Hamilton Bancorp, Inc.
Form 10-Q
November 14, 2016
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _______________ to _______________

Commission File No. 001-35693

Hamilton Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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

(410) 823-4510

(Registrant's telephone number)

N/A

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

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

YES [X] NO [ ]

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

YES [X] NO [ ]

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

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

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

YES [ ] NO [X]

3,413,646 shares of the Registrant's common stock, par value $0.01 per share, were issued and outstanding as of November 14, 2016.

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Hamilton Bancorp, Inc. and Subsidiaries

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Part I. – Financial Information

Item 1. Financial Statements

HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Financial Condition

September 30, 2016 and March 31, 2016

	September 30, 2016 (Unaudited)	March 31, 2016 **(Audited)**
Assets		
Assets		
Cash and due from banks	**$36,303,965**	$47,101,688
Federal funds sold	**9,440,899**	20,346,848
Cash and cash equivalents	**45,744,864**	67,448,536
Certificates of deposit held as investment	**3,471,821**	3,968,229
Securities available for sale, at fair value	**95,740,770**	70,484,400
Federal Home Loan Bank stock, at cost	**1,640,100**	1,042,500
Loans held for sale	**1,446,000**	259,450
Loans	**328,734,982**	221,859,056
Allowance for loan losses	**(1,942,368)**	(1,702,365)
Net loans and leases	**326,792,614**	220,156,691
Premises and equipment, net	**4,217,803**	3,555,474
Premises and equipment held for sale	**405,000**	405,000
Foreclosed real estate	**460,220**	443,015
Accrued interest receivable	**1,306,616**	948,166
Bank-owned life insurance	**18,006,574**	12,709,908
Deferred income taxes	**6,359,372**	2,353,141
Income taxes refundable	**234,413**	228,920
Goodwill and other intangible assets	**9,424,759**	7,386,111
Other assets	**1,928,880**	1,527,014
Total Assets	**$517,179,806**	$392,916,555
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	**$22,529,558**	$19,747,437
Interest-bearing deposits	**399,777,044**	294,246,214

Total deposits	**422,306,602**	313,993,651
Borrowings	**26,340,635**	14,805,237
Advances by borrowers for taxes and insurance	**1,335,132**	1,079,794
Other liabilities	**5,394,396**	1,493,290
Total liabilities	**455,376,765**	331,371,972
Commitments and contingencies	**-**	-
Shareholders' Equity		
Common stock, $.01 par value, 100,000,000 shares authorized. Issued: 3,413,646 shares at September 30, 2016 and March 31, 2016	**34,136**	34,136
Additional paid in capital	**31,460,188**	31,242,731
Retained earnings	**32,647,732**	32,659,455
Unearned ESOP shares	**(2,369,920)**	(2,369,920)
Accumulated other comprehensive income (loss)	**30,905**	(21,819)
Total shareholders' equity	**61,803,041**	61,544,583
Total Liabilities and Shareholders' Equity	**$517,179,806**	$392,916,555

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Operations (Unaudited)

Three and Six Months Ended September 30, 2016 and 2015

	Three Months Ended September 30,		**Six Months Ended September 30,**	
	2016	2015	**2016**	2015
Interest revenue				
Loans, including fees	**$3,831,123**	$2,159,611	**$7,147,796**	$4,100,218
U.S. treasuries, government agencies and FHLB stock	**62,534**	87,767	**149,108**	184,475
Municipal and corporate bonds	**69,640**	27,617	**118,667**	62,423
Mortgage-backed securities	**287,231**	277,835	**518,728**	575,430
Federal funds sold and other bank deposits	**52,734**	8,382	**119,438**	13,645
Total interest revenue	**4,303,262**	2,561,212	**8,053,737**	4,936,191
Interest expense				
Deposits	**674,470**	410,990	**1,286,282**	783,433
Borrowed funds	**76,569**	21,342	**118,641**	26,295
Total interest expense	**751,039**	432,332	**1,404,923**	809,728
Net interest income	**3,552,223**	2,128,880	**6,648,814**	4,126,463
Provision for loan losses	**50,006**	120,000	**260,006**	120,000
Net interest income after provision for loan losses	**3,502,217**	2,008,880	**6,388,808**	4,006,463
Noninterest revenue				
Service charges	**119,487**	98,142	**214,608**	193,220
Gain on sale of investment securities	**-**	21,715	**-**	21,715
Gain on sale of loans held for sale	**10,437**	18,571	**21,609**	35,569
Gain on sale of property and equipment	**-**	-	**-**	407,188
Earnings on bank-owned life insurance	**126,100**	88,704	**238,626**	176,446
Other	**26,474**	20,274	**77,153**	43,271
Total noninterest revenue	**282,498**	247,406	**551,996**	877,409
Noninterest expenses				
Salaries	**1,355,548**	977,330	**2,738,154**	1,915,570
Employee benefits	**347,420**	254,140	**696,754**	516,323
Occupancy	**258,871**	179,036	**474,771**	353,662
Advertising	**43,979**	18,451	**75,330**	45,814
Furniture and equipment	**99,437**	74,234	**197,760**	152,675
Data processing	**191,088**	143,023	**376,811**	285,011
Legal services	**63,185**	35,812	**113,448**	57,991
Other professional services	**342,400**	67,986	**545,514**	159,907

Merger related expenses	**9,081**	400,795	**197,233**	631,580
Branch consolidation expense	**-**	-	**437,424**	-
Deposit insurance premiums	**110,989**	39,002	**188,188**	88,865
Foreclosed real estate expense and losses (gains)	**-**	13,079	**8,108**	13,887
Other operating	**428,658**	350,033	**910,260**	654,611
Total noninterest expenses	**3,250,656**	2,552,921	**6,959,755**	4,875,896
Income (loss) before income taxes	**534,059**	(296,635)	**(18,951)**	7,976
Income tax expense (benefit)	**210,573**	(95,633)	**(7,228)**	90,654
Net income (loss)	**$323,486**	$(201,002)	**$(11,723)**	$(82,678)
Net income (loss) per common share:				
Basic	**$0.10**	$(0.06)	**$0.00**	$(0.03)
Diluted	**$0.10**	$(0.06)	**$0.00**	$(0.03)

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Comprehensive Income (Unaudited)

Three and Six Months Ended September 30, 2016 and 2015

	Three Months Ended September 30,		**Six Months Ended September 30,**	
	2016	**2015**	**2016**	**2015**
Net income (loss)	**$323,486**	$(201,085)	**$(11,723)**	$(82,760)
Other comprehensive income (loss):				
Unrealized gain (loss) on investment securities available for sale	**(483,055)**	1,285,089	**87,068**	84,610
Reclassification adjustment for realized gain on investment securities available for sale included in net income	**-**	(21,715)	**-**	(21,715)
Total unrealized gain (loss) on investment securities available for sale	**(483,055)**	1,263,374	**87,068**	62,895
Income tax expense (benefit) relating to investment securities available for sale	**(190,542)**	498,338	**34,344**	24,809
Other comprehensive income (loss)	**(292,513)**	765,036	**52,724**	38,086
Total comprehensive income (loss)	**$30,973**	$563,951	**$41,001**	$(44,674)

