Hamilton Bancorp, Inc.
Form 10-Q
August 15, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from _______________ to _______________

Commission File No. 001-35693

Hamilton Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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

(410) 823-4510

(Registrant's telephone number)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days.

YES [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES [X] NO [ ]

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if smaller reporting company)	Smaller reporting company [X]

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

YES [ ] NO [X]

3,413,646 shares of the Registrant's common stock, par value $0.01 per share, were issued and outstanding as of August 15, 2016.

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Hamilton Bancorp, Inc. and Subsidiaries

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Part I. – Financial Information

Item 1. Financial Statements

HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Financial Condition

June 30, 2016 and March 31, 2016

	June 30, 2016 (Unaudited)	March 31, 2016 (Audited)
Assets		
Assets		
Cash and due from banks	$51,189,015	$47,101,688
Federal funds sold	13,647,738	20,346,848
Cash and cash equivalents	64,836,753	67,448,536
Certificates of deposit held as investment	3,726,067	3,968,229
Securities available for sale, at fair value	80,523,378	70,484,400
Federal Home Loan Bank stock, at cost	1,640,100	1,042,500
Loans held for sale	-	259,450
Loans and leases, net of unearned income	331,438,194	221,859,056
Allowance for loan losses	(1,896,972)	(1,702,365)
Net loans and leases	329,541,222	220,156,691
Premises and equipment, net	4,284,327	3,555,474
Premises and equipment held for sale	405,000	405,000
Foreclosed real estate	460,780	443,015
Accrued interest receivable	1,388,315	948,166
Bank-owned life insurance	17,880,474	12,709,908
Deferred income taxes	5,141,277	2,353,141
Income taxes refundable	228,920	228,920
Goodwill and other intangible assets	10,655,873	7,386,111
Other assets	2,051,298	1,527,014
Total Assets	$522,763,784	$392,916,555

Liabilities and Shareholders' Equity
Liabilities

Noninterest-bearing deposits	**$22,132,850**	$19,747,437
Interest-bearing deposits	**403,391,490**	294,246,214
Total deposits	**425,524,340**	313,993,651
Borrowings	**28,487,127**	14,805,237
Advances by borrowers for taxes and insurance	**3,069,417**	1,079,794
Other liabilities	**4,019,560**	1,493,290
Total liabilities	**461,100,444**	331,371,972
Commitments and contingencies	**-**	-
Shareholders' Equity		
Common stock, $.01 par value, 100,000,000 shares authorized. Issued: 3,413,646 shares at June 30, 2016 and March 31, 2016	**34,136**	34,136
Additional paid in capital	**31,351,459**	31,242,731
Retained earnings	**32,324,247**	32,659,455
Unearned ESOP shares	**(2,369,920)**	(2,369,920)
Accumulated other comprehensive income (loss)	**323,418**	(21,819)
Total shareholders' equity	**61,663,340**	61,544,583
Total Liabilities and Shareholders' Equity	**$522,763,784**	$392,916,555

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Operations (Unaudited)

Three Months Ended June 30, 2016 and 2015

	Three Months Ended	
	June 30, 2016	2015
Interest revenue		
Loans, including fees	**$3,316,673**	$1,940,608
U.S. treasuries, government agencies and FHLB stock	**86,574**	96,708
Municipal and corporate bonds	**49,026**	34,806
Mortgage-backed securities	**231,497**	297,594
Federal funds sold and other bank deposits	**66,706**	5,263
Total interest revenue	**3,750,476**	2,374,979
Interest expense		
Deposits	**611,812**	372,444
Borrowed funds	**42,072**	4,953
Total interest expense	**653,884**	377,397
Net interest income	**3,096,592**	1,997,582
Provision for loan losses	**210,000**	-
Net interest income after provision for loan losses	**2,886,592**	1,997,582
Noninterest revenue		
Service charges	**95,120**	95,078
Gain on sale of loans held for sale	**11,172**	16,998
Gain on sale of property and equipment	**-**	407,188
Earnings on bank-owned life insurance	**112,526**	87,742
Other	**50,680**	22,997
Total noninterest revenue	**269,498**	630,003
Noninterest expenses		
Salaries	**1,430,939**	938,239
Employee benefits	**349,334**	261,837
Occupancy	**215,900**	174,626
Advertising	**31,351**	27,363
Furniture and equipment	**98,323**	78,440
Data processing	**185,723**	141,988
Legal services	**50,263**	22,179

Other professional services	**100,098**	87,422
Merger related expenses	**236,484**	230,785
Branch consolidation expense	**437,424**	-
Deposit insurance premiums	**77,200**	49,864
Foreclosed real estate expense and losses	**8,108**	808
Other operating	**487,952**	309,423
Total noninterest expense	**3,709,099**	2,322,974
(Loss) income before income taxes	**(553,009)**	304,611
Income tax (benefit) expense	**(217,801)**	186,288
Net (loss) income	**$(335,208)**	$118,323
Net (loss) income per common share:		
Basic	**$(0.11)**	$0.04
Diluted	**$(0.11)**	$0.04

