Hamilton Bancorp, Inc.
Form 10-Q
February 16, 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 December 31, 2015

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]

3,417,615 shares of the Registrant's common stock, par value $0.01 per share, were issued and outstanding as of February 16, 2016.

Hamilton Bancorp, Inc. and Subsidiaries

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

December 31, 2015 and March 31, 2015

	December 31, 2015 (Unaudited)	March 31, 2015 **(Audited)**
Assets		
Assets		
Cash and due from banks	**$5,538,454**	$3,294,273
Federal funds sold and Federal Home Loan Bank deposit	**7,272,405**	6,226,976
Interest-bearing deposits in other banks	**16,437,610**	7,122,639
Cash and cash equivalents	**29,248,469**	16,643,888
Certificates of deposit held as investment	**3,974,044**	-
Investment securities available for sale, at fair value	**77,616,277**	92,939,751
Federal Home Loan Bank stock, at cost	**1,038,700**	522,700
Loans held for sale	**155,456**	581,139
Loans, less allowance for loan losses of **$2,015,723** and $1,690,236	**226,313,352**	158,594,958
Premises and equipment, net	**4,071,415**	1,972,348
Foreclosed real estate	**443,015**	455,575
Accrued interest receivable	**997,778**	835,940
Bank-owned life insurance	**12,624,031**	12,359,969
Goodwill	**6,478,860**	2,664,432
Core deposit intangible	**642,254**	138,333
Deferred income taxes	**2,931,398**	1,961,850
Income taxes refundable	**228,920**	-
Other assets	**1,492,799**	1,368,886
Total Assets	**$368,256,768**	$291,039,769
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	**$22,332,169**	$16,652,771
Interest-bearing deposits	**266,709,116**	205,666,121
Total deposits	**289,041,285**	222,318,892
Borrowings	**16,847,192**	6,000,000
Advances by borrowers for taxes and insurance	**523,482**	619,028
Other liabilities	**1,202,258**	1,302,141

Total liabilities	**307,614,217**	230,240,061
Commitments and Contingencies	**-**	-
Shareholders' Equity		
Common stock, $.01 par value, 100,000,000 shares authorized. Issued: 3,418,113 shares at December 31, 2015 and 3,417,713 shares at March 31, 2015	**34,181**	34,177
Additional paid in capital	**31,196,927**	30,832,815
Retained earnings	**32,542,210**	32,752,071
Unearned ESOP shares	**(2,369,920)**	(2,518,040)
Accumulated other comprehensive income	**(760,847)**	(301,315)
Total shareholders' equity	**60,642,551**	60,799,708
Total Liabilities and Shareholders' Equity	**$368,256,768**	$291,039,769

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

HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Operations (Unaudited)

Three and Nine Months Ended December 31, 2015 and 2014

	Three Months Ended December 31,		**Nine Months Ended December 31,**	
	2015	2014	**2015**	2014
Interest and dividend revenue				
Loans, including fees	**$2,805,851**	$1,827,384	**$6,906,069**	$5,412,607
U.S. treasuries, government agencies and FHLB stock	**91,940**	104,905	**276,415**	327,264
Municipal and corporate bonds	**31,722**	36,346	**94,145**	105,183
Mortgage-backed securities	**272,751**	358,987	**848,181**	1,137,231
Federal funds sold and other bank deposits	**18,005**	5,376	**31,650**	21,749
Total interest and dividend revenue	**3,220,269**	2,332,998	**8,156,460**	7,004,034
Interest expense				
Deposits	**458,024**	414,117	**1,241,457**	1,273,106
Borrowed funds	**38,191**	410	**64,487**	410
Total interest expense	**496,215**	414,527	**1,305,944**	1,273,516
Net interest income	**2,724,054**	1,918,471	**6,850,516**	5,730,518
Provision for loan losses	**70,000**	(125,000)	**190,000**	345,000
Net interest income after provision for loan losses	**2,654,054**	2,043,471	**6,660,516**	5,385,518
Noninterest revenue				
Service charges	**102,979**	105,954	**304,951**	311,515
Gain on sale of investment securities	**20,497**	42,471	**42,212**	230,645
Gain on sale of loans held for sale	**7,826**	2,979	**43,395**	27,716
Gain on sale of property and equipment	**-**	-	**407,188**	(1,832)
Earnings on bank-owned life insurance	**87,616**	89,929	**264,062**	271,315
Other fees and commissions	**14,675**	8,095	**49,194**	31,528
Total noninterest revenue	**233,593**	249,428	**1,111,002**	870,887
Noninterest expenses				
Salaries	**1,102,598**	988,583	**3,018,168**	2,944,357
Employee benefits	**293,260**	254,539	**809,583**	884,237
Occupancy	**195,155**	170,401	**548,817**	537,526
Advertising	**43,295**	37,758	**89,109**	102,050
Furniture and equipment	**85,077**	77,286	**237,752**	233,381
Data processing	**154,977**	137,435	**439,989**	413,354
Legal services	**52,100**	44,012	**110,091**	153,551
Other professional services	**131,353**	100,452	**291,260**	254,560
Merger related expenses	**196,645**	-	**828,225**	-

Deposit insurance premiums	**63,105**	57,506	**151,970**	175,600
Foreclosed real estate expense and losses (gains)	**3,270**	-	**17,157**	(4,964)
Other operating	**459,817**	326,462	**1,114,428**	967,921
Total noninterest expenses	**2,780,652**	2,194,434	**7,656,549**	6,661,573
Income (loss) before income taxes	**106,995**	98,465	**114,969**	(405,168)
Income tax expense (benefit)	**234,176**	20,622	**324,830**	(231,967)
Net income (loss)	**$(127,181)**	$77,843	**$(209,861)**	$(173,201)
Earnings (loss) per common share - basic	**$(0.04)**	$0.02	**$(0.07)**	$(0.05)
Earnings (loss) per common share - diluted	**$(0.04)**	$0.02	**$(0.07)**	$(0.05)

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 Nine months Ended December 31, 2015 and 2014

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	**2014**	**2015**	**2014**
Net income (loss)	**$(127,181)**	$77,843	**$(209,861)**	$(173,201)
Other comprehensive income:				
Unrealized gain (loss) on investment securities available for sale	**(801,265)**	1,643,661	**(716,655)**	1,589,832
Reclassification adjustment for realized (gain) loss on investment securities available for sale included in net income	**(20,497)**	(42,471)	**(42,212)**	(230,645)
Total unrealized gain (loss) on investment securities available for sale	**(821,762)**	1,601,190	**(758,867)**	1,359,187
Income tax expense (benefit) relating to investment securities available for sale	**(324,144)**	631,589	**(299,335)**	536,132
Other comprehensive income (loss)	**(497,618)**	969,601	**(459,532)**	823,055
Total comprehensive income (loss)	**$(624,799)**	$1,047,444	**$(669,393)**	$649,854

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

HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Nine Months Ended December 31, 2015 and 2014

	Common stock	Additional paid-in capital	Retained earnings	Unearned ESOP shares	Accumulated other comprehensive income	Total shareholders' equity
Balance March 31, 2014	$ 35,951	$ 32,910,362	$ 33,066,380	$ (2,666,160)	$ (1,576,265)	$ 61,770,268
Net loss	-	-	(173,201)	-	-	(173,201)
Unrealized loss on available for sale securities, net of tax effect of $536,132	-	-	-	-	823,055	823,055
Repurchase of common stock	(1,798)	(2,500,392)	-	-	-	(2,502,190)
Stock based compensation - options	-	156,907	-	-	-	156,907
Restricted stock - compensation and activity	(22)	154,797	-	-	-	154,775
ESOP shares allocated for release	-	26,907	-	148,120	-	175,027
Balance December 31, 2014	**$ 34,131**	**$ 30,748,581**	**$ 32,893,179**	**$ (2,518,040)**	**$ (753,210)**	**$ 60,404,641**
Balance March 31, 2015	**$ 34,177**	**$ 30,832,815**	**$ 32,752,071**	**$ (2,518,040)**	**$ (301,315)**	**$ 60,799,708**
Net loss	**-**	**-**	**(209,861)**	**-**	**-**	**(209,861)**
Unrealized loss on available for sale securities, net of tax effect of $ (299,335)	**-**	**-**	**-**	**-**	**(459,532)**	**(459,532)**
Stock based compensation - options	**-**	**156,907**	**-**	**-**	**-**	**156,907**
Restricted stock - compensation and activity	**4**	**168,995**	**-**	**-**	**-**	**168,999**
ESOP shares allocated for release	**-**	**38,210**	**-**	**148,120**	**-**	**186,330**
Balance December 31, 2015	**$ 34,181**	**$ 31,196,927**	**$ 32,542,210**	**$ (2,369,920)**	**$ (760,847)**	**$ 60,642,551**