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Six Months Ended September 30, 2016 and 2015

	Common stock	Additional paid-in capital	Retained earnings	Unearned ESOP shares	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance March 31, 2015	$ 34,177	$ 30,832,815	$ 32,752,071	$ (2,518,040)	$ (301,315)	$ 60,799,708
Net loss	-	-	(82,760)	-	-	(82,760)
Unrealized gain on available for sale securities, net of tax effect of $24,809	-	-	-	-	38,086	38,086
Stock based compensation - options	-	104,605	-	-	-	104,605
Restricted stock - compensation and activity	4	112,569	-	-	-	112,573
Balance September 30, 2015	**$ 34,181**	**$ 31,049,989**	**$ 32,669,311**	**$ (2,518,040)**	**$ (263,229)**	**$ 60,972,212**
Balance March 31, 2016	**$ 34,136**	**$ 31,242,731**	**$ 32,659,455**	**$ (2,369,920)**	**$ (21,819)**	**$ 61,544,583**
Net loss	**-**	**-**	**(11,723)**	**-**	**-**	**(11,723)**
Unrealized gain on available for sale securities, net of tax effect of $34,344	**-**	**-**	**-**	**-**	**52,724**	**52,724**
Stock based compensation - options	**-**	**104,605**	**-**	**-**	**-**	**104,605**
Stock based compensation - restricted stock	**-**	**112,852**	**-**	**-**	**-**	**112,852**
Balance September 30, 2016	**$ 34,136**	**$ 31,460,188**	**$ 32,647,732**	**$ (2,369,920)**	**$ 30,905**	**$ 61,803,041**

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

Six Months Ended September 30, 2016 and 2015

	Six Months Ended September 30,	
	2016	**2015**
Cash flows from operating activities		
Interest received	**$8,036,376**	$5,024,636
Fees and commissions received	**291,762**	643,679
Interest paid	**(1,950,269)**	(806,704)
Cash paid to suppliers and employees	**(4,086,091)**	(3,761,913)
Origination of loans held for sale	**(1,719,700)**	(3,543,900)
Proceeds from sale of loans held for sale	**554,759**	4,160,608
Income taxes paid	**(1,705,736)**	(228,919)
Net cash (used) provided by operating activities	**(578,899)**	1,487,487
Cash flows from investing activities		
Acquisition, net of cash acquired	**(11,006,813)**	(12,723,871)
Proceeds from sale of securities available for sale	**-**	5,028,054
Proceeds from maturing and called securities available for sale, including principal pay downs	**19,526,230**	10,156,217
Proceeds from sale maturing and called certificates of deposit	**985,000**	250,000
Purchase of Federal Home Loan Bank stock	**185,000**	-
Purchase of investment securities available for sale	**(27,442,181)**	-
Loans made, net of principal repayments	**1,817,831**	(10,921,223)
Purchase of premises and equipment	**(99,085)**	(26,227)
Proceeds from sale of premises and equipment	**35,000**	463,839
Proceeds from sale of foreclosed real estate	**-**	11,752
Net cash used by investing activities	**(15,999,018)**	(7,761,459)
Cash flows from financing activities		
Net increase (decrease) in		
Deposits	**(1,381,093)**	7,601,767
Advances by borrowers for taxes and insurance	**255,338**	(39,717)
Proceeds from borrowings	**-**	2,000,000
Payments of borrowings	**(4,000,000)**	(2,000,000)
Issuance of restricted stock	**-**	4
Net cash (used) provided by financing activities	**(5,125,755)**	7,562,054
Net (decrease) increase in cash and cash equivalents	**(21,703,672)**	1,288,082

Cash and cash equivalents at beginning of period	**67,448,536**	16,643,888
Cash and cash equivalents at end of period	**45,744,864**	$17,931,970
Supplemental Disclosures of Cash Flow Information:		
Total cash consideration paid for Fraternity acquisition	**$25,704,871**	$-
Total cash consideration paid for Fairmount acquisition	**-**	14,192,370
Less cash acquired	**14,698,058**	1,468,499
Acquisition, net of cash acquired	**$11,006,813**	**$12,723,871**

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

(Continued)

	Six Months Ended September 30, 2016	2015
Reconciliation of net loss to net cash (used) provided by operating activities		
Net loss	**$ (11,723)**	$ (82,760)
Adjustments to reconcile net loss to net cash (used) provided by operating activities		
Amortization of premiums on securities	**317,361**	215,456
Amortization of premiums on certificates of deposit	**9,408**	1,227
Gain on sale of investment securities	**-**	(21,715)
Loan discount accretion	**(28,951)**	17,020
Deposit premium amortization	**(295,066)**	-
Borrowing premium amortization	**(258,139)**	-
Core deposit intangible asset amortization	**57,990**	14,500
Premises and equipment depreciation and amortization	**171,562**	121,825
Gain on disposal of premises and equipment	**-**	(407,188)
Stock based compensation	**217,456**	217,177
Provision for loan losses	**260,006**	120,000
Decrease (increase) in		
	(358,450)	(175,284)

Accrued interest receivable			
Loans held for sale		**(1,186,550)**		581,139
Cash surrender value of life insurance		**(238,625)**		(176,446)
Income taxes refundable and deferred income taxes		**(1,712,964)**		(138,265)
Other assets		**2,557,323**		497,064
Increase (decrease) in				
Accrued interest payable		**7,859**		3,024
Deferred loan origination fees		**43,271**		30,108
Other liabilities		**(130,667)**		670,605
Net cash (used) provided by operating activities	**$**	**(578,899)**	$	1,487,487

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)

September 30, 2016

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

Nature of Operations

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

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

On May 13, 2016, the Company completed its acquisition of Fraternity Community Bancorp, Inc. (“Fraternity”) through the merger of Fraternity, the parent company of Fraternity Federal Savings and Loan, with and into the Company pursuant to the Agreement and Plan of Merger dated as of October 12, 2015, by and between the Company and Fraternity. As a result of the merger, each shareholder of Fraternity received a cash payment equal to nineteen dollars

and twenty-five cents ($19.25) for each share of Fraternity common stock, or an aggregate of approximately $25.7 million. Immediately following the merger of Fraternity into the Company, Fraternity Federal Savings and Loan was merged with and into the Bank, with the Bank as the surviving entity.