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 (Loss) (Unaudited)

Three Months Ended June 30, 2016 and 2015

	Three Months Ended June 30, 2016	**2015**
Net income (loss)	**$(335,208)**	$118,323
Other comprehensive income (loss):		
Unrealized gain (loss) on investment securities available for sale	**570,123**	(1,200,479)
Reclassification adjustment for realized gain on investment securities available for sale included in net income	**-**	-
Total unrealized gain (loss) on investment securities available for sale	**570,123**	(1,200,479)
Income tax expense (benefit) relating to investment securities available for sale	**224,886**	(473,529)
Other comprehensive income (loss)	**345,237**	(726,950)
Total comprehensive income (loss)	**$10,029**	$(608,627)

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Three Months Ended June 30, 2016 and 2015

	Common stock	**Additional paid-in** capital	**Retained earnings**	**Unearned ESOP shares**	**Accumulated other comprehensive income (loss)**	**Total shareholders'** equity
Balances March 31, 2015	$ 34,177	$ 30,832,815	$ 32,752,071	$ (2,518,040)	$ (301,315)	$ 60,799,708
Net income	-	-	118,323	-	-	118,323
Unrealized loss on available for sale securities, net of tax effect of $473,529	-	-	-	-	(726,950)	(726,950)
Stock based compensation - options	-	52,302	-	-	-	52,302
Stock based compensation - restricted stock	-	56,147	-	-	-	56,147
Balances June 30, 2015	**$ 34,177**	**$ 30,941,264**	**$ 32,870,394**	**$ (2,518,040)**	**$ (1,028,265)**	**$ 60,299,530**
Balance March 31, 2016	**$ 34,136**	**$ 31,242,731**	**$ 32,659,455**	**$ (2,369,920)**	**$ (21,819)**	**$ 61,544,583**
Net loss	-	-	(335,208)	-	-	(335,208)
Unrealized gain on available for sale securities, net of tax effect of $224,886	-	-	-	-	345,237	345,237
Stock based compensation - options	-	52,302	-	-	-	52,302
Stock based compensation - restricted stock	-	56,426	-	-	-	56,426
Balance June 30, 2016	**$ 34,136**	**$ 31,351,459**	**$ 32,324,247**	**$ (2,369,920)**	**$ 323,418**	**$ 61,663,340**

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

Three Months Ended June 30, 2016 and 2015

	Three Months Ended	
	June 30, 2016	**2015**
Cash flows from operating activities		
Interest received	**$3,520,057**	$2,560,794
Fees and commissions received	**145,801**	526,071
Interest paid	**(742,098)**	(377,634)
Cash paid to suppliers and employees	**(2,422,853)**	(2,547,248)
Origination of loans held for sale	**(675,000)**	(1,095,650)
Proceeds from sale of loans held for sale	**945,622**	1,433,104
Income taxes paid	**(1,735,421)**	-
Net cash (used) provided by operating activities	**(963,892)**	499,437
Cash flows from investing activities		
Acqusition, net of cash acquired	**(11,006,813)**	-
Proceeds from maturing and called securities available for sale, including principal pay downs	**7,968,235**	5,252,100
Proceeds from maturing and called certificates of deposit	**735,000**	-
Purchase of Federal Home Loan Bank stock	**185,000**	-
Loans made, net of principal repayments	**(1,121,745)**	(9,360,001)
Purchase of premises and equipment	**(75,953)**	(46,282)
Proceeds from sale of foreclosed real estate	**-**	11,752
Proceeds from sale of premises and equipment	**35,000**	500,000
Net cash used by investing activities	**(3,281,276)**	(3,642,431)
Cash flows from financing activities		
Net increase in		
Deposits	**1,643,762**	731,214
Advances by borrowers for taxes and insurance	**1,989,623**	351,911
Proceeds from borrowings	**-**	2,000,000
Payments of borrowings	**(2,000,000)**	(2,000,000)
Net cash provided by financing activities	**1,633,385**	1,083,125
Net decrease in cash and cash equivalents	**(2,611,783)**	(2,059,869)
Cash and cash equivalents at beginning of period	**67,448,536**	16,643,888

Cash and cash equivalents at end of period	**$64,836,753**	$14,584,019
Supplemental Disclosures of Cash Flow Information:		
Total cash consideration paid for Fraternity Acquisition	**$25,704,871**	$-
Less cash acquired	**14,698,058**	-
Acquisition, net of cash acquired	**$11,006,813**	$-

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

(Continued)