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)

Nine Months Ended December 31, 2015 and 2014

	Nine Months Ended December 31,	
	2015	**2014**
Cash flows from operating activities		
Interest received	**$8,379,943**	$7,363,035
Fees and commissions received	**761,333**	338,265
Interest paid	**(1,397,455)**	(1,273,465)
Cash paid to suppliers and employees	**(7,160,562)**	(6,105,927)
Origination of loans held for sale	**(4,486,900)**	(2,070,500)
Proceeds from sale of loans held for sale	**4,955,978**	1,843,150
Income taxes (paid) refund received	**(204,030)**	565,595
Net cash provided by operating activities	**848,307**	660,153
Cash flows from investing activities		
Acqusition, net of cash acquired	**(12,723,871)**	-
Proceeds from sale of securities available for sale	**9,985,335**	9,805,005
Proceeds from maturing and called securities available for sale, including principal pay downs	**14,067,458**	19,212,112
Proceeds from maturing and called certificates of deposit	**514,510**	-
Purchase of investment securities available for sale	**-**	(23,242,712)
Purchase of Federal Home Loan Bank stock	**-**	(130,500)
Loans made, net of principal repayments	**(13,728,071)**	(14,117,276)
Purchase of premises and equipment	**(47,219)**	(101,021)
Proceeds from sale of foreclosed real estate	**11,752**	-
Proceeds from sale of premises and equipment	**463,839**	-
Net cash used by investing activities	**(1,456,267)**	(8,574,392)
Cash flows from financing activities		
Net increase (decrease) in		
Deposits	**13,308,083**	(14,979,209)
Advances by borrowers for taxes and insurance	**(95,546)**	(403,674)
Proceeds from borrowings	**2,000,000**	3,000,000
Payments of borrowings	**(2,000,000)**	-
Issuance of restricted stock	**4**	-
Repurchase of common stock	**-**	(2,502,190)
Net cash provided (used) by financing activities	**13,212,541**	(14,885,073)
Net increase (decrease) in cash and cash equivalents	**12,604,581**	(22,799,312)

Cash and cash equivalents at beginning of period	**16,643,888**	33,073,310
Cash and cash equivalents at end of period	**$29,248,469**	$10,273,998
Supplemental Disclosures of Cash Flow Information:		
Total cash consideration paid for Fairmount Merger	**$14,192,370**	$-
Less cash acquired	**1,468,499**	-
Acquisition, net of cash acquired	**$12,723,871**	$-

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

HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

(Continued)

	Nine Months Ended December 31,	
	2015	2014
Reconciliation of net income to net cash provided (used) by operating activities		
Net loss	**$(209,861)**	$(173,201)
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Amortization of premiums on certificates of deposit	**7,043**	-
Amortization of premiums on securities	**311,204**	342,791
Gain on sale of investment securities	**(42,212)**	(230,645)
Amortization of premiums on loans	**25,811**	-
Amortization of premium on deposits	**(52,656)**	-
Amortization of premium on borrowings	**(41,955)**	-
Core deposit intangible asset amortization	**38,620**	25,750
Premises and equipment depreciation and amortization	**200,092**	191,489
Gain on sale of property and equipment	**(407,188)**	1,832
Stock based compensation	**325,902**	311,682
Provision for loan losses	**190,000**	345,000
ESOP shares allocated for release	**186,330**	175,027
Decrease (increase) in		
Accrued interest receivable	**(161,838)**	23,742
Loans held for sale	**425,683**	(255,066)
Cash surrender value of life insurance	**(264,062)**	(271,315)
Income taxes refundable and deferred income taxes	**120,800**	333,628
Other assets	**374,756**	215,287
Increase (decrease) in		
Accrued interest payable	**3,100**	52
Deferred loan origination fees	**41,263**	(10,479)
Other liabilities	**(222,525)**	(365,421)
Net cash provided by operating activities	**$848,307**	$660,153
Noncash investing activity		
Real estate acquired through foreclosure	**$-**	$12,560

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Form 10-Q

Notes to Consolidated Financial Statements (Unaudited)

December 31, 2015

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

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 September 11, 2015, the Bank acquired all the common stock of Fairmount Bancorp, Inc. ("Fairmount") in an all cash transaction for $14.2 million.

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, 2015 from audited financial statements. Operating results for the nine months ended December 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2016, 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, 2015. 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.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

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

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.

Accounting for Certain Loans or Debt Securities Acquired in a Transfer. The loans acquired from the Company's acquisition of Fairmount on September 11, 2015 (see Note 3 "Acquisition of Fairmount 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.

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.

Management considers a number of factors in estimating the required level of the allowance. These factors include: historical loss experience in the loan portfolios; the levels and trends in past-due and nonaccrual loans; the status of nonaccrual loans and other loans identified as having the potential for further deterioration; credit risk and industry concentrations; trends in loan volume; the effects of any changes in lending policies and procedures or underwriting standards; and a continuing evaluation of the economic environment. Management modified the analysis in fiscal 2015 by weighting our net charge-off history to specifically reflect recent changes in the loan portfolio, the commercial lending staff, and our internal credit administration procedures.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

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.

Pending Merger. On October 12, 2015, Hamilton Bancorp, Inc. ("Hamilton Bancorp") entered into an Agreement and Plan of Merger (the "Merger Agreement") by and among Hamilton Bancorp, Hamilton Acquisition Corp. II (a wholly owned subsidiary of Hamilton Bancorp) and Fraternity Community Bancorp, Inc. ("Fraternity Community Bancorp"), pursuant to which, among other things, Fraternity Community Bancorp will merge with and into Hamilton Bancorp, with Hamilton Bancorp as the surviving entity, and immediately thereafter, Fraternity Federal Savings & Loan Association will be merged with and into Hamilton Bank with Hamilton Bank as the surviving bank (collectively, the "Merger").

Under the terms of the Merger Agreement, stockholders of Fraternity Community Bancorp will receive a cash payment equal to nineteen dollars and twenty-five cents ($19.25) for each share of Fraternity Community Bancorp common stock, or an aggregate of approximately $26.5 million.

The transaction has been approved by the Board of Directors of each company and is expected to close in the quarter ending June 30, 2016. Completion of the Merger is subject to customary closing conditions, including the receipt of required regulatory approvals and the approval of Fraternity Community Bancorp's shareholders.

Note 2: New Accounting Pronouncements

Recent Accounting Pronouncements

ASU No. 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force).* The guidance clarifies when an "in substance repossession or foreclosure" occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, such that all or a portion of the loan should be derecognized and the real estate property recognized. ASU 2014-04 states that a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments of ASU 2014-04 also require interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. ASU 2014-04 became effective for interim and annual periods beginning after December 15, 2014, and did not have a significant impact on our financial statements.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

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.

ASU 2014-11, "Transfers and Servicing (Topic 860)." ASU 2014-11 requires that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, ASU 2014-11 requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. ASU 2014-11 requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, ASU 2014-11 requires disclosures related to collateral, remaining contractual term and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. ASU 2014-11 became effective on April 1, 2015 and did not have a significant impact on our financial statements.

ASU No. 2014-12, Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force). The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Guidance in Topic 718 as it relates to awards with performance conditions that affect vesting should be applied to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. The amendments of ASU 2014-12 became effective on December 15, 2015 and did not have a significant impact on our financial statements.

ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires 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 statements and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-01 will be effective for us on January 1, 2018 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: Acquisition of 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.