On September 11, 2015, the Company completed its acquisition of Fairmount Bancorp, Inc. (“Fairmount”) through the merger of Fairmount, the parent company of Fairmount Bank, with and into the Company pursuant to the Agreement and Plan of Merger dated as of April 15, 2015, by and between the Company and Fairmount. As a result of the merger, each shareholder of Fairmount received a cash payment equal to thirty dollars ($30.00) for each share of Fairmount common stock, or an aggregate of approximately $14.2 million. Immediately following the merger of Fairmount into the Company, Fairmount Bank was merged with and into the Bank, with the Bank as the surviving entity.

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

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting and with instructions for Form 10–Q and Regulation S–X as promulgated by the Securities and Exchange Commission (the "SEC"). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the preceding unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. We derived the balances as of March 31, 2016 from audited financial statements. Operating results for the three and six months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2017, or any other period. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2016. Certain amounts from prior period financial statements have been reclassified to conform to the current period's presentation.

Summary of Significant Accounting Policies

The accounting and reporting policies of Hamilton Bancorp, Inc. and Subsidiary ("Hamilton") conform to GAAP and to general practices in the banking industry. The more significant policies follow:

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

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

Loans Receivable. The Bank makes mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout the Baltimore metropolitan area. The ability of the

Bank's debtors to repay their loans is dependent upon the real estate and general economic conditions in this area.

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

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

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

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

- Reduction of the stated interest rate;
- Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk;
- Reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement; or
- Reduction of accrued interest

Accounting for Certain Loans or Debt Securities Acquired in a Transfer. The loans acquired from the Company's acquisition of Fraternity on May 13, 2016 (see Note 3 "Acquisitions - Fraternity Community Bancorp, Inc. and 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. The look back period for historical losses consists of reviewing both a 36 and 48 month look back period for net charge-offs. Both of these periods are used individually to develop a range in which the allowance for loan losses should be within.

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

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

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

Note 2: New Accounting Pronouncements

Recent Accounting Pronouncements

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

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

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

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

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

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

ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that

core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective on January 1, 2017 and is not expected to have a significant impact on our financial statements.

Note 3: Acquisitions

Fraternity Community Bancorp, Inc.

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

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

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

	As recorded by Fraternity Community Bancorp, Inc.	Fair Value Adjustments		As recorded by Hamilton Bancorp, Inc.
Identifiable assets:				
Cash and cash equivalents	$15,196,058	$-		$15,196,058
Investment securities available for sale	17,570,712	-		17,570,712
FHLB Bank Stock	782,600	-		782,600
Loans	108,872,041	(126,757)	A	108,745,284
Allowance For Loan Loss	(1,550,000)	1,550,000	A	-
Premises and equipment	691,095	78,711	B	769,806
Bank-Owned Life Insurance	5,058,041	-		5,058,041
Deferred income taxes	2,743,481	(410,377)	C	2,333,104
Other assets	2,877,665	-		2,877,665
Total identifiable assets	$152,241,693	$1,091,577		$153,333,270
Identifiable liabilities:				
Non-interest bearing deposits	1,242,187	-		1,242,187
Interest bearing deposits	107,648,792	1,098,131	D	108,746,923
Borrowings	15,000,000	793,537	E	15,793,537
Other liabilities	4,023,914	-		4,023,914
Total identifiable liabilities	$127,914,893	$1,891,668		$129,806,561
Net tangible assets acquired	24,326,800	(800,091)		23,526,709
Core deposit intangible	-	242,020		242,020
Goodwill	-	1,936,142		1,936,142
Net intangible assets acquired	-	2,178,162		2,178,162
Total cash consideration	$24,326,800	$1,378,071		$25,704,871

<u>Explanation of fair value adjustments:</u>

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

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

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

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

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

Prior to the end of the measurement period, if information becomes available which indicates the purchase price allocations require adjustments, we will include such adjustments in the purchase price allocation retrospectively. During the quarter ended September 30, 2016, Hamilton made two such adjustments. The first was a $1.3 million adjustment to deferred income tax after determination of the estimated net operating loss to be reported by Fraternity for the short period ended May 13, 2016 (the acquisition date). The second adjustment was to other liabilities for $246,000 relating primarily to an accrual of Fraternity's supplemental ESOP that was not previously recorded at the acquisition date.

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Of the total estimated purchase price, we have allocated $23.5 million to net tangible assets acquired and we have allocated $242,020 to the core deposit intangible which is a definite lived intangible asset. We have allocated the remaining purchase price to goodwill, which is deductible for income tax purposes. We will amortize the core deposit intangible on a straight-line basis over its estimated useful life of eight years. We will evaluate goodwill annually for impairment.

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

	Three Months Ended September 30,	Six Months Ended September 30,	
	2015	**2016**	2015
Net interest income	$7,367,097	$**7,504,048**	$6,655,739
Other non-interest revenue	1,581,874	**532,116**	1,008,357
Total revenue	8,948,971	**8,036,164**	7,664,096
Provision expense	120,000	**210,000**	120,000
Other non-interest expense	8,299,440	**7,077,072**	7,043,695
Income before income taxes	529,531	**749,092**	500,401
Income tax expense	318,164	**255,772**	160,837
Net income	$211,367	$**493,320**	$339,564
Basic earning per share	$0.07	$**0.16**	$0.11
Diluted earnings per share	$0.07	$**0.16**	$0.11

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

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

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Notes to Consolidated Financial Statements (Unaudited)

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

	Contractually Required Payments Receivable	**Non-Accretable Credit Adjustments**	**Cash Flows Expected To Be Collected**	**Accretable FMV Adjustments**	**Carrying Value of Loans Receivable**
Performing loans acquired	$ 107,474,993	$ -	$ 107,474,993	$ 242,773	$ 107,717,766
Impaired loans acquired	1,397,048	(314,484)	1,082,564	(55,046)	1,027,518
Total	**$ 108,872,041**	**$ (314,484)**	**$ 108,557,557**	**$ 187,727**	**$ 108,745,284**

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

We had an independent third party determine the fair value of cash flows on $107,474,993 of performing loans. The valuation took into consideration the loans' underlying characteristics, including account types, remaining terms, annual interest rates, interest types, past delinquencies, timing of principal and interest payments, current market rates, loan to value ratios, loss exposures, and remaining balances. These performing loans were segregated into pools based on loan and payment type and in some cases, risk grade. The effect of this fair valuation process was a net accretable premium adjustment of $242,773 at acquisition.

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

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

Fairmount Bancorp, Inc.