	Three Months Ended	
	June 30, 2016	2015
Reconciliation of net (loss) income to net cash (used) provided by operating activities		
Net (loss) income	**$(335,208)**	$118,323
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities		
Amortization of premiums on securities	**133,622**	114,077
Amortization of premiums on certificates of deposit	**5,162**	-
Loan premium amortization	**38,352**	6,883
Deposit premium amortization	**(102,183)**	-
Borrowing premium amortization	**(111,647)**	-
Core deposit intangible asset amortization	**26,474**	7,250
Premises and equipment depreciation and amortization	**81,906**	60,083
Gain on disposal of premises and equipment	**-**	(407,188)
Loss on sale of foreclosed real estate		808
Stock based compensation	**108,729**	108,449
Provision for loan losses	**210,000**	-
Decrease (increase) in		
Accrued interest receivable	**(440,149)**	62,533
Loans held for sale	**259,450**	320,456
Cash surrender value of life insurance	**(112,525)**	(87,742)
Income taxes refundable and deferred income taxes	**(1,953,222)**	186,288
Other assets	**2,446,605**	180,314
Increase (decrease) in		
Accrued interest payable	**125,616**	(237)
Deferred loan origination fees	**32,594**	2,322
Other liabilities	**(1,377,468)**	(173,182)
Net cash (used) provided by operating activities	**$(963,892)**	$499,437
Noncash investing activity		
Real estate acquired through foreclosure	**$17,765**	$-

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

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Notes to Consolidated Financial Statements (Unaudited)

June 30, 2016

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

Nature of Operations

Hamilton Bancorp, Inc. (the "Company") was incorporated on September 7, 2012 to serve as the stock holding company for Hamilton Bank (the "Bank"), a federally chartered savings bank. On October 10, 2012, in accordance with a Plan of Conversion adopted by its Board of Directors and approved by its members, 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. In addition, the Bank's Board of Directors adopted an employee stock ownership plan (the "ESOP") which subscribed for 8.0% of 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.

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

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

On September 11, 2015, the Company completed its acquisition of Fairmount Bancorp, Inc. ("Fairmount") through the merger of Fairmount, 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. As a result of the merger, each shareholder of Fairmount received a cash payment equal to thirty dollars ($30.00) for each share of Fairmount common stock, or an aggregate of approximately $14.2 million. Immediately following the merger of Fairmount into the Company, Fairmount Bank was merged with and into the Bank, with the Bank the surviving entity.

Hamilton Bancorp is a holding company that operates a community bank with 7 branches in the Baltimore-metropolitan area. Its primary deposit products are certificates of deposit and demand, savings, NOW, and money market accounts. Its primary lending products consist of real estate mortgages, along with commercial and consumer loans. Hamilton Bancorp's primary source of revenue is derived from loans to customers, who are predominately small and middle-market business and middle-income individuals.

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (unaudited)

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, 2016 from audited financial statements. Operating results for the three months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2017, 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, 2016. Certain amounts from prior period financial statements have been reclassified to conform to the current period’s presentation.

Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

Reduction of the stated interest rate;

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

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

Reduction of accrued interest

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

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (unaudited)

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

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

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

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

Management considers a number of factors in estimating the required level of the allowance. These factors include: historical loss experience in the loan portfolios; the levels and trends in past-due and nonaccrual loans; the status of nonaccrual loans and other loans identified as having the potential for further deterioration; credit risk and industry concentrations; trends in loan volume; the effects of any changes in lending policies and procedures or underwriting standards; and a continuing evaluation of the economic environment.

Accumulated Other Comprehensive Income. The Bank records unrealized gains and losses on available for sale securities in accumulated other comprehensive income, net of taxes. Unrealized gains and losses on available for sale securities are reclassified into earnings as the gains or losses are realized upon sale of the securities. The credit component of unrealized losses on available for sale securities that are determined to be other-than-temporarily impaired are reclassified into earnings at the time the determination is made.

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

Note 2: New Accounting Pronouncements

Recent Accounting Pronouncements

ASU 2016-13, Financial Instruments – Credit Losses. The ASU sets forth a “current expected credit loss” (CECL) model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently assessing the impact of the adoption of this ASU on its consolidated financial statements.

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (unaudited)

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

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

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

ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period

Adjustments. This update eliminates the requirement to retrospectively adjust the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill. These adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date that if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. The update also requires the nature of and reason for the business combination, to be disclosed in the consolidated financial statements. ASU 2015-16 became effective for fiscal years beginning after December 15, 2015, and were not material to the consolidated financial statements. All measurement period adjustments related to the acquisition of Fairmount were recorded in the period in which the adjustments were determined.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective on January 1, 2017 and is not expected to have a significant impact on our financial statements.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (unaudited)

Note 3: Acquisitions

Fraternity Community Bancorp, Inc.

