contractual restrictions while the Merger is pending.

Uncertainty about the effect of the Merger on employees, customers, suppliers and vendors may have an adverse effect on our business, financial condition and results of operations. These uncertainties may impair our ability to retain and motivate key personnel pending the consummation of the Merger, as such, personnel may experience uncertainty about their future roles following the consummation of the Merger. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with Orrstown our business could be harmed. Additionally, these uncertainties could cause customers (including depositors and borrowers), suppliers, vendors and others who deal with us to seek to change existing business relationships with us or fail to extend an existing relationship with us. In addition, competitors may target our existing customers by highlighting potential uncertainties and integration difficulties that may result from the Merger.

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The pursuit of the Merger and the preparation for the integration may place a burden on our management and internal resources. Any significant diversion of management attention away from ongoing business concerns and any difficulties encountered in the transition and integration process could have a material adverse effect on our business, financial condition and results of operations.

In addition, in the Merger Agreement we have agreed to operate our business in the ordinary course prior to closing and are restricted from taking certain actions without Orrstown's consent while the Merger is pending. These restrictions may, among other matters, prevent us from pursuing otherwise attractive business opportunities, selling assets, incurring indebtedness, engaging in significant capital expenditures in excess of certain limits set forth in the Merger Agreement, entering into other transactions or making other changes to our business prior to consummation of the Merger or termination of the Merger Agreement. These restrictions could have a material adverse effect on our business, financial condition and results of operations.

Our stockholders will not be entitled to dissenters' or appraisal rights in the Merger.

Dissenters' or appraisal rights are statutory rights that, if applicable under law, enable stockholders to dissent from an extraordinary transaction, such as a Merger, and to demand that the corporation pay the fair value for their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to stockholders in connection with the extraordinary transaction. Under Maryland law, holders of our common stock do not have the right to dissent from the Merger Agreement and seek an appraisal in connection with the Merger.

Litigation may be filed against the board of directors of the Company and/or Orrstown that could prevent or delay the completion of the Merger or result in the payment of damages following completion of the Merger.

In connection with the Merger, it is possible that our stockholders may file putative class action lawsuits against the boards of directors of the Company and/or Orrstown. Among other remedies, these stockholders could seek to enjoin the Merger. The outcome of any such litigation would be uncertain. If a dismissal is not granted or a settlement is not reached, such potential lawsuits could prevent or delay completion of the Merger and result in substantial costs to Orrstown and the Company, including any costs associated with indemnification obligations of the Company and/or Orrstown.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit 2.1	Agreement and Plan of Merger dated as of October 23, 2018 by and between Orrstown Financial Services, Inc. ("Orrstown") and Hamilton Bancorp, Inc. (incorporated by reference to Exhibit 2.1 of Orrstown's Current Report on form 8-K (File No. 001-34292) filed with the SEC on October 24, 2018).*
Insert 10.1	Form of Voting Agreement (incorporated by reference to Exhibit 10.1 to Orrstown's Current Report on Form 8-K (File No. 001-34292) filed with the SEC on October 24, 2018).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of September 30, 2018 (unaudited) and March 31, 2018; (ii) the Consolidated Statements of Operations for the three and six months ended September 30, 2018 and 2017 (unaudited); (iii) the Consolidated Statements of Comprehensive Income for the three and six months ended September 30, 2018 and 2017 (unaudited); (iv) the Consolidated Statements of Equity for the six months ended September 30, 2018 and 2017 (unaudited); (v) the Consolidated Statement of Cash Flows for the six months ended September 30, 2018 and 2017 (unaudited); and (vi) Notes to Consolidated Financial Statements (unaudited).

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* Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K.

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SIGNATURES

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

HAMILTON BANCORP, INC.

Date: November 14, 2018 /s/ Robert A. DeAlmeida
Robert A. DeAlmeida
President and Chief Executive Officer

Date: November 14, 2018 /s/ John P. Marzullo
John P. Marzullo
Senior Vice President, Chief Financial Officer and Treasurer