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

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

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

	As recorded by Fairmount Bancorp, Inc.	Fair Value Adjustments		As recorded by Hamilton Bancorp, Inc.
Identifiable assets:				
Cash and cash equivalents	$1,468,499	$-		$1,468,499
Certificates of deposit	4,467,825	27,772	A	4,495,597
Investment securities available for sale	9,729,405	-		9,729,405
Loans	55,454,414	(1,876,502)	B	53,577,912
Allowance For Loan Loss	(591,070)	591,070	B	-
Premises and equipment	2,975,587	(726,997)	C	2,248,590
Core Deposit Intangible	22,802	(22,802)	D	-
Deferred income taxes	965,256	596,675	E	1,561,931
Other assets	1,031,755	-		1,031,755
Total identifiable assets	$75,524,473	$(1,410,784)		$74,113,689
Identifiable liabilities:				
Non-interest bearing deposits	909,669	-		909,669
Interest bearing deposits	52,123,868	433,429	F	52,557,297
Borrowings	10,500,000	389,147	G	10,889,147
Other liabilities	120,351	-		120,351
Total identifiable liabilities	$63,653,888	$822,576		$64,476,464
Net tangible assets acquired	11,870,585	(2,233,360)		9,637,225
Core deposit intangible	-	542,540		542,540
Goodwill	-	4,012,605		4,012,605
Net intangible assets acquired	-	4,555,145		4,555,145

Total cash consideration	$11,870,585	$2,321,785	$14,192,370

Explanation of fair value adjustments:

A - Adjustment reflects marking the certificates of deposit portfolio to fair value as of the acquisition date.

B - Adjustment reflects the fair value adjustments based on Hamilton Bancorp’s evaluation of the acquired loan portfolio and excludes the allowance for losses recorded by Fairmount Bancorp, Inc.

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

D - Adjustment reflects the elimination of core deposit intangible recorded by Fairmount Bancorp, Inc. from an acquisition prior.

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

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

G - Adjustment reflects the fair value of Fraternity’s borrowings acquired on acquisition date.

Prior to the end of the September 11, 2016 measurement period, if information became available which indicated the purchase price allocations require adjustments, we included such adjustments in the purchase price allocation retrospectively. During the quarter ended September 30, 2016, Hamilton made one such adjustment to deferred tax for $11,700 in relation to the final determination of the net operating loss incurred by Fairmount for the short period ended September 11, 2015 (the acquisition date).

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Of the total estimated purchase price, we have allocated $9.6 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 eight years. We will evaluate goodwill annually for impairment.

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

	Three Months Ended September	Six Months Ended September 30,	
	2015	**2016**	2015
Net interest income	$2,797,750	$**6,648,815**	$5,599,859
Other non-interest revenue	287,084	**551,996**	980,616
Total revenue	3,084,834	**7,200,811**	6,580,475
Provision expense	110,000	**260,000**	110,000
Other non-interest expense	2,250,134	**6,959,755**	5,078,295
Income before income taxes	724,700	**(18,944**)	1,392,180
Income tax expense	187,187	**(7,228**)	509,496
Net income	$537,513	$**(11,716**)	$882,684
Basic earnings per share	$0.17	$**(0.00**)	$0.28
Diluted earnings per share	$0.17	$**(0.00**)	$0.28

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

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

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

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

	Three months ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Legal	**$9,081**	$229,035	**$55,500**	$364,523
Professional services	**-**	101,169	**135,383**	188,842
Advertising	**-**	-	**-**	2,779
Date processing	**-**	48,745	**-**	48,745
Other	**-**	21,846	**6,350**	26,691
Total meger related expenses	**$9,081**	$400,795	**$197,233**	$631,580

In addition, included in other professional service expense in the Statement of Operations for the three and six months ended September 30, 2016 is $145,000 and $242,000 relating to non-compete agreements and $40,200 and $53,600 in consulting expense that has been paid to former executives in the acquisitions, respectively. The non-compete agreements are for a term of one and two years for various former executives, while the consulting contract is for a six-month period ending November 2016.

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 six months ended September 30, 2016 and 2015 are summarized below:

	Three months ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Net income (loss)	**$323,486**	$(201,085)	**$(11,723)**	$(82,760)
Average common shares outstanding - basic	**3,176,654**	3,166,309	**3,176,654**	3,166,110
Average common shares outstanding - diluted	**3,176,654**	3,166,780	**3,176,654**	3,166,581
Income (loss) per common share - basic and diluted	**$0.10**	$(0.06)	**$(0.00)**	$(0.03)

During the three months and six months ending September 30, 2015 and 2016, none of the common stock equivalents were dilutive due to either a net loss reported during that period or the market price of the stock at that respective date was below the exercise price for any dilutive options to be executed.

Note 5: Investment Securities Available for Sale

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

September 30, 2016	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
U.S. government agencies	**$4,010,149**	**$ 24,245**	**$ 430**	**$4,033,964**
Municipal bonds	**12,771,487**	**100,477**	**119,335**	**12,752,629**
Corporate bonds	**2,000,000**	**-**	**89,766**	**1,910,234**
Mortgage-backed	**76,908,097**	**365,475**	**229,629**	**77,043,943**
	$95,689,733	**$ 490,197**	**$ 439,160**	**$95,740,770**

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HAMILTON BANCORP, INC AND SUBSIDIARY

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

Proceeds from sales of investment securities were $5,028,054 during the three and six months ended September 30, 2015, with gains of $72,715 and losses of $51,000. There were no sales of investment securities during the three and six months ended September 30, 2016.

At September 30, 2016 and March 31, 2016, all mortgage-backed securities are backed by U.S. Government-Sponsored Enterprises (GSE's), except one private label mortgage-backed security that was acquired in the Fraternity acquisition in May 2016 with a book value of $100,416 and fair value of $100,234 as of September 30, 2016.

At September 30, 2016 and March 31, 2016, the Company had one pledged security to the Federal Reserve Bank with a book value of $744,186 and $2,000,000 and a fair value of $743,756 and $1,993,266, respectively.