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

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

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

	As recorded by Fraternity Community Bancorp, Inc.	Fair Value Adjustments	As recorded by Hamilton Bancorp, Inc.
Identifiable assets:			
Cash and cash equivalents	$ 15,196,058	$ -	$ 15,196,058

Investment securities available for sale		17,570,712		-			17,570,712
FHLB Bank Stock		782,600		-			782,600
Loans		108,872,041		(310,544	) A		108,561,497
Allowance For Loan Loss		(1,550,000)		1,550,000	A		-
Premises and equipment		691,095		78,711	B		769,806
Bank-Owned Life Insurance		5,058,041		-			5,058,041
Deferred income taxes		1,470,177		(410,377	) C		1,059,800
Other assets		2,877,665		-			2,877,665
Total identifiable assets	$	150,968,389	$	907,790		$	151,876,179
Identifiable liabilities:							
Non-interest bearing deposits		1,242,187		-			1,242,187
Interest bearing deposits		107,648,792		1,098,131	D		108,746,923
Borrowings		15,000,000		793,537	E		15,793,537
Other liabilities		3,778,122		-			3,778,122
Total identifiable liabilities	$	127,669,101	$	1,891,668		$	129,560,769
Net tangible assets acquired		23,299,288		(983,878	)		22,315,410
Definite lived intangible assets acquired		-		242,020			242,020
Goodwill		-		3,147,441			3,147,441
Net intangible assets acquired		-		3,389,461			3,389,461
Total cash consideration	$	23,299,288	$	2,405,583		$	25,704,871

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (unaudited)

Explanation of fair value adjustments:

A - Adjustment reflects the fair value adjustments based on Hamilton Bancorp's evaluation of the acquired loan portfolio and excludes the allowance for losses recorded by Fraternity Community Bancorp, Inc.
B - Adjustment reflects the fair value adjustments based on Hamilton Bancorp's evaluation of the acquired premises and equipment.
C - Adjustment to record deferred tax asset related to fair value adjustments at 39.45% income tax rate.
D - Adjustment arises since the rates on interest-bearing deposits are higher than rates available on similar deposits as of the acquisition date.
E - Adjustment reflects the fair value of Fraternity's borrowings acquired on acquisition date.

Prior to the end of the measurement period, if information becomes available which indicates the purchase price allocations require adjustments, we will include such adjustments in the purchase price allocation retrospectively.

Of the total estimated purchase price, we have allocated an estimate of $22.3 million to net tangible assets acquired and we have allocated $242,020 to the core deposit intangible which is a definite lived intangible asset. We have allocated the remaining purchase price to goodwill, which is deductible for income tax purposes. We will amortize the core deposit intangible on a straight-line basis over its estimated useful life of 8 years. We will evaluate goodwill annually for impairment.

Pro forma Condensed Combined Financial Information. The following schedule includes consolidated statements of operations data for the unaudited pro forma results for the three month periods ended June 30, 2016 and 2015 as if the Fraternity acquisition had occurred as of the beginning of the periods presented.

	Three Months Ended June 30,	
	2016	2015
Net interest income	$3,764,707	$3,309,172
Other non-interest revenue	266,058	686,489

Total revenue	4,030,765	3,995,661
Provision expense	210,000	-
Other non-interest expense	3,538,536	3,390,202
Income before income taxes	282,229	605,459
Income tax expense	93,301	224,127
Net income	$188,928	$381,332
Basic earning per share	$0.06	$0.12
Diluted earnings per share	$0.06	$0.12

We have not included any provision for loan losses during the period for loans acquired from Fraternity. In accordance with accounting for business combinations, we included the credit losses evident in the loans in the determination of the fair value of loans at the date of acquisition and eliminated the allowance for loan losses maintained by Fraternity at acquisition date. Also excluded are an estimated $3.0 million in merger related expenses associated with completing the actual acquisition. This expense includes expenses incurred by both the buyer and the seller.

We have presented the pro forma financial information for illustrative purposes only and it is not necessarily indicative of the financial results of the combined companies if we had actually completed the acquisition at the beginning of the periods presented, nor does it indicate future results for any other interim or full year period. Pro forma basic and diluted earnings per common share were calculated using Hamilton Bancorp's actual weighted average shares outstanding for the periods presented, assuming the acquisition occurred at the beginning of the periods presented.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (unaudited)

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

	Contractually Required Payments Receivable	**Non-Accretable Credit** Adjustments	**Cash Flows Expected To Be** Collected	**Accretable FMV Adjustments**	**Carrying Value of Loans ReceivablE**
Performing loans acquired	**$107,474,993**	**$ -**	**$107,474,993**	**$ 58,986**	**$107,533,979**
Impaired loans acquired	**1,397,048**	**(314,484)**	**1,082,564**	**(55,046)**	**1,027,518**
Total	**$108,872,041**	**$ (314,484)**	**$108,557,557**	**$ 3,940**	**$108,561,497**

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

We had an independent third party determine the fair value of cash flows on $107,474,993 of performing loans. The valuation took into consideration the loans' underlying characteristics, including account types, remaining terms, annual interest rates, interest types, past delinquencies, timing of principal and interest payments, current market rates, loan to value ratios, loss exposures, and remaining balances. These performing loans were segregated into pools based on loan and payment type and in some cases, risk grade. The effect of this fair valuation process was a net accretable premium adjustment of $58,986 at acquisition.