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	4,495,597
Investment securities available for sale	9,757,177	-	9,757,177
Loans	55,454,414	(1,207,017)	54,247,397
Allowance For Loan Loss	(591,070)	591,070	-
Premises and equipment	2,975,587	(666,997)	2,308,590
Core Deposit Intangible	22,802	(22,802)	-
Deferred income taxes	423,258	596,675	1,019,933
Other assets	1,014,673	-	1,014,673
Total identifiable assets	$74,993,165	$(681,299)	$74,311,866

Identifiable liabilities:			
Non-interest bearing deposits	909,669	-	909,669
Interest bearing deposits	52,123,868	433,429	52,557,297
Borrowings	10,500,000	389,147	10,889,147
Other liabilities	120,351	-	120,351
Total identifiable liabilities	$63,653,888	$822,576	$64,476,464
Net tangible assets acquired	11,339,276	(1,503,875)	9,835,401
Definite lived intangible assets acquired	-	542,540	542,540
Goodwill	-	3,814,428	3,814,428
Net intangible assets acquired	-	4,356,968	4,356,968
Total cash consideration	$11,339,276	$2,853,093	$14,192,369

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.

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Of the total estimated purchase price, we have allocated an estimate of $9.8 million to net tangible assets acquired and we have allocated $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.

Pro Forma Condensed Combined Financial Information. The following schedule includes consolidated statements of operations data for the unaudited pro forma results for the periods ended December 31, 2015 and 2014 as if the Fairmount Bancorp acquisition had occurred as of the beginning of the periods presented.

	Nine Months Ended December 31,	
	2015	2014
Net interest income	$8,323,913	$8,160,799
Other non-interest revenue	1,214,209	1,041,938
Total revenue	9,538,122	9,202,737
Provision expense	190,000	345,000
Other non-interest expense	7,858,947	8,106,822
Income before income taxes	1,489,175	750,915
Income tax expense	743,672	99,729
Net income	$745,504	$651,186
Basic earnings per share	$0.24	$0.20
Diluted earnings per share	$0.24	$0.20

We have not included any provision for loan losses during the period for loans acquired from Fairmount Bancorp. 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 Bancorp at acquisition date. Also excluded are an estimated $1.3 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.

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

	Three months ended December 31, 2015			Nine months ended December 31, 2015		
	Fairmount	Fraternity	Total	Fairmount	Fraternity	Total
Legal	$3,713	$64,815	$68,528	$247,794	$185,257	$433,051
Professional services	3,117	125,000	128,117	176,786	140,173	316,959
Data processing	-	-	-	48,745	-	48,745
Advertising	-	-	-	2,779	-	2,779
Other	-	-	-	26,547	144	26,691
Total meger related expenses	$6,830	$189,815	$196,645	$502,651	$325,574	$828,225

Note 4: Earnings per Share

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

Both the basic and diluted earnings per share for the three and nine months ended December 31, 2015 and 2014 are summarized below:

	Three Months ended December 31, 2015	Three Months ended December 31, 2014	**Nine months ended December 31, 2015**	Nine months ended December 31, 2014
Net income (loss)	**$(127,181)**	$77,843	**$(209,861)**	$(173,201)
Average common shares outstanding - basic	**3,166,470**	3,146,640	**3,166,230**	3,185,558

Average common shares outstanding - diluted	**N/A**	N/A	**N/A**	N/A
Income (loss) per common share - basic and diluted	**$(0.04)**	$0.02	**$(0.07)**	$(0.05)
Anti-dilutive shares	42,667	N/A	42,667	N/A

During the three and nine months ending December 31, 2014, none of the common stock equivalents had vested.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Note 5: Investment Securities Available for Sale

The amortized cost and fair value of securities at December 31, 2015 and March 31, 2015, are summarized as follows:

December 31, 2015	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government agencies	**$15,010,819**	**$3,881**	**$255,234**	**$14,759,466**
Municipal bonds	**2,706,994**	**92,656**	**3,000**	**2,796,650**
Corporate bonds	**2,000,000**	**-**	**136,968**	**1,863,032**
Mortgage-backed	**59,154,920**	**99,346**	**1,057,137**	**58,197,129**
	$78,872,733	**$195,883**	**$1,452,339**	**$77,616,277**

March 31, 2015	Amortized cost	unrealized gains	unrealized losses	Fair value
U.S. government agencies	$17,509,211	$3,363	$200,627	$17,311,947
Municipal bonds	2,149,114	168,016	-	2,317,130
Corporate bonds	2,000,000	-	46,736	1,953,264
Mortgage-backed	71,779,015	387,015	808,620	71,357,410
	$93,437,340	$558,394	$1,055,983	$92,939,751

Proceeds from sales of investment securities were $4,957,280 and $4,486,919 during the three months ended December 31, 2015 and 2014, respectively, with gains of $23,197 and losses of $2,700 for the three months ended December 31, 2015 and gains of $53,047 and losses of $10,576 for the three months ended December 31, 2014.

Proceeds from sales of investment securities were $9,985,335 and $9,805,005 during the nine months ended December 31, 2015 and 2014, respectively, with gains of $95,912 and losses of $53,700 for the nine months ended December 31, 2015 and gains of $241,221 and losses of $10,576 for the nine months ended December 31, 2014.

As of December 31, 2015 and March 31, 2015, all mortgage-backed securities are backed by U.S. Government-Sponsored Enterprises.

As of December 31, 2015 and March 31, 2015, the Company had one pledged security to the Federal Reserve Bank with a book value of $2,000,000 for both periods and a fair value of $1,949,882, and $1,970,080, respectively.

The amortized cost and estimated fair value of debt securities by contractual maturity at December 31, 2015 and March 31, 2015 follow. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

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	Available for Sale			
	December 31, 2015		March 31, 2015	
	Amortized cost	Fair value	Amortized cost	Fair value
Maturing				
Within one year	**$732,054**	**$731,559**	$509,211	$512,574
Over one to five years	**3,012,739**	**2,987,055**	-	-
Over five to ten years	**14,577,740**	**14,221,319**	19,000,000	18,752,637
Over ten years	**1,395,280**	**1,479,215**	2,149,114	2,317,130
Mortgage-backed, in monthly installments	**59,154,920**	**58,197,129**	71,779,015	71,357,410
	$78,872,733	**$77,616,277**	$93,437,340	$92,939,751

The following table presents the Company's investments' gross unrealized losses and the corresponding fair values by investment category and length of time that the securities have been in a continuous unrealized loss position at December 31, 2015 and March 31, 2015.

	Less than 12 months		12 months or longer		Total	
December 31, 2015	Gross Unrealized losses	Fair value	Gross Unrealized losses	Fair value	Gross Unrealized losses	Fair value
U.S. government agencies	**$68,806**	**$7,451,910**	**$186,428**	**$6,813,572**	**$255,234**	**$14,265,482**
Municipal bonds	**3,000**	**868,633**	**-**	**-**	**3,000**	**868,633**
Corporate bonds	**-**	**-**	**136,968**	**1,863,032**	**136,968**	**1,863,032**
Mortgage-backed securities	**277,984**	**18,877,162**	**779,153**	**25,557,549**	**1,057,137**	**44,434,711**
	$349,790	**$27,197,705**	**$1,102,549**	**$34,234,153**	**$1,452,339**	**$61,431,858**
March 31, 2015						
U.S. government agencies	$11,208	$3,988,792	$189,419	$12,810,581	$200,627	$16,799,373
Municipal bonds	-	-	-	-	-	-
Corporate bonds	46,736	1,953,264	-	-	46,736	1,953,264
Mortgage-backed securities	187,176	9,687,070	621,444	33,241,821	808,620	42,928,891
	$245,120	$15,629,126	$810,863	$46,052,402	$1,055,983	$61,681,528

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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Note 6: Loans Receivable and Allowance for Loan Losses

Loans receivable, excluding loans held for sale, consist of the following at December 31, 2015 and March 31, 2015:

	December 31, 2015				March 31, 2015	
	Legacy (1)	**Acquired**	**Total Loans**	**% of Total**	Legacy (1)	% of Total
Real estate loans:						
One-to four-family:						
Residential	**$46,675,990**	**$22,988,263**	**$69,664,253**	**30 %**	$49,864,923	31 %
Residential construction	**5,196,931**	**1,616,661**	**6,813,592**	**3 %**	3,955,702	2 %
Investor (2)	**12,508,464**	**17,092,234**	**29,600,698**	**13 %**	12,971,519	8 %
Commercial	**76,460,241**	**2,925,586**	**79,385,827**	**35 %**	59,273,398	37 %
Commercial construction	**1,886,203**	**1,850,747**	**3,736,950**	**2 %**	2,405,849	1 %
Total real estate loans	**142,727,829**	**46,473,491**	**189,201,320**	**83 %**	128,471,391	79 %
Commercial business	**18,574,241**	**2,683,947**	**21,258,188**	**9 %**	18,489,603	12 %
Home equity loans	**12,062,929**	**2,212,783**	**14,275,712**	**6 %**	12,261,292	8 %
Consumer	**3,367,363**	**1,200,805**	**4,568,168**	**2 %**	1,166,155	1 %
Total Loans	**176,732,362**	**52,571,026**	**229,303,388**	**100 %**	160,388,441	100 %
Net deferred loan origination fees and costs	**(144,510)**	**-**	**(144,510)**		(103,247)	
Loan premium (discount)	**87,630**	**(917,433)**	**(829,803)**		0	
Allowance for loan losses	**(2,015,723)**	**-**	**(2,015,723)**		(1,690,236)	
	$174,659,759	**$51,653,593**	**$226,313,352**		$158,594,958	

(1) As a result of the acquisition of Fairmount Bancorp, Inc. (Fairmount Bancorp), 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 Fairmount Bank "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 95% 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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The following table details activity in the allowance for loan losses by portfolio segment for both the nine months ended December 31, 2015 and 2014 and for the year ended March 31, 2015. 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.