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

	Available for Sale			
	September 30, 2016		March 31, 2016	
	Amortized cost	**Fair value**	Amortized cost	Fair value

Maturing				
Within one year	**$250,516**	**$250,779**	$731,217	$731,060
Over one to five years	**3,452,131**	**3,489,621**	3,268,217	3,287,589
Over five to ten years	**4,181,277**	**4,108,929**	9,830,135	9,751,610
Over ten years	**10,897,712**	**10,847,498**	2,751,156	2,773,941
Mortgage-backed, in monthly installments	**76,908,097**	**77,043,943**	53,939,706	53,940,200
	$95,689,733	**$95,740,770**	$70,520,431	$70,484,400

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

	Less than 12 months		**12 months or longer**		**Total**	
September 30, 2016	**Gross Unrealized losses**	**Fair value**	**Gross Unrealized losses**	**Fair value**	**Gross Unrealized losses**	**Fair value**
U.S. government agencies	**$430**	**$743,756**	**$-**	**$-**	**$430**	**$743,756**
Municipal bonds	**119,335**	**7,554,780**	**-**	**-**	**119,335**	**7,554,780**
Corporate bonds	**-**	**-**	**89,766**	**1,910,234**	**89,766**	**1,910,234**
Mortgage-backed securities	**95,670**	**25,614,986**	**133,959**	**11,551,116**	**229,629**	**37,166,102**
	$215,435	**$33,913,522**	**$223,725**	**$13,461,350**	**$439,160**	**$47,374,872**

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

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Loans Receivable and Allowance for Loan Losses

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

	September 30, 2016				March 31, 2016			
	Legacy (1)	**Acquired**	**Total Loans**	**% of Total**	Legacy (1)	Acquired	Total Loans	% of Total
Real estate loans:								
One-to four-family:								
Residential	**$44,664,075**	**$91,124,321**	**$135,788,396**	**41 %**	$46,263,709	$23,036,569	$69,300,278	31 %
Residential construction	**4,761,562**	**404,235**	**5,165,797**	**2 %**	4,304,189	965,440	5,269,629	2 %
Investor (2)	**10,919,294**	**22,076,549**	**32,995,843**	**10 %**	12,076,911	15,783,008	27,859,919	13 %
Commercial	**91,086,852**	**17,379,910**	**108,466,762**	**33 %**	75,225,984	2,889,219	78,115,203	35 %
Commercial construction	**999,407**	**1,797,272**	**2,796,679**	**1 %**	1,982,571	1,274,148	3,256,719	2 %
Total real estate loans	**152,431,190**	**132,782,287**	**285,213,477**	**87 %**	139,853,364	43,948,384	183,801,748	83 %
Commercial business	**16,210,542**	**2,133,711**	**18,344,253**	**6 %**	17,773,967	2,621,625	20,395,592	9 %
Home equity loans	**13,427,376**	**8,996,210**	**22,423,586**	**7 %**	12,222,688	2,168,073	14,390,761	6 %
Consumer	**2,663,738**	**1,008,462**	**3,672,200**	**1 %**	3,072,677	1,106,434	4,179,111	2 %
Total Loans	**184,732,846**	**144,920,670**	**329,653,516**	**100 %**	172,922,696	49,844,516	222,767,212	100 %
Net deferred loan origination fees and costs	**(182,592)**	**-**	**(182,592)**		(139,321)	-	(139,321)	
Loan premium (discount)	**59,237**	**(795,179)**	**(735,942)**		77,983	(846,818)	(768,835)	
	$184,609,491	**$144,125,491**	**$328,734,982**		$172,861,358	$48,997,698	$221,859,056	

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

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

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

A substantial portion of the Bank's loan portfolio is real estate loans secured by residential and commercial real estate properties located in the Baltimore metropolitan area. Loans are extended only after evaluation of a customer's creditworthiness and other relevant factors on a case-by-case basis. The Bank generally does not lend more than 90% of the appraised value of a property and requires private mortgage insurance on residential mortgages with loan-to-value ratios in excess of 80%. In addition, the Bank generally obtains personal guarantees of repayment from borrowers and/or others for construction loans and disburses the proceeds of those and similar loans only as work progresses on the related projects.

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HAMILTON BANCORP, INC AND SUBSIDIARY

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

Six months ended: September 30, 2016	**Legacy Allowance 3/31/2016**	**Provision for loan losses**	**Charge offs**	**Recoveries**	**Allowance 9/30/2016**	**Acquired Allowance 3/31/2016**	**Provision for loan losses**	**Charge offs**	**Recoveries**	**Allowance 9/30/2016**
Real estate loans:										
One-to four-family	**$428,027**	**$146,627**	**$-**	**$-**	**$574,654**	**$-**	**$41,150**	**$44,322**	**$3,172**	**$ -**
Commercial	**901,768**	**189,113**	**-**	**-**	**1,090,881**	**-**	**-**	**-**	**-**	**-**
Commercial construction	**42,377**	**(29,285)**	**-**	**-**	**13,092**	**-**	**-**	**-**	**-**	**-**
Commercial business	**228,199**	**(74,818)**	**1,521**	**22,031**	**173,891**	**-**	**-**	**-**	**-**	**-**
Home equity loans	**82,012**	**6,257**	**-**	**-**	**88,269**	**-**	**-**	**-**	**-**	**-**
Consumer	**19,982**	**(18,601)**	**1,280**	**1,480**	**1,581**	**-**	**(437)**	**-**	**437**	**-**
Unallocated	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	$1,702,365	**$219,286**	**$2,801**	**$23,518**	**$1,942,368**	**$-**	**$40,713**	**$44,322**	**$3,609**	**$ -**

Six months ended: September 30, 2015	Legacy Allowance 3/31/2015	Provision for loan losses	Charge offs	Recoveries	Allowance 9/30/2015	Acquired Allowance 3/31/2015	Provision for loan losses	Charge offs	Recoveries	Allowance 9/30/2015
Real estate loans:										
One-to four-family	$ 433,570	$ 178,000	$ 162,331	$ 848	$ 450,087	$ -	$ -	$ -	$ -	$ -

Commercial	585,817	101,014	-	-	686,831	-	-	-	-	-
Commercial construction	67,835	39,390	-	-	107,225	-	-	-	-	-
Commercial business	473,127	(189,728)	10,533	108,651	381,517	-	-	-	-	-
Home equity loans	98,983	(9,770)	6,000	-	83,213	-	-	-	-	-
Consumer	727	31,271	7,565	940	25,373	-	-	-	-	-
Unallocated	30,177	(30,177)	-	-	-	-	-	-	-	-
	$ 1,690,236	$ 120,000	$ 186,429	$ 110,439	$ 1,734,246	$ -	$ -	$ -	$ -	$ -

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

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

	Legacy Allowance		**Loan Balance**		**Acquired Allowance**		**Loan Balance**	
Six months ended: September 30, 2016	**Individually evaluated for impairment**	**Collectively evaluated for impairment**	**Individually evaluated for impairment**	**Collectively evaluated for impairment**	**Individually evaluated for impairment**	**Collectively evaluated for impairment**	**Individually evaluated for impairment**	**Collectively evaluated for impairment**
Real estate loans:								
One-to four-family	**$288,800**	**$285,854**	**$1,983,756**	**$58,361,175**	**$-**	**$ -**	**$1,293,835**	**$112,311,270**
Commercial	**-**	**1,090,881**	**2,658,132**	**88,428,720**	**-**	**-**	**208,065**	**17,171,845**
Commercial construction	**-**	**13,092**	**-**	**999,407**	**-**	**-**	**-**	**1,797,272**
Commercial business	**-**	**173,891**	**809,535**	**15,401,007**	**-**	**-**	**-**	**2,133,711**
Home equity loans	**-**	**88,269**	**13,998**	**13,413,378**	**-**	**-**	**9,413**	**8,986,797**
Consumer	**-**	**1,581**	**10,250**	**2,653,488**	**-**	**-**	**39,375**	**969,087**
Unallocated	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	$288,800	**$1,653,568**	**$5,475,671**	**$179,257,175**	**$-**	**$ -**	**$1,550,688**	**$143,369,982**