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

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

Fairmount Bancorp, Inc.

On September 11, 2015, Hamilton Bancorp acquired Fairmount Bancorp, Inc. (“Fairmount”), the parent company of Fairmount Bank. Under the terms of the Merger Agreement, shareholders of Fairmount received a cash payment equal to thirty dollars ($30.00) for each share of Fairmount common stock. The total merger consideration was $14.2 million.

In connection with the acquisition, Fairmount Bank was merged with and into Hamilton Bank, with Hamilton Bank as the surviving bank. The results of the Fairmount acquisition are included with Hamilton’s results as of and from September 11, 2015.

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (unaudited)

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

	As recorded by Fairmount Bancorp, Inc.	Fair Value Adjustments		As recorded by Hamilton Bancorp, Inc.
Identifiable assets:				
Cash and cash equivalents	$1,468,499	$-		$1,468,499
Certificates of deposit	4,467,825	27,772	A	4,495,597
Investment securities available for sale	9,729,405	-		9,729,405
Loans	55,454,414	(1,876,502)	B	53,577,912
Allowance For Loan Loss	(591,070)	591,070	B	-
Premises and equipment	2,975,587	(726,997)	C	2,248,590
Core Deposit Intangible	22,802	(22,802)	D	-
Deferred income taxes	976,956	596,675	E	1,573,631
Other assets	1,031,755	-		1,031,755
Total identifiable assets	$75,536,173	$(1,410,784)		$74,125,389
Identifiable liabilities:				
Non-interest bearing deposits	909,669	-		909,669
Interest bearing deposits	52,123,868	433,429	F	52,557,297
Borrowings	10,500,000	389,147	G	10,889,147
Other liabilities	120,351	-		120,351
Total identifiable liabilities	$63,653,888	$822,576		$64,476,464
Net tangible assets acquired	11,882,285	(2,233,360)		9,648,925
Definite lived intangible assets acquired	-	542,540		542,540
Goodwill	-	4,000,904		4,000,904
Net intangible assets acquired	-	4,543,444		4,543,444

Total cash consideration	$11,882,285	$2,310,084	$14,192,369

Explanation of fair value adjustments:

A - Adjustment reflects marking the certificates of deposit portfolio to fair value as of the acquisition date.
B - Adjustment reflects the fair value adjustments based on Hamilton Bancorp's evaluation of the acquired loan portfolio and excludes the allowance for losses recorded by Fairmount Bancorp, Inc.
C - Adjustment reflects the fair value adjustments based on Hamilton Bancorp's evaluation of the acquired premises and equipment.
D - Adjustment reflects the elimination of core deposit intangible recorded by Fairmount Bancorp, Inc. from an acquisition prior.
E - Adjustment to record deferred tax asset related to fair value adjustments at 39.45% income tax rate.
F - Adjustment arises since the rates on interest-bearing deposits are higher than rates available on similar deposits as of the acquisition date.
G - Adjustment reflects the fair value of Fraternity's borrowings acquired on acquisition date.

Prior to the end of the measurement period, if information becomes available which indicates the purchase price allocations require adjustments, we will include such adjustments in the purchase price allocation retrospectively.

Of the total estimated purchase price, we have allocated an estimate of $9.6 million to net tangible assets acquired and we have allocated approximately $543,000 to the core deposit intangible which is a definite lived intangible asset. We have allocated the remaining purchase price to goodwill, which is deductible for income tax purposes. We will amortize the core deposit intangible on a straight-line basis over its estimated useful life of 8 years. We will evaluate goodwill annually for impairment.

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (unaudited)

Pro forma Condensed Combined Financial Information. The following schedule includes consolidated statements of operations data for the unaudited pro forma results for the three month periods ended June 30, 2016 and 2015 as if the Fairmount acquisition had occurred as of the beginning of the periods presented.

	Three Months Ended June 30,	
	2016	2015
Net interest income	$3,096,592	$2,794,670
Other non-interest revenue	269,498	693,532
Total revenue	3,366,090	3,488,202
Provision expense	210,000	-
Other non-interest expense	3,709,099	2,796,255
Income before income taxes	(553,009)	691,947
Income tax expense	(217,801)	330,760
Net income	$(335,208)	$361,187
Basic earnings per share	$(0.11)	$0.11
Diluted earnings per share	$(0.11)	$0.11

The pro forma condensed financial information in the table above for the three months ending June 30, 2016, includes the revenue and expenses associated with the acquisition of Fraternity Community Bancorp, Inc. on May 13, 2016 through the end of the period, including $674,000 in acquisition related and branch consolidation expenses.