	Legacy					**Acquired**				
Nine months ended:	Allowance	Provision for	Charge		Allowance	Allowance	Provision for	Charge		Allowa
December 31, 2015	3/31/2015	loan losses	offs	Recoveries	12/31/2015	3/31/2015	loan losses	offs	Recoveries	12/31/
Real estate loans:										
One-to four-family	**$433,570**	**$179,413**	**$168,139**	**$848**	**$445,692**	**$-**	**$61,517**	**$86,352**	**$24,835**	**$-**
Commercial	**585,817**	**529,516**	**-**	**-**	**1,115,333**	**-**	**-**	**-**	**-**	**-**
Commercial construction	**67,835**	**(218,589)**	**-**	**236,906**	**86,152**	**-**	**-**	**-**	**-**	**-**
Commercial business	**473,127**	**(353,601)**	**10,533**	**150,547**	**259,540**	**-**	**-**	**-**	**-**	**-**
Home equity loans	**98,983**	**(9,962)**	**6,000**	**-**	**83,021**	**-**	**-**	**-**	**-**	**-**
Consumer	**727**	**31,883**	**7,565**	**940**	**25,985**	**-**	**-**	**-**	**-**	**-**
Unallocated	**30,177**	**(30,177)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	$1,690,236	**$128,483**	**$192,237**	**$389,241**	**$2,015,723**	**$-**	**$61,517**	**$86,352**	**$24,835**	**$-**

	Legacy				
Nine months ended:	Allowance	Provision for	Charge		Allowance
December 31, 2014	3/31/2014	loan losses	offs	Recoveries	12/31/2014
Real estate loans:					
One-to four-family	$528,362	$(16,365)	$105,498	$ 1,342	$407,841
Commercial	575,881	(5,558)	-	-	570,323
Commercial construction	60,361	(49,828)	-	-	10,533
Commercial business	590,975	265,762	-	35,501	892,238
Home equity loans	27,181	153,070	100,693	2,505	82,063
Consumer	3,213	(2,081)	-	40	1,172
Unallocated	-	-	-	-	-
	$1,785,973	$345,000	$206,191	$ 39,388	$1,964,170

Year Ended: March 31, 2015	Legacy Allowance 3/31/2014	Provision for Loan Losses	Charge offs	Recoveries	Allowance 3/31/2015
Real estate loans:					
One-to four-family	$528,362	$38,738	$138,821	$ 5,291	$433,570
Commercial	575,881	9,936	-	-	585,817
Commercial construction	60,361	7,474	-	-	67,835
Commercial business	590,975	(82,390)	83,879	48,421	473,127
Home equity loans	27,181	169,990	100,693	2,505	98,983
Consumer	3,213	(3,925)	-	1,439	727
Unallocated	-	30,177	-	-	30,177
	$1,785,973	$170,000	$323,393	$ 57,656	$1,690,236

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The following table provides additional information on the allowance for loan losses by segment:

Nine months ended: December 31, 2015	**Legacy** Allowance Individually evaluated for impairment	Collectively evaluated for impairment	Loan Balance Individually evaluated for impairment	Collectively evaluated for impairment	**Acquired** Allowance Individually evaluated for impairment	Collectively evaluated for impairment	Loan Balance Individually evaluated for impairment	Collectively evaluated for impairment
Real estate loans:								
One-to four-family	**$79,301**	**$366,391**	**$1,959,393**	**$62,421,992**	**$-**	**$ -**	**$1,663,950**	**$40,033,208**
Commercial	**-**	**1,115,333**	**3,329,058**	**73,131,183**	**-**	**-**	**-**	**2,925,586**
Commercial construction	**-**	**86,152**	**-**	**1,886,203**	**-**	**-**	**-**	**1,850,747**
Commercial business	**-**	**259,540**	**2,353,249**	**16,220,992**	**-**	**-**	**212,809**	**2,471,138**
Home equity loans	**-**	**83,021**	**17,578**	**12,045,351**	**-**	**-**	**-**	**2,212,783**
Consumer	**-**	**25,985**	**-**	**3,367,363**	**-**	**-**	**39,384**	**1,161,421**
Unallocated	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	$79,301	**$1,936,422**	**$7,659,278**	**$169,073,084**	**$-**	**$ -**	**$1,916,143**	**$50,654,883**

Nine months ended: December 31, 2014	Legacy Allowance Individually evaluated for impairment	Collectively evaluated for impairment	Loan Balance Individually evaluated for impairment	Collectively evaluated for impairment
Real estate loans:				
One-to four-family	$141,981	$265,860	$2,031,308	$65,572,183
Commercial	-	570,323	3,358,454	53,396,974
Commercial construction	-	10,533	1,417,067	365,746
Commercial business	587	891,651	2,656,233	16,718,973
Home equity loans	-	82,063	17,556	12,052,090
Consumer	-	1,172	4,121	1,166,402
Unallocated	-	-	-	-

	$142,568	$1,821,602	$9,484,739	$149,272,368

	Legacy Allowance		Loan Balance	
Year Ended: March 31, 2015	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate loans:				
One-to four-family	$97,632	$335,938	$2,092,580	$64,699,564
Commercial	-	585,817	3,358,447	55,914,951
Commercial construction	-	67,835	1,374,530	1,031,319
Commercial business	730	472,397	2,010,424	16,479,179
Home equity loans	-	98,983	15,229	12,246,063
Consumer	-	727	-	1,166,155
Unallocated	-	30,177	-	-
	$98,362	$1,591,874	$8,851,210	$151,537,231

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Notes to Consolidated Financial Statements (Unaudited)

Past due loans, segregated by age and class of loans, as of and for the nine months ended December 31, 2015 and as of and for the year ended March 31, 2015, were as follows:

December 31, 2015	Loans 30-59 days past due	Loans 60-89 days past due	Loans 90 or more days past due	Total past due loans	Current loans	Totals loans	Accruing loans 90 or more days past due	Nonaccrual loans	Nonacc interest not accrued
Legacy Loans:									
Real estate loans:									
One-to four-family	**$427,025**	**$10,769**	**$419,943**	**$857,737**	**$63,523,648**	**$64,381,385**	**$-**	**$714,955**	**$29,89**
Commercial	**3,329,058**	**-**	**-**	**3,329,058**	**73,131,183**	**76,460,241**	**-**	**3,329,058**	**2,606**
Commercial construction	**-**	**-**	**-**	**-**	**1,886,203**	**1,886,203**	**-**	**-**	**-**
Commercial business	**-**	**-**	**121,760**	**121,760**	**18,452,481**	**18,574,241**	**-**	**121,760**	**43,84**
Home equity loans	**7,464**	**43,611**	**-**	**51,075**	**12,011,854**	**12,062,929**	**-**	**7,464**	**152**
Consumer	**3,313**	**-**	**-**	**3,313**	**3,364,050**	**3,367,363**	**-**	**-**	**-**
	$3,766,860	**$54,380**	**$541,703**	**$4,362,943**	**$172,369,419**	**$176,732,362**	**$-**	**$4,173,237**	**$76,49**