	Legacy Allowance		Loan Balance		Acquired Allowance		Loan Balance	
Six months ended: September 30, 2015	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate loans:								
One-to four-family	$83,954	$366,133	$2,062,013	$63,919,171	$-	$ -	$1,364,241	$41,544,964
Commercial	-	918,733	3,358,408	66,894,482	-	-	264,366	1,559,074
Commercial construction	-	107,225	1,286,588	1,630,184	-	-	-	2,175,679
Commercial business	-	149,615	2,078,869	15,579,264	-	-	-	3,359,988
Home equity loans	-	83,213	63,598	12,090,938	-	-	-	2,283,782
Consumer	-	25,373	-	3,591,507	-	-	58,840	1,191,566

Unallocated	-	-	-	-	-	-	-	-
	$83,954	$1,650,292	$8,849,476	$163,705,546	$-	$ -	$1,687,447	$52,115,053

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	Legacy Allowance		Loan Balance		Acquired Allowance		Loan Balance	
Year Ended: March 31, 2016	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate loans:								
One-to four-family	$59,571	$368,456	$1,918,527	$60,726,282	$-	$ -	$1,210,306	$38,574,711
Commercial	-	901,768	2,717,144	72,508,840	-	-	211,239	2,677,980
Commercial construction	-	42,377	-	1,982,571	-	-	-	1,274,148
Commercial business	-	228,199	1,279,233	16,494,734	-	-	-	2,621,625
Home equity loans	-	82,012	59,169	12,163,519	-	-	-	2,168,073
Consumer	-	19,982	-	3,072,677	-	-	42,488	1,063,946
Unallocated	-	-	-	-	-	-	-	-
	$59,571	$1,642,794	$5,974,073	$166,948,623	$-	$ -	$1,464,033	$48,380,483

Past due loans, segregated by age and class of loans, as of and for the six months ended September 30, 2016 and as of and for the year ended March 31, 2016, were as follows:

September 30, 2016	**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**	**Nonac intere not accru**
Legacy Loans:									
Real estate loans:									
One-to four-family	**$886,533**	**$142,282**	**$625,211**	**$1,654,026**	**$58,690,905**	**$60,344,931**	**$333,052**	**$564,618**	**$18,02**
Commercial	**-**	**-**	**2,658,132**	**2,658,132**	**88,428,720**	**91,086,852**	**-**	**2,658,132**	**27,69**
Commercial construction	**-**	**-**	**-**	**-**	**999,407**	**999,407**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**16,210,542**	**16,210,542**	**-**	**-**	**-**

Home equity loans	**-**	**-**	**-**	**-**	**13,427,376**	**13,427,376**	**-**	**5,965**	**92**
Consumer	**-**	**-**	**10,250**	**10,250**	**2,653,488**	**2,663,738**	**-**	**10,250**	**172**
	$886,533	**$142,282**	**$3,293,593**	**$4,322,408**	**$180,410,438**	**$184,732,846**	**$333,052**	**$3,238,965**	**$45,98**

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2016 Acquired Loans:	**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**	**Nonaccrual interest not accrued**
Real estate loans:									
One-to four-family	**$1,185,644**	**$-**	**$389,066**	**$1,574,710**	**$112,030,395**	**$113,605,105**	**$-**	**$420,325**	**$27,674**
Commercial	**-**	**-**	**12,210**	**12,210**	**17,367,700**	**17,379,910**	**-**	**-**	**104,159**
Commercial construction	**-**	**-**	**-**	**-**	**1,797,272**	**1,797,272**	**-**	**-**	**-**
Commercial business	**-**	**-**	**19,049**	**19,049**	**2,114,662**	**2,133,711**	**-**	**-**	**380**
Home equity loans	**-**	**11,083**	**-**	**11,083**	**8,985,127**	**8,996,210**	**-**	**-**	**-**
Consumer	**38,797**	**-**	**-**	**38,797**	**969,665**	**1,008,462**	**-**	**2,082**	**-**
	$1,224,441	**$11,083**	**$420,325**	**$1,655,849**	**$143,264,821**	**$144,920,670**	**$-**	**$422,407**	**$132,213**

March 31, 2016 Legacy Loans:	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
Real estate loans:									
One-to four-family	$468,887	$99,360	$388,104	$956,351	$61,688,458	$62,644,809	$165,701	$511,939	$18,49
Commercial	-	-	2,717,144	2,717,144	72,508,840	75,225,984	-	2,717,144	-

Commercial construction	-	-	-	-	1,982,571	1,982,571	-	-	-
Commercial business	-	-	121,760	121,760	17,652,207	17,773,967	-	121,760	47,64
Home equity loans	20,753	-	43,073	63,826	12,158,862	12,222,688	-	49,462	1,007
Consumer	-	-	-	-	3,072,677	3,072,677	-	-	-
	$489,640	$99,360	$3,270,081	$3,859,081	$169,063,615	$172,922,696	$165,701	$3,400,305	$67,14

March 31, 2016	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	Nonaccrual interest not accrued
Acquired Loans:									
Real estate loans:									
One-to four-family	$42,800	$-	$1,480,508	$1,523,308	$38,261,709	$39,785,017	$542,236	$938,272	$118,381
Commercial	-	-	-	-	2,889,219	2,889,219	-	-	-
Commercial construction	-	-	-	-	1,274,148	1,274,148	-	-	-
Commercial business	-	-	-	-	2,621,625	2,621,625	-	-	-
Home equity loans	-	-	-	-	2,168,073	2,168,073	-	-	-
Consumer	-	-	3,535	3,535	1,102,899	1,106,434	-	3,535	178
	$42,800	$-	$1,484,043	$1,526,843	$48,317,673	$49,844,516	$542,236	$941,807	$118,559

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Notes to Consolidated Financial Statements (Unaudited)

Impaired Loans as of and for the six months ended September 30, 2016 and as of and for the year ended March 31, 2016, was as follows:

September 30, 2016	**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	**$ 2,280,874**	**$ 630,272**	**$ 1,353,484**	**$ 1,983,756**	**$ 288,800**	**$ 1,977,892**	**$ 50,184**
Commercial	**3,433,621**	**2,658,132**	**-**	**2,658,132**	**-**	**2,679,137**	**60,987**
Commercial construction	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial business	**1,253,032**	**809,535**	**-**	**809,535**	**-**	**839,145**	**36,203**
Home equity loans	**38,383**	**13,998**	**-**	**13,998**	**-**	**15,178**	**957**
Consumer	**10,250**	**10,250**	**-**	**10,250**	**-**	**10,302**	**44**
	$ 7,016,160	**$ 4,122,187**	**$ 1,353,484**	**$ 5,475,671**	**$ 288,800**	**$ 5,521,654**	**$ 148,375**

September 30, 2016	**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	**$ 1,801,410**	**$ 1,293,835**	**$ -**	**$ 1,293,835**	**$ -**	**$ 1,128,796**	**$ 38,668**
Commercial	**258,065**	**208,065**	**-**	**208,065**	**-**	**209,656**	**3,909**
Commercial construction	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial business	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Home equity loans	**58,666**	**9,413**	**-**	**9,413**	**-**	**7,306**	**1,938**
Consumer	**69,584**	**39,375**	**-**	**39,375**	**-**	**41,189**	**3,598**
	$ 2,187,725	**$ 1,550,688**	**$ -**	**$ 1,550,688**	**$ -**	**$ 1,386,947**	**$ 48,113**

	Unpaid contractual	Recorded investment	Recorded investment	Total		Average	

March 31, 2016	principal balance	with no allowance	with allowance	recorded investment	Related allowance	recorded investment	Interest recognized
Legacy Loans:							
Real estate loans:							
One-to four-family	$2,116,820	$626,719	$1,291,808	$1,918,527	$ 59,571	$1,865,000	$ 63,498
Commercial	3,433,621	2,717,144	-	2,717,144	-	3,298,855	99,599
Commercial construction	-	-	-	-	-	-	-
Commercial business	1,884,258	1,279,233	-	1,279,233	-	1,557,871	147,101
Home equity loans	82,740	59,169	-	59,169	-	18,817	331
Consumer	-	-	-	-	-	-	-
	$7,517,439	$4,682,265	$1,291,808	$5,974,073	$ 59,571	$6,740,543	$ 310,529

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March 31, 2016	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	$2,444,002	$1,210,306	$ -	$1,210,306	$ -	$1,387,353	$ 86,587
Commercial	261,239	211,239	-	211,239	-	212,806	9,978
Commercial construction	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-	-
Consumer	72,358	42,488	-	42,488	-	43,233	7,086
	$2,777,599	$1,464,033	$ -	$1,464,033	$ -	$1,643,392	$ 103,651

The following table documents changes in the carrying amount of acquired impaired loans (Purchased Credit Impaired or “PCI”) for the six months ended September 30, 2016, along with the outstanding balance at the end of the period:

	September 30, 2016
Recorded investment at March 31, 2016	$919,729
Fair value of loans acquired during the year	1,027,518
Accretion	13,543
Reductions of payments	(223,340)
Recorded investment at September 30, 2016	$1,737,450
Outstanding principal balance at September 30, 2016	$2,335,515

A summary of changes in the accretable yield for PCI loans for the six months ended September 30, 2016 and 2015 is as follows:

	September 30, 2016	September 30, 2015
Accretable yield at beginning of period	**$ 32,629**	$ -
Addition from acquisition	**55,046**	59,142
Accretion	**(13,543)**	-
Reclassification from nonaccretable difference	**-**	-
Accretable yield at end of period	**$ 74,132**	$ 59,142

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.

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A summary of TDRs at September 30, 2016 and March 31, 2016 follows:

September 30, 2016	Number of contracts	Performing	Nonperforming	Total
Real estate loans:				
One-to four-family	**12**	**$1,276,856**	**$ 270,167**	**$1,547,023**
Commercial	**2**	**-**	**2,658,131**	**2,658,131**
Commercial construction	**-**	**-**	**-**	**-**
Commercial business	**1**	**612,718**	**-**	**612,718**
Home equity loans	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**
	15	**$1,889,574**	**$ 2,928,298**	**$4,817,872**

March 31, 2016	Number of contracts	Performing	Nonperforming	Total
Real estate loans:				
One-to four-family	12	$1,457,552	$ 101,449	$1,559,001
Commercial	2	-	2,717,144	2,717,144
Commercial construction	-	-	-	-
Commercial business	2	647,654	-	647,654
Home equity loans	-	-	-	-
Consumer	-	-	-	-
	16	$2,105,206	$ 2,818,593	$4,923,799

The following table presents the number of contracts and the dollar amount of TDR’s that were added during the three and six-month periods ended September 30, 2016 and 2015. The amount shown reflects the outstanding loan balance at the time of the modification.

Loans Modified as a TDR for the three months ended	
September 30, 2016	September 30, 2015

Troubled Debt Restructurings	**Number of contracts**	**Outstanding recorded investment**	Number of contracts	Outstanding recorded investment
Real estate loans:				
One-to four-family	**-**	**-**	**2**	**20,905**

Troubled Debt Restructurings	**Loans Modified as a TDR for the six months ended**			
	September 30, 2016		September 30, 2015	
	Number of contracts	**Outstanding recorded investment**	Number of contracts	Outstanding recorded investment
Real estate loans:				
One-to four-family	**11**	**712,786**	**2**	**20,905**

The one-to four-family loans that were added as TDR's during the six months ended September 30, 2016 represent several loans to one borrower for non-owner occupied residential real estate properties. Ten of these loans totaling $655,949 are part of a larger pool of loans that are labeled as loans held for sale at September 30, 2016. These loans were written down $394,386 in June 2016 and subsequently sold at the end of October 2016 as part of a larger pool of loans that resulted in no material gain or loss on the sale. These loans are not reflected in the September 30, 2016 TDR summary table presented earlier.

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The following table represents loans that were modified as TDRs within the previous 12 months and have subsequently defaulted in the six months ended September 30, 2016. There were no TDRs that defaulted in the three months ended September 30, 2016 and 2015 or the six months ended September 30, 2015. Payment default under a TDR is defined as any TDR that is 90 days or more past due since the loan was modified or the inability of the TDR to make the required payment subsequent to the modification.

	Defaulted During The Six Months Ended September 30, 2016	
TDR Loan Type	Number of Contracts	Recorded Investment
One-to four-family	**11**	**$ 247,822**

The one-to four-family TDR loans that defaulted through September 30, 2016 represent the same eleven TDRs discussed earlier that were added during the current year. The recorded investment reflects a write-down of the recorded investment amounts of $451,223 during the quarter ended June 30, 2016. This write-down was recorded through an adjustment to goodwill based upon information that we were unaware of at time of acquisition. Had we been aware of the information at acquisition, we would have identified these loans as impaired at the time of acquisition. As noted earlier, ten of the eleven loans shown have subsequently been sold as part of a larger pool of loans that resulted in no material gain or loss on the sale.