We have not included any provision for loan losses during the period for loans acquired from Fairmount. In accordance with accounting for business combinations, we included the credit losses evident in the loans in the determination of the fair value of loans at the date of acquisition and eliminated the allowance for loan losses maintained by Fairmount at acquisition date. Also excluded are an estimated $3.1 million in merger related expenses associated with completing the actual acquisition. This expense includes expenses incurred by both the buyer and the seller.

We have presented the pro forma financial information for illustrative purposes only and it is not necessarily indicative of the financial results of the combined companies if we had actually completed the acquisition at the beginning of the periods presented, nor does it indicate future results for any other interim or full year period. Pro forma basic and diluted earnings per common share were calculated using Hamilton Bancorp's actual weighted average shares outstanding for the periods presented, assuming the acquisition occurred at the beginning of the periods presented.

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

	Three months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Fairmount	Fraternity	Total	Fairmount	Fraternity	Total
Legal	$7,200	$39,219	$46,419	$129,033	$ 6,455	$135,488
Professional services	-	135,383	135,383	80,000	7,673	87,673
Advertising	-	-	-	2,779	-	2,779
Other	-	54,682	54,682	4,701	144	4,845
Total meger related expenses	$7,200	$229,284	$236,484	$216,513	$ 14,272	$230,785

Note 4: Earnings per Share

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (unaudited)

Both the basic and diluted earnings per share for the three months ended June 30, 2016 and 2015 are summarized below:

	Three Months ended June 30, 2016	Three Months ended June 30, 2015
Net income (loss)	**$(335,208)**	$118,323
Weighted average common shares outstanding - basic	**3,176,654**	3,165,909
Weighted average common shares outstanding - diluted	**3,177,033**	3,166,901
Income (loss) per common share - basic and diluted	**$(0.11)**	$0.04
Anti-dilutive shares	**N/A**	992

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

Note 5: Investment Securities Available for Sale

The amortized cost and fair value of securities at June 30, 2016 and March 31, 2016, are summarized as follows:

June 30, 2016	Amortized	Gross	Gross	Fair

	cost	unrealized gains	unrealized losses	value
U.S. government agencies	**$10,761,723**	**$39,745**	**$-**	**$10,801,468**
Municipal bonds	**6,783,780**	**189,313**	**-**	**6,973,093**
Corporate bonds	**2,000,000**	**-**	**88,976**	**1,911,024**
Mortgage-backed securities	**60,443,783**	**509,325**	**115,315**	**60,837,793**
	$79,989,286	**$738,383**	**$204,291**	**$80,523,378**

March 31, 2016	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government agencies	$10,519,126	$20,622	$6,752	$10,532,996
Municipal bonds	4,061,599	51,105	140	4,112,564
Corporate bonds	2,000,000	-	101,360	1,898,640
Mortgage-backed securities	53,939,706	300,731	300,237	53,940,200
	$70,520,431	$372,458	$408,489	$70,484,400

There were no sales of investment securities during the three months ended June 30, 2016 or 2015.

As of June 30, 2016 and March 31, 2016, 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 $118,154 and fair value of $117,596 as of June 30, 2016.

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (unaudited)

As of June 30, 2016 and March 31, 2016, the Company had one pledged security to the Federal Reserve Bank with a book value of $744,186 and $2,000,000 and a fair value of $744,202 and $1,993,266, respectively.

The amortized cost and estimated fair value of debt securities by contractual maturity at June 30, 2016 and March 31, 2016 follow. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	Available for Sale			
	June 30, 2016		March 31, 2016	
	Amortized cost	Fair value	Amortized cost	Fair value
Maturing				
Within one year	**$250,447**	**$250,495**	$731,217	$731,060
Over one to five years	**3,267,090**	**3,302,116**	3,268,217	3,287,589
Over five to ten years	**11,122,044**	**11,089,369**	9,830,135	9,751,610
Over ten years	**4,905,922**	**5,043,605**	2,751,156	2,773,941
Mortgage-backed, in monthly installments	**60,443,783**	**60,837,793**	53,939,706	53,940,200
	$79,989,286	**$80,523,378**	$70,520,431	$70,484,400

The following table presents the Company's investments' gross unrealized losses and the corresponding fair values by investment category and length of time that the securities have been in a continuous unrealized loss position at June 30, 2016 and March 31, 2016.