December 31, 2015	Loans 30-59 days past due	Loans 60-89 days past due	90 or more days past due	Total past due loans	Current loans	Totals loans	loans 90 or more days past due	Nonaccrual loans	interest not accrued
Acquired Loans:									
Real estate loans:									
One-to four-family	**$82,771**	**$119,292**	**$994,866**	**$1,196,929**	**$40,500,229**	**$41,697,158**	**$-**	**$994,866**	**$101,372**
Commercial	**-**	**-**	**-**	**-**	**2,925,586**	**2,925,586**	**-**	**-**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**1,850,747**	**1,850,747**	**-**	**-**	**-**

Commercial business	**144,633**	**-**	**-**	**144,633**	**2,539,314**	**2,683,947**	**-**	**-**	**-**
Home equity loans	**-**	**-**	**-**	**-**	**2,212,783**	**2,212,783**	**-**	**-**	**-**
Consumer	**6,789**	**3,535**	**-**	**10,324**	**1,190,481**	**1,200,805**	**-**	**-**	**106**
	$234,193	**$122,827**	**$994,866**	**$1,351,886**	**$51,219,140**	**$52,571,026**	**$ -**	**$994,866**	**$101,478**

March 31, 2015	Loans 30-59 days past due	Loans 60-89 days past due	90 or more days past due	Total past due loans	Current loans	Totals loans	loans 90 or more days past due	Nonaccrual loans	interest not accrued
Legacy Loans:									
Real estate loans:									
One-to four-family	$299,259	$158,898	$487,617	$945,774	$65,846,370	$66,792,144	$-	$639,191	$28,338
Commercial	-	-	-	-	59,273,398	59,273,398	-	-	-
Commercial construction	-	-	1,374,530	1,374,530	1,031,319	2,405,849	-	1,374,530	11,975
Commercial business	-	733,809	225,573	959,382	17,530,221	18,489,603	-	225,573	82,789
Home equity loans	-	-	6,000	6,000	12,255,292	12,261,292	-	15,229	980
Consumer	187	492	-	679	1,165,476	1,166,155	-	-	-
	$299,446	$893,199	$2,093,720	$3,286,365	$157,102,076	$160,388,441	$-	$2,254,523	$124,082

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Impaired Loans as of and for the nine months ended December 31, 2015 and as of and for the year ended March 31, 2015, was as follows:

December 31, 2015	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
Legacy Loans:							
Real estate loans:							
One-to four-family	**$2,149,814**	**$541,829**	**$1,417,564**	**$1,959,393**	**$ 79,301**	**$2,020,326**	**$ 49,985**
Commercial	**3,433,621**	**3,329,058**	**-**	**3,329,058**	**-**	**3,353,986**	**98,611**
Commercial construction	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial business	**3,007,951**	**2,353,249**	**-**	**2,353,249**	**-**	**1,944,370**	**128,680**
Home equity loans	**40,471**	**17,578**	**-**	**17,578**	**-**	**19,527**	**260**
Consumer	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	$8,631,857	**$6,241,714**	**$1,417,564**	**$7,659,278**	**$ 79,301**	**$7,338,209**	**$ 277,536**

December 31, 2015	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
Acquired Loans:							
Real estate loans:							
One-to four-family	**$2,910,809**	**$1,663,950**	**$ -**	**$1,663,950**	**$ -**	**$1,347,467**	**$ -**
Commercial	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial business	**262,809**	**212,809**	**-**	**212,809**	**-**	**213,588**	**-**
Home equity loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Consumer	**53,635**	**39,384**	**-**	**39,384**	**-**	**39,795**	**-**
	$3,227,253	**$1,916,143**	**$ -**	**$1,916,143**	**$ -**	**$1,600,850**	**$ -**

March 31, 2015	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
Legacy Loans:							
Real estate loans:							
One-to four-family	$2,221,429	$652,411	$1,440,169	$2,092,580	$ 97,632	$2,176,952	$ 72,593

Commercial	3,433,669	3,358,447	-	3,358,447	-	3,359,762	157,242
Commercial construction	2,549,027	1,374,530	-	1,374,530	-	1,775,778	-
Commercial business	2,730,393	1,961,074	49,350	2,010,424	730	2,810,816	96,056
Home equity loans	67,924	15,229	-	15,229	-	40,701	112
Consumer	-	-	-	-	-	-	-
	$11,002,442	$7,361,691	$1,489,519	$8,851,210	$98,362	$10,164,009	$326,003

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Credit quality indicators

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

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

Pass

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

Special Mention

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

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

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

Substandard

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

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

Doubtful

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

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

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.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

The following tables present the December 31, 2015 and March 31, 2015, balances of classified loans based on the risk grade. Classified loans include Special Mention, Substandard, and Doubtful loans. The Bank had no loans classified as Doubtful or Loss as of December 31, 2015 or March 31, 2015.

	Legacy				**Acquired**		
December 31, 2015	Pass	Special Mention	Substandard	Total	Pass	Special Mention	Substandard
Real estate loans:							
One-to four-family	**$61,886,947**	**$2,023,078**	**$471,360**	**$64,381,385**	**$39,317,169**	**$688,659**	**$1,691,330**
Commercial	**66,957,002**	**6,174,181**	**3,329,058**	**76,460,241**	**2,712,777**	**-**	**212,809**
Commercial construction	**1,886,203**	**-**	**-**	**1,886,203**	**1,850,747**	**-**	**-**
Commercial business	**13,257,967**	**3,576,382**	**1,739,892**	**18,574,241**	**2,683,947**	**-**	**-**
Home equity loans	**12,008,735**	**43,611**	**10,583**	**12,062,929**	**2,212,783**	**-**	**-**
Consumer	**3,367,363**	**-**	**-**	**3,367,363**	**1,122,580**	**38,841**	**39,384**
	$159,364,217	**$11,817,252**	**$5,550,893**	**$176,732,362**	**$49,900,003**	**$727,500**	**$1,943,523**
Percentage of total loans	**90.2** %	**6.7** %	**3.1** %	**100** %	**94.9** %	**1.4** %	**3.7** %

	Legacy			
March 31, 2015	Pass	Special Mention	Substandard	Total
Real estate loans:				
One-to four-family	$64,467,025	$1,678,604	$646,515	$66,792,144
Commercial	52,979,048	2,935,904	3,358,446	59,273,398
Commercial construction	1,031,319	-	1,374,530	2,405,849
Commercial business	13,966,656	3,126,880	1,396,067	18,489,603
Home equity loans	12,255,292	-	6,000	12,261,292
Consumer	1,165,476	679	-	1,166,155
	$145,864,816	$7,742,067	$6,781,558	$160,388,441

Percentage of total loans	91.0 %	4.8 %	4.2 %	100 %

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.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

A summary of TDRs at December 31, 2015 and March 31, 2015 follows:

December 31, 2015	Number of contracts	Performing	Nonperforming	Total
Legacy Loans:				
Real estate loans:				
One-to four-family	**7**	**$1,299,173**	**$ 138,801**	**$1,437,974**
Commercial	**2**	**-**	**3,329,058**	**3,329,058**
Commercial construction	**-**	**-**	**-**	**-**
Commercial business	**2**	**651,986**	**-**	**651,986**
Home equity loans	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**
	11	**$1,951,159**	**$ 3,467,859**	**$5,419,018**

December 31, 2015	Number of contracts	Performing	Nonperforming	Total
Acquired Loans:				
Real estate loans:				
One-to four-family	**-**	**$ -**	**$ -**	**$ -**
Commercial	**-**	**-**	**-**	**-**
Commercial construction	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**
Home equity loans	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**
	-	**$ -**	**$ -**	**$ -**

March 31, 2015	Number of contracts	Performing	Nonperforming	Total
Legacy Loans:				
Real estate loans:				
One-to four-family	5	$1,366,132	$ 74,085	$1,440,217
Commercial	2	3,358,446	-	3,358,446
Commercial construction	-	-	-	-
Commercial business	3	614,358	59,883	674,241
Home equity loans	-	-	-	-

Consumer	-	-	-	-
	10	$5,338,936	$ 133,968	$5,472,904

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

The following table presents the number of contracts and the dollar amount of TDR's that were added during the nine month period ended December 31, 2015. The amount shown reflects the outstanding loan balance at the time of the modification. There were no TDR's that defaulted within twelve months of their restructuring, during the nine month period ended December 31, 2015.