	Less than 12 months		12 months or longer		Total	
June 30, 2016	Gross Unrealized losses	Fair value	Gross Unrealized losses	Fair value	Gross Unrealized losses	Fair value

U.S. government agencies	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**
Municipal bonds	**-**	**-**	**-**	**-**	**-**	**-**
Corporate bonds	**-**	**-**	**88,976**	**1,911,024**	**88,976**	**1,911,024**
Mortgage-backed securities	**20,355**	**5,605,839**	**94,960**	**13,849,211**	**115,315**	**19,455,050**
	$20,355	**$5,605,839**	**$183,936**	**$15,760,235**	**$204,291**	**$21,366,074**

	Less than 12 months		12 months or longer		Total	
March 31, 2016	Gross Unrealized losses	Fair value	Gross Unrealized losses	Fair value	Gross Unrealized losses	Fair value
U.S. government agencies	$6,752	$2,244,157	$-	$-	$6,752	$2,244,157
Municipal bonds	140	480,168	-	-	140	480,168
Corporate bonds	-	-	101,360	1,898,640	101,360	1,898,640
Mortgage-backed securities	33,080	4,367,962	267,157	20,274,037	300,237	24,641,999
	$39,972	$7,092,287	$368,517	$22,172,677	$408,489	$29,264,964

The gross unrealized losses on debt securities are not considered by management to be other-than-temporary impairments. Management has the intent and ability to hold these securities until recovery of their value. In most cases, temporary impairment is caused by market interest rate fluctuations.

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Notes to Consolidated Financial Statements (unaudited)

Note 6: Loans Receivable and Allowance for Loan Losses

Loans receivable, excluding loans held for sale, consist of the following at June 30, 2016 and March 31, 2016:

	June 30, 2016				March 31, 2016			
	Legacy (1)	**Acquired**	**Total Loans**	**% of Total**	Legacy (1)	Acquired	Total Loans	% of Total
Real estate loans:								
One-to four-family:								
Residential	**$45,442,299**	**$97,700,552**	**$143,142,851**	**43 %**	$46,263,709	$23,036,569	$69,300,278	31 %
Residential construction	**5,524,789**	**844,287**	**6,369,076**	**2 %**	4,304,189	965,440	5,269,629	2 %
Investor (2)	**11,825,433**	**23,606,757**	**35,432,190**	**11 %**	12,076,911	15,783,008	27,859,919	13 %
Commercial	**81,155,633**	**17,875,858**	**99,031,491**	**30 %**	75,225,984	2,889,219	78,115,203	35 %
Commercial construction	**2,348,741**	**1,615,922**	**3,964,663**	**1 %**	1,982,571	1,274,148	3,256,719	2 %
Total real estate loans	**146,296,895**	**141,643,376**	**287,940,271**	**87 %**	139,853,364	43,948,384	183,801,748	83 %
Commercial business	**15,985,673**	**2,714,738**	**18,700,411**	**6 %**	17,773,967	2,621,625	20,395,592	9 %
Home equity loans	**12,293,585**	**9,495,334**	**21,788,919**	**7 %**	12,222,688	2,168,073	14,390,761	6 %
Consumer	**2,875,534**	**1,031,516**	**3,907,050**	**1 %**	3,072,677	1,106,434	4,179,111	2 %
Total Loans	**177,451,687**	**154,884,964**	**332,336,651**	**100 %**	172,922,696	49,844,516	222,767,212	100 %
Net deferred loan origination fees and costs	**(171,916)**	**-**	**(171,916)**		(139,321)	-	(139,321)	

Loan premium (discount)	**68,307**	**(794,848)**	**(726,541)**	77,983	(846,818)	(768,835)
	$177,348,078	**$154,090,116**	**$331,438,194**	$172,861,358	$48,997,698	$221,859,056

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

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 90% of the appraised value of a property 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 (unaudited)

The following table details activity in the allowance for loan losses by portfolio segment for both the three months ended June 30, 2016 and 2015 and for the year ended March 31, 2016. The allowance for loan losses allocated to each portfolio segment is not necessarily indicative of future losses in any particular portfolio segment and does not restrict the use of the allowance to absorb losses in other portfolio segments.

Three months ended:	**Legacy**					**Acquired**				
June 30, 2016	**Allowance 3/31/2016**	**Provision for loan losses**	**Charge offs**	**Recoveries**	**Allowance 6/30/2016**	**Allowance 3/31/2016**	**Provision for loan losses**	**Charge offs**	**Recoveries**	**Allowance 6/30/2016**
Real estate loans:										
One-to four-family	**$428,027**	**$260,081**	**$-**	**$-**	**$688,108**	**$-**	**$28,700**	**$28,700**	**$ -**	**$ -**
Commercial	**901,768**	**8,992**	**-**	**-**	**910,760**	**-**	**-**	**-**	**-**	**-**
Commercial construction	**42,377**	**(14,544)**	**-**	**-**	**27,833**	**-**	**-**	**-**	**-**	**-**
Commercial business	**228,199**	**(54,562)**	**1,521**	**15,319**	**187,435**	**-**	**-**	**-**	**-**	**-**
Home equity loans	**82,012**	**(954)**	**-**	**-**	**81,058**	**-**	**-**	**-**	**-**	**-**
Consumer	**19,982**	**(17,369)**	**1,280**	**445**	**1,778**	**-**	**(345)**	**-**	**345**	**-**
	$1,702,365	**$181,644**	**$2,801**	**$15,764**	**$1,896,972**	**$-**	**$28,355**	**$28,700**	**$ 345**	**$ -**