Nine months ended December 31, 2015	Number of contracts	Outstanding recorded investment
Real estate loans:		
One-to four-family	**2**	**$ 20,816**
Commercial	**-**	**-**
Commercial construction	**-**	**-**
Commercial business	**-**	**-**
Home equity loans	**-**	**-**
Consumer	**-**	**-**
	2	**$ 20,816**

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. Management is not aware of any accounting loss to be incurred by funding these loan commitments.

The Bank had the following outstanding commitments and unused lines of credit as of December 31, 2015 and March 31, 2015:

	December 31, 2015	March 31, 2015
Unused commercial lines of credit	**$9,553,136**	$8,074,686
Unused home equity lines of credit	**16,608,922**	15,885,344
Unused consumer lines of credit	**31,830**	31,876
Residential mortgage loan commitments	**59,000**	-
Residential construction loan commitments	**3,518,556**	5,325,095
Commercial construction loan commitments	**2,326,285**	1,129,681
Home equity loan commitments	**-**	337,000
Commercial loan commitments	**2,065,000**	269,000
Standby letters of credit	**198,396**	50,000

Note 7: Goodwill and Other Intangible Asset

The Company's intangible assets (goodwill and core deposit intangible) at December 31, 2015 consists of assets recorded in December 2009 associated with the acquisition of a branch office in Pasadena, Maryland and the acquisition of Fairmount in September 2015. The goodwill is deductible for tax purposes. We evaluate goodwill and other intangible assets for impairment on an annual basis. The core deposit intangible asset is being amortized straight-line over a life of 8 years.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

The following table presents the changes in the net book value of intangible assets for the nine months ended December 31, 2015 and 2014:

	Goodwill	Core deposit intangible
Balance March 31, 2014	$2,664,432	$171,333
Amortization expense	-	(25,750)
Balance December 31, 2014	$2,664,432	$145,583

	Goodwill	**Core deposit intangible**
Balance March 31, 2015	**$2,664,432**	**$138,333**
Additions (1)	**3,814,428**	**542,540**
Amortization expense	**-**	**(38,619)**
Balance December 31, 2015	**$6,478,860**	**$642,254**

(1) - Additions to intangible assets are related to merger with Fairmount Bancorp, Inc.

Estimated future amortization expense for amortizing intangibles within the fiscal years ending March 31, are as follows:

Fiscal year ending March 31,	Amount
2016 - remaining 3 months	$23,956
2017	95,817
2018	95,817
2019	95,817
2020	93,484
Thereafter	237,363
	$642,254

Note 8: Derivative – Interest Rate Swap Agreement

Derivative instruments are entered into primarily as a risk management tool of the Company. Financial derivatives are recorded at fair value as other assets and other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability are recognized currently in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded in accumulated other comprehensive income and subsequently reclassified to earnings as the hedged transaction impacts net income. Any ineffective portion of a cash flow hedge is recognized currently in earnings.

During the second quarter of fiscal 2016, the Company entered into an interest rate swap agreement with a $3.3 million notional amount to convert a fixed rate commercial real estate loan of 3.99% into a variable rate for a term of approximately 10 years. The derivative is designated as a cash flow hedge. The fair value of the derivative instrument was an $81,000 unrealized loss at December 31, 2015.

No gain or loss was recognized in earnings for the nine months ended December 31, 2015 related to the interest rate swap. The Company posted $290,000 under collateral arrangements as of December 31, 2015 to satisfy collateral requirements associated with the interest rate swap contract.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Note 9: Deposits

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

	December 31, 2015			**March 31, 2015**		
	Amount	% of Total		Amount	% of Total	
Savings	**$32,352,494**	**11**	**%**	$16,933,011	8	%
Noninterest-bearing checking	**22,332,169**	**8**	**%**	16,652,771	7	%
Interest-bearing checking	**13,544,701**	**5**	**%**	11,003,370	5	%
Money market accounts	**28,983,627**	**10**	**%**	28,033,238	13	%
Time deposits	**191,447,521**	**66**	**%**	149,696,502	67	%
	$288,660,512	**100**	**%**	$222,318,892	100	%
Premium on deposits asssumed	**380,773**			-		
Total deposits	**$289,041,285**			$222,318,892		

Note 10: Lines of Credit and Federal Home Loan Bank Advances

The Bank may borrow up to $5,000,000 from a correspondent bank under a secured federal funds line of credit and $1,000,000 under an unsecured federal funds line of credit. The Bank would be required to pledge investment securities to draw upon the secured line of credit. There were no borrowings under these lines of credit at December 31, 2015 and March 31, 2015.

Borrowings consist of advances from the Federal Home Loan Bank (FHLB). The Bank may borrow up to 20 percent of its assets under a line of credit agreement with the FHLB. Advances under the line of credit are secured by investments and certain loans owned by the Bank. As of December 31, 2015 and March 31, 2015, the Bank had $55,070,600 and $50,140,000 respectively, of available credit from the FHLB. Advances would be limited by the balance of investment securities and loans available for pledge. As a condition of obtaining the line of credit from the FHLB, the FHLB also requires the Bank purchase shares of capital stock in the FHLB. Information relating to borrowings at December 31, 2015 and March 31, 2015 is presented below.

	December 31, 2015			March 31, 2015		
	Amount	**Rate**	**Maturity Date**	Amount	Rate	Maturity Date
FHLB advance	**2,000,000**	**0.43 %**	**3/3/2016**	$2,000,000	0.21 %	6/3/2015
FHLB advance	**2,000,000**	**0.43 %**	**6/3/2016**	2,000,000	0.28 %	9/3/2015
FHLB advance	**2,000,000**	**0.60 %**	**9/6/2016**	2,000,000	0.43 %	3/3/2016
FHLB advance	**1,500,000**	**0.75 %**	**3/31/2017**	-		
FHLB advance	**1,000,000**	**4.24 %**	**7/31/2017**	-		
FHLB advance	**1,000,000**	**4.01 %**	**8/21/2017**	-		
FHLB advance	**1,000,000**	**0.91 %**	**8/31/2017**	-		
FHLB advance	**1,500,000**	**3.23 %**	**11/24/2017**	-		
FHLB advance	**1,500,000**	**3.40 %**	**11/27/2017**			
FHLB advance	**1,000,000**	**2.60 %**	**7/2/2018**	-		
FHLB advance	**1,000,000**	**3.05 %**	**7/3/2018**	-		
FHLB advance	**1,000,000**	**2.60 %**	**10/2/2018**	-		
	16,500,000			6,000,000		
Premium on borrowings assumed	**347,192**			-		
Total borrowings	**$16,847,192**			$6,000,000		

Note 11: Regulatory Capital Ratios

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, 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.

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Notes to Consolidated Financial Statements (Unaudited)

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 December 31, 2015, 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 will begin on January 1, 2016 at the 0.625% level and be 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.

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

The following table presents actual and required capital ratios as of December 31, 2015 and March 31, 2015 for Hamilton Bank 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 have been 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)		*(dollars in thousands)*			
December 31, 2015								
Common equity tier 1 capital (to risk-weighted assets)	**$44,578**	**18.73 %**	**$10,709**	**4.50 %**	**$16,658**	**7.00 %**	**$15,469**	**6.50 %**
Total risk-based capital (to risk-weighted assets)	**46,636**	**19.60 %**	**19,038**	**8.00 %**	**24,988**	**10.50 %**	**23,798**	**10.00 %**
Tier 1 capital (to risk-weighted assets)	**44,578**	**18.73 %**	**14,279**	**6.00 %**	**20,228**	**8.50 %**	**19,038**	**8.00 %**
Tier 1 capital (to adjusted total assets)	**44,578**	**12.60 %**	**14,155**	**4.00 %**	**14,155**	**4.00 %**	**17,694**	**5.00 %**
March 31, 2015								
Common equity tier 1 capital (to risk-weighted assets)	$44,187	24.37 %	$8,160	4.50 %	$12,694	7.00 %	$11,787	6.50 %
Total risk-based capital (to risk-weighted assets)	45,910	25.32 %	14,508	8.00 %	19,041	10.50 %	18,134	10.00 %
Tier 1 capital (to risk-weighted assets)	44,187	24.37 %	10,881	6.00 %	15,414	8.50 %	14,508	8.00 %
Tier 1 capital (to adjusted total assets)	44,187	15.82 %	11,168	4.00 %	11,168	4.00 %	13,960	5.00 %

(1) - Under prompt corrective action

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

Failure to meet the capital requirements could affect, among other things, the Bank's ability to accept brokered deposits and may significantly affect the operations of the Bank.