Three months ended:	Legacy					Acquired				
June 30, 2015	Allowance 3/31/2015	Provision for loan losses	Charge offs	Recoveries	Allowance 6/30/2015	Allowance 3/31/2015	Provision for loan losses	Charge offs	Recoveries	Allowance 6/30/2015

Real estate loans:										
One-to four-family	$433,570	$59,327	$60,000	$848	$433,745	**$-**	**$ -**	**$ -**	**$ -**	**$ -**
Commercial	585,817	76,988	-	-	662,805	**-**	**-**	**-**	**-**	**-**
Commercial construction	67,835	33,202	-	-	101,037	**-**	**-**	**-**	**-**	**-**
Commercial business	473,127	(164,574)	10,533	66,239	364,259	**-**	**-**	**-**	**-**	**-**
Home equity loans	98,983	(8,392)	6,000	-	84,591	**-**	**-**	**-**	**-**	**-**
Consumer	727	33,626	7,565	-	26,788	**-**	**-**	**-**	**-**	**-**
Unallocated	30,177	(30,177)	-	-	-	**-**	**-**	**-**	**-**	**-**
	$1,690,236	$-	$84,098	$67,087	$1,673,225	**$-**	**$ -**	**$ -**	**$ -**	**$ -**

Year Ended: <u>March 31, 2016</u>	Legacy Allowance 3/31/2015	Provision for Loan Losses	Charge offs	Recoveries	Allowance 3/31/2016	Acquired Allowance 3/31/2015	Provision forloan losses	Charge offs	Recoveries	Allowance 3/31/2016
Real estate loans:										
One-to four-family	$433,570	$164,809	$171,200	$848	$428,027	**$-**	**$95,703**	**$120,538**	**$24,835**	**$ -**
Commercial	585,817	883,852	567,901	-	901,768	**-**	**-**	**-**	**-**	**-**
Commercial construction	67,835	(262,362)	-	236,904	42,377	**-**	**-**	**-**	**-**	**-**
Commercial business	473,127	(426,731)	10,533	192,336	228,199	**-**	**-**	**-**	**-**	**-**
Home equity loans	98,983	(10,971)	6,000	-	82,012	**-**	**-**	**-**	**-**	**-**
Consumer	727	25,877	16,337	9,715	19,982	**-**	**-**	**-**	**-**	**-**
Unallocated	30,177	(30,177)	-	-	-	**-**	**-**	**-**	**-**	**-**
	$1,690,236	$344,297	$771,971	$439,803	$1,702,365	**$-**	**$95,703**	**$120,538**	**$24,835**	**$ -**

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (unaudited)

The following table provides additional information on the allowance for loan losses and loan balances with respect to evaluation for impairment by segment:

Three months ended:	**Legacy Allowance**		**Loan Balance**		**Acquired Allowance**		**Loan Balance**	
June 30, 2016	**Individually evaluated** for impairment	**Collectively evaluated for impairment**	**Individually evaluated for impairment**	**Collectively evaluated for impairment**	**Individually evaluated for impairment**	**Collectively evaluated for impairment**	**Individually evaluated** for impairment	**Collectively evaluated for impairment**
Real estate loans:								
One-to four-family	**$293,992**	**$394,116**	**$2,474,968**	**$60,317,552**	**$-**	**$ -**	**$2,624,486**	**$119,527,111**
Commercial	**-**	**910,760**	**2,673,131**	**78,482,502**	**-**	**-**	**369,422**	**17,506,436**
Commercial construction	**-**	**27,833**	**-**	**2,348,741**	**-**	**-**	**-**	**1,615,922**
Commercial business	**9,657**	**177,778**	**1,000,250**	**14,985,423**	**-**	**-**	**-**	**2,714,738**
Home equity loans	**-**	**81,058**	**56,977**	**12,236,608**	**-**	**-**	**10,663**	**9,484,671**
Consumer	**-**	**1,778**	**-**	**2,875,534**	**-**	**-**	**73,835**	**957,681**
	$303,649	**$1,593,323**	**$6,205,326**	**$171,246,360**	**$-**	**$ -**	**$3,078,406**	**$151,806,559**

Three months ended:	Legacy Allowance		Loan Balance		Acquired Allowance		Loan Balance	
June 30, 2015	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate loans:								

One-to four-family	$92,054	$341,691	$2,135,316	$64,325,672	$-	$ -	$ -	$ -
Commercial	-	662,805	3,358,431	62,789,930	-	-	-	-
Commercial construction	-	101,037	1,330,559	1,536,105	-	-	-	-
Commercial business	-	364,259	1,687,697	16,273,627	-	-	-	-
Home equity loans	-	84,591	20,136	12,287,920	-	-	-	-
Consumer	-	26,788	-	3,872,597	-	-	-	-
	$92,054	$1,581,171	$8,532,139	$161,085,851	$-	$ -	$ -	$ -

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