In its regulatory report filed as of December 31, 2015, the Bank exceeded all regulatory capital requirements and was considered "well capitalized" under regulatory guidelines. Management is not aware of any events that would have caused this classification to change. Management has no plans that should change the classification of the capital adequacy.

Note 12: Stock Based Compensation

In November 2013, the Company's shareholders approved a new Equity Incentive Plan (the "2013 Equity Incentive Plan''). The 2013 Equity Incentive Plan allows for up to 148,120 shares to be issued to employees, executive officers or Directors in the form of restricted stock, and up to 370,300 shares to be issued to employees, executive officers or Directors in the form of stock options. At December 31, 2015, there were 81,900 restricted stock awards issued and outstanding and 219,650 stock option awards granted under the 2013 Equity Incentive Plan.

<u>Stock Options:</u>

Under the above plan, the exercise price for stock options is the market price at date of grant. The maximum option term is ten years and the options granted shall vest in five equal annual installments of 20% with the first installment becoming exercisable on the first anniversary of the date of grant, or February 3, 2015, and succeeding installments on each anniversary thereafter, through February 3, 2019. 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 $52,302 and $156,907 for the three and nine months ended December 31, 2015 and $55,709 and $156,907 for the three and nine months ended December 31, 2014, respectively.

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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 during the year ended March 31, 2015 was determined using the following weighted-average assumptions as of grant date.

	2015
Risk free interest rate	2.07 %
Expected term (years)	7.0
Expected stock price volatility	27.30 %
Dividend yield	0.00 %

A summary of stock option activity for the nine months ended December 31, 2015 is as follows:

Nine Months Ended December 31, 2015:	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at beginning of period	**219,650**	**$ 13.85**	8.8
Granted	**-**	**-**	-
Exercised	**-**	**-**	-
Forfeited, exchanged or expired	**-**	**-**	-
Outstanding at end of year	**219,650**	**$ 13.85**	8.1
Vested at end of year	**43,930**	**$ 13.85**	8.1

As of December 31, 2015 there was $645,062 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 3.1 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 $14.26 at December 31, 2015, the options outstanding had an intrinsic value of $90,057.

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.

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Notes to Consolidated Financial Statements (Unaudited)

A summary of changes in the Company's nonvested shares for the year is as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at April 1, 2015	**66,500**	**$ 13.76**
Granted	**400**	**14.00**
Vested	**-**	**-**
Forfeited	**-**	**-**
Nonvested at December 31, 2015	**66,900**	**$ 13.76**

The Company recorded restricted stock awards expense of $56,427 and $168,999 during the three and nine months ended December 31, 2015 and $51,938 and $154,775 during the three and nine months ended December 31, 2014. As of December 31, 2015, there was $712,943 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 3.2 years.

Note 13: Fair Value Measurements

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

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

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

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

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.

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Notes to Consolidated Financial Statements (Unaudited)

Fair value measurements on a recurring basis

Securities available for sale – If quoted prices are available in an active market for identical assets, securities are classified within Level 1 of the hierarchy. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. As of December 31, 2015 and March 31, 2015, the Bank has categorized its investment securities available for sale as follows:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
December 31, 2015				
U.S. government agencies	**$ -**	**$14,759,466**	**$ -**	**$14,759,466**
Municipal bonds	**-**	**2,796,650**	**-**	**2,796,650**
Corporate bonds	**-**	**1,863,032**	**-**	**1,863,032**
Mortgage-backed	**-**	**58,197,129**	**-**	**58,197,129**
Total investment securities available for sale	**$ -**	**$77,616,277**	**$ -**	**$77,616,277**

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
March 31, 2015				
U.S. government agencies	$ -	$17,311,947	$ -	$17,311,947
Municipal bonds		2,317,130		2,317,130
Corporate bonds	-	1,953,264	-	1,953,264
Mortgage-backed	-	71,357,410	-	71,357,410
Total investment securities available for sale	$ -	$92,939,751	$ -	$92,939,751

Fair value measurements on a nonrecurring basis

Impaired Loans - The Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values. As of December 31, 2015 and March 31, 2015, the fair values consist of loan balances of $9,575,421 and $8,851,210 that have been written down by $79,301 and $98,362, respectively, as a result of specific loan loss allowances.

Foreclosed real estate – The Bank's foreclosed real estate is measured at fair value less estimated cost to sell. As of December 31, 2015 and March 31, 2015, the fair value of foreclosed real estate was estimated to be $443,015 and $455,575, 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.

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
December 31, 2015				
Impaired loans	**$ -**	**$ -**	**$9,496,120**	**$9,496,120**
Foreclosed real estate	**-**	**-**	**443,015**	**443,015**
Total impaired loans and foreclosed real estate	**$ -**	**$ -**	**$9,939,135**	**$9,939,135**

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
March 31, 2015				
Impaired loans	$ -	$ -	$8,752,848	$8,752,848
Foreclosed real estate	-	-	455,575	455,575
Total impaired loans and foreclosed real estate	$ -	$ -	$9,208,423	$9,208,423

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Notes to Consolidated Financial Statements (Unaudited)

The following table summarizes changes in foreclosed real estate for the nine months ended December 31, 2015, which is measured on a nonrecurring basis using significant unobservable, level 3, inputs.

Balance, March 31, 2015	**$455,575**
Transfer to foreclosed real estate	**20,000**
Proceeds from sale of foreclosed real estate	**(31,752)**
Loss on sale of foreclosed real estate	**(808)**
Balance, December 31, 2015	**$443,015**

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

	December 31, 2015		March 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Level 1 inputs				
Cash and cash equivalents	**$29,248,469**	**$29,248,469**	$16,643,888	$16,643,888
Level 2 inputs				
Loans held for sale	**155,456**	**160,733**	581,139	591,670
Federal Home Loan Bank stock	**1,038,700**	**1,038,700**	522,700	522,700
Bank-owned life insurance	**12,624,031**	**12,624,031**	12,359,969	12,359,969
Level 3 inputs				
Certificates of deposit held as investment	**3,974,044**	**3,917,289**	-	-
Loans receivable, net	**226,313,352**	**228,733,415**	158,594,958	160,612,436
Financial liabilities				
Level 1 inputs				
Advance payments by borrowers for taxes and insurance	**523,482**	**523,482**	619,028	619,028
Level 3 inputs				

Deposits	**289,041,285**	**289,521,216**	222,318,892	222,880,492
Borrowings	**16,847,192**	**17,172,439**	6,000,000	5,999,250

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 value of loans held for sale is based on commitments from investors.

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

The fair value of fixed-rate loans is estimated to be the present value of scheduled payments discounted using interest rates currently in effect. The fair value of variable-rate loans, including loans with a demand feature, is estimated to equal the carrying amount. The valuation of loans is adjusted for estimated loan losses.

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Notes to Consolidated Financial Statements (Unaudited)

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

The fair value of interest-bearing checking, savings, and money market deposit accounts is equal to the carrying amount. The fair value of fixed-maturity time deposits is estimated based on interest rates currently offered for deposits of similar remaining maturities.

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

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

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

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 26, 2015 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. The Company does not own or lease any property but instead uses the premises, equipment and other property of the Bank.

Founded in 1915 and recently celebrating its 100th year anniversary, the Bank is a community-oriented financial institution, dedicated to serving the financial service needs of consumers and businesses within its geographic area, which consists of Baltimore City, Baltimore County, and Anne Arundel County in Maryland. 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 five full-service branch offices located in Baltimore City, Cockeysville, Towson, Rosedale and Pasadena, Maryland. The Bank is subject to extensive regulation, examination and supervision by the Office of the Comptroller of the Currency, its primary federal regulator, and the Federal Deposit Insurance Corporation, its deposit insurer. The Company is subject to regulation and supervision by the Board of Governors of the Federal Reserve System.

On September 11, 2015, the Company acquired Fairmount Bancorp, Inc. (“Fairmount”), the parent company of Fairmount Bank in an all cash transaction for $14.2 million. The acquisition added another branch to our already existing branch structure in the Baltimore area.

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 core earnings (earnings that exclude merger and acquisition costs) and net interest margin, as well as loan growth and consistent asset quality during the three and nine months ending December 31, 2015 compared to the same period a year ago. The Company has been able to reduce the amount of the provision for loan loss over the first nine months of fiscal 2016 to $190,000 compared to $345,000 in the same period of fiscal 2015 as a result of more recoveries. Net interest income improved $1.1 million during the first nine months of fiscal 2016 compared to the same period a year ago as the Company continued to show strong loan demand, closed on its acquisition of Fairmount Bancorp, Inc. ("Fairmount") and worked towards reducing our cost of funds. The Company was able to increase its non-interest revenue through the nine months ending December 31, 2015 compared to the same period a year ago due to the relocation of our Towson branch to the administrative offices and subsequent sale of the building in the first quarter, which generated a gain on sale of $407,000. Finally, non-interest expense increased $995,000 in the nine months ending December 31, 2015 compared to the same period a year ago. That increase was due to $828,000 in expenses relating to the acquisition of Fairmount and the execution of a definitive agreement to acquire Fraternity Community Bancorp, Inc. ("Fraternity"), along with the additional expenses associated with operating as a larger institution. Management has diligently worked at monitoring and improving efficiencies to reduce our overall operating expenses and improve our efficiency ratio going forward.

The following highlights contain additional financial data and events that have occurred during the three and nine months ended December 31, 2015:

Hamilton Bancorp successfully completed the acquisition of Fairmount in September 2015. The acquisition, along with organic loan growth, is primarily responsible for increasing our asset size $77.2 million, or 26.5%, from $291.0 million at March 31, 2015 to $368.3 million at December 31, 2015. The cost incurred to complete the Fairmount acquisition was approximately $503,000.

In October 2015, the Company completed its due diligence and entered into a definitive agreement to acquire Fraternity. During the most recent quarter, the Company completed and submitted its regulatory applications. The Company is currently awaiting both regulatory and Fraternity shareholder approval for the potential acquisition. The cost incurred year-to-date to complete our due diligence, reach a definitive agreement and submit our regulatory application for this acquisition is $326,000.

The Company closed its Towson branch location in early May of 2015 and converted its limited service branch located at the administrative offices in Towson to a full service branch to continue servicing our customers in the Towson area. The Towson branch property was subsequently sold for $500,000, generating a gain on sale of $407,000 in the first quarter. The branch closure is expected to reduce operating costs on an annual basis by $150,000.

Net interest income for the third quarter ending December 31, 2015 was $2.7 million, an increase of $805,000 or 42 percent from $1.9 million for the same period a year ago. As a result, the net interest margin increased 37 basis points to 3.24 percent, compared to 2.87 percent for the same quarter last year. This increase is primarily related to the Company's successful acquisition of Fairmount.

For the three and nine months ended December 31, 2015, the Company reported net losses of $127,000 and $210,000 (loss of $0.04 and $0.07 per common share), respectively, compared to net income of $78,000 and a net loss of $173,000 (earnings of $0.02 and loss of $0.05 per common share) for the same periods in 2014. The comparative results are materially affected by the impact of merger related expenses, which are not tax deductible, and the sale of our Towson branch in fiscal 2016. To illustrate, excluding the $828,000 in merger related costs and the $407,000 gain on sale of our Towson branch in fiscal 2016 as compared to fiscal 2015 would result in adjusted net income and basic earnings per share as follows:

	Three months ended December 31,			Nine months ended December 31,		
	2015	2014	Difference	2015	2014	Difference
	(dollars in thousands)			(dollars in thousands)		
Reported pre-tax income (loss)	$107	$98	$ 9	$115	$(405)	$ 520
Add: Merger related expenses	197	-	197	828	-	828
Less: Gain on Sale of branch	-	-	-	(407)	-	(407)
Adjusted pre-tax income	304	98	206	536	(405)	941
Income tax expense (benefit)	234	21	213	325	(232)	557
Tax adjustment	(78)	-	(78)	(166)	-	- (166)
Adjusted net income (loss)	$148	$78	$ 71	$377	$(173)	$ 550
Adjusted basic earnings (loss) per common share	$0.05	$0.02	$ 0.03	$0.12	$(0.05)	$ 0.17

- The non-GAAP financial measures shown above should not be viewed as a substitute for net income (loss) or earnings (loss) per share in accordance with GAAP

Total loans at December 31, 2015 increased 44.4% year over year, including $52.6 million or 33.1% of growth in loans acquired through the Fairmount acquisition and $18.0 million, or 11.3%, of growth internally.

Organic loan growth for the quarter ending December 31, 2015 included a net increase in commercial loans of $6.2 million, or 6.3%, as we re-balance our loan portfolio from residential to commercial loans. Since March 31, 2015 our commercial loan portfolio has increased $24.2 million, or 30.2%

Deposit account balances increased $5.7 million, or 2.0%, to $288.7 million at December 31, 2015 compared to $283.0 million in the prior quarter ending September 30, 2015, including an increase of 7.8% or $2.6 million in noninterest-bearing and interest-bearing checking account balances.

Non-performing loans to total loans increased to 2.25% as of December 31, 2015, from 1.30 percent last quarter and 1.71 percent a year ago. The increase in the most recent period is due to one commercial real estate relationship totaling $3.3 million that was placed on non-accrual in accordance with regulatory guidelines. The borrower was previously classified as a Troubled Debt Restructure ("TDR") and continues to make interest only payments as agreed.

Net recoveries for the first nine months of fiscal 2016 were $136,000, or 0.07% of average loans, compared to $167,000 in net charge-offs, or 0.11 percent of average loans, for the same nine months a year ago. The Company had loan recoveries in the most recent quarter of $304,000, including a $237,000 recovery on a commercial construction note that was sold.

As a result of $304,000 in recoveries during the quarter ending December 31, 2015, the Company only recorded loan loss provisions of $70,000 during that period. Loan loss provisions for the nine months ended December 31, 2015 totaled $190,000 compared to $345,000 for the same period a year ago. The decrease in loan loss provisions is attributable to improved asset quality associated with our legacy loans, which are loans other than those acquired in the Fairmount acuisition.

The Company's book value per common share was $17.74 at December 31, 2015.

The Company maintained strong liquidity and at December 31, 2015 the Bank was deemed "well capitalized" under federal regulations.

Pursuant to the merger agreement with Fairmount, the stockholders of Fairmount Bancorp, Inc. received cash consideration of $14.2 million or $30 per common share outstanding. Included in Note 3 to the consolidated financial statements is additional discussion about the Fairmount acquisition.

Strategic Plan

We have based our 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 industry. Our short-term goals include continuing the growth of our loan portfolio, 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 sensibly sized and efficient branch network, and using technology to improve efficiencies and enhance the customer experience.

We identified several strategic priorities that we focused on throughout the 2016 fiscal year. Those priorities included the following core areas:

Profitable growth of commercial / small business relationships – We want to grow the number and profitability of commercial relationships across all product lines including loans, deposits, cash management, and payments. This will include a more focused approach to identifying our target customer, being disciplined in our approach to pricing, and understanding the products and services our customers want as well as new products and services that they need to make their businesses more functional.

Enhanced efficiency and productivity – To create and support profitable growth of new commercial relationships, as well as maintain existing relationships, we will work to enhance efficiency and productivity bank wide. This includes a consistent customer experience at every touch point and convenient, responsive customer support. In addition, we will evaluate our people, processes, policies, technology, and delivery to ensure effectiveness and efficiency with regards to properly supporting customers and employees while continually evaluating our cost structure and allocation of resources.

Acquisition strategy and planning – It is expected that the banking industry will continue to consolidate over the coming years due to a competitive market and the cost of regulatory compliance. Hamilton Bancorp is well positioned to take advantage of strategic opportunities that present themselves either through potential mergers or acquisitions in our marketplace. This may include other financial institutions, individual branches, or loan purchases. These opportunities, however, will be aligned with our strategic vision and goal of creating shareholder value and growth.

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

Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. The following represent our critical accounting policies:

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 performs an evaluation of the allowance for loan losses at least quarterly. 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. Actual loan losses may be significantly more than the allowances we have established which could result in a material negative effect on our financial results.

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, 2015, all of our securities were either issued by U.S. government agencies, U.S. government-sponsored enterprises, municipalities, or corporations and the principal and interest on 94.6% of our securities were guaranteed by the issuing entity.

Goodwill Impairment. Goodwill represents the excess purchase price paid for Fairmount and our Pasadena branch 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 l