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.

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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.

The following tables present the September 30, 2016 and March 31, 2016, 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 September 30, 2016 or March 31, 2016.

September 30, 2016	Legacy Pass	Special Mention	Substandard	Total	Acquired Pass	Special Mention	Substandard
Real estate loans:							
One-to four-family	**$57,686,960**	**$2,106,396**	**$551,575**	**$60,344,931**	**$108,873,942**	**$3,437,328**	**$1,293,835**
Commercial	**82,012,475**	**6,416,246**	**2,658,132**	**91,086,853**	**15,833,589**	**1,326,045**	**220,276**
Commercial construction	**999,407**	**-**	**-**	**999,407**	**1,797,272**	**-**	**-**
Commercial business	**15,317,744**	**695,980**	**196,817**	**16,210,541**	**2,133,711**	**-**	**-**
Home equity loans	**13,413,378**	**-**	**13,998**	**13,427,376**	**8,848,181**	**138,616**	**9,413**
Consumer	**2,653,488**	**-**	**10,250**	**2,663,738**	**969,087**	**-**	**39,375**
	$172,083,452	**$9,218,622**	**$3,430,772**	**$184,732,846**	**$138,455,782**	**$4,901,989**	**$1,562,899**
Percentage of total loans	**93.2 %**	**5.0 %**	**1.9 %**	**100 %**	**95.5 %**	**3.4 %**	**1.1 %**

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	Legacy				Acquired			
March 31, 2016	Pass	Special Mention	Substandard	Total	Pass	Special Mention	Substandard	Tot
Real estate loans:								
One-to four-family	$59,969,105	$2,272,150	$403,554	$62,644,809	$38,039,563	$535,148	$1,210,306	$39
Commercial	66,824,956	5,683,884	2,717,144	75,225,984	2,677,980	-	211,239	2,
Commercial construction	1,982,571	-	-	1,982,571	1,274,148	-	-	1,
Commercial business	13,629,957	3,477,579	666,431	17,773,967	2,621,625	-	-	2,
Home equity loans	12,163,519	-	59,169	12,222,688	2,168,073	-	-	2,
Consumer	3,072,677	-	-	3,072,677	1,063,946	-	42,488	1,
	$157,642,785	$11,433,613	$3,846,298	$172,922,696	$47,845,335	$535,148	$1,464,033	$49
Percentage of total loans	91.2 %	6.6 %	2.2 %	100 %	96.0 %	1.1 %	2.9 %	10

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 September 30, 2016 and March 31, 2016:

	September 30, 2016	March 31, 2016
Unused commercial lines of credit	**$10,794,820**	$9,845,571
Unused home equity lines of credit	**21,858,308**	16,004,725
Unused consumer lines of credit	**36,114**	29,656
Residential construction loan commitments	**10,519,190**	8,166,473
Commercial construction loan commitments	**9,785,665**	1,384,932
Home equity loan commitments	**191,000**	536,000
Commercial loan commitments	**4,578,998**	411,500
Standby letters of credit	**223,981**	273,981

Note 7: Goodwill and Other Intangible Asset

The Company's intangible assets (goodwill and core deposit intangible) at September 30, 2016 consist of assets recorded in December 2009 associated with the acquisition of a branch office in Pasadena, Maryland, the acquisition of Fairmount in September 2015, and the acquisition of Fraternity in May 2016. 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.

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The following table presents the changes in the net book value of intangible assets for the six months ended September 30, 2016 and 2015:

	Goodwill	Core deposit intangible
Balance March 31, 2015	$2,664,432	$138,333
Additions (1)	3,797,817	542,540
Amortization expense	-	(14,500)
Balance September 30, 2015	$6,462,249	$666,373

	Goodwill	Core deposit intangible
Balance March 31, 2016	$6,767,811	$618,300
Additions (2)	1,936,142	242,020
Post acquisition adjustments	(81,524)	-
Amortization expense	-	(57,990)
Balance September 30, 2016	**$8,622,429**	**$802,330**

(1) - Additions to intangibles are related to the acquisition of Fairmount Bancorp, Inc.

(2) - Addition to intangibles are related to the acquisition of Fraternity Community.

Goodwill relating to Fraternity was adjusted downward by $1.2 million since the quarter ended June 30, 2016 based upon information that became available during the most recent quarter that required adjustments to the purchase price allocations. The adjustments were made to deferred taxes and other liabilities in relation to Fraternity's net operating loss for the short period ending May 13, 2016 and Supplemental ESOP accrual that was not recorded. See Note 3: "Acquisitions" under Fraternity Community Bancorp, Inc. for more detail.

The post acquisition adjustment to goodwill shown in the table above represents a $451,000 write-down of several owner-occupied residential investor loans to one borrower that were acquired in the Fairmount acquisition and

recording of a $533,000 net operating loss (NOL) from Fairmount's final tax return. With regards to the investor loans, information we were not aware of at the time of the acquisition became available during the quarter ended June 30, 2016. Had we known this information at the time of the acquisition, we would have deemed these loans as impaired and valued them accordingly.

At September 30, 2016, future expected annual amortization associated with the core deposit intangible is as follows:

Year ending March 31,	Amount
2017	$63,035
2018	126,070
2019	126,070
2020	123,737
2021	98,070
2022	98,070
2023	98,070
2024	64,166
2025	5,042
	$802,330

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Note 8: Derivative – Interest Rate Swap Agreement

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

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

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

The fair value hedge is summarized below:

	September 30, 2016		
	Notional Amount	Principal Amount	Fair Value
Included in Loans and Leases:			
Commercial real estate loan	$0	$3,215,907	$3,215,907
Included in Other Liabilities:			
Interest Rate Swap	$3,215,907	$0	$245,889

No gain or loss was recognized in earnings for the six months ending September 30, 2016 related to the interest rate swap. The Company posted $391,004 under collateral arrangements as of September 30, 2016 to satisfy collateral requirements associated with the credit risk exposure.

Note 9: Deposits

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

	September 30, 2016			March 31, 2016		
	Amount	**% of Total**		Amount	% of Total	
Savings	**$44,839,156**	**11**	**%**	$33,010,962	11	%
Noninterest-bearing checking	**22,529,559**	**5**	**%**	19,747,437	6	%
Interest-bearing checking	**16,705,221**	**4**	**%**	13,298,677	4	%
Money market accounts	**65,927,847**	**16**	**%**	52,576,567	17	%
Time deposits	**271,173,158**	**64**	**%**	195,031,411	62	%
	$421,174,941	**100**	**%**	$313,665,054	100	%
Premium on deposits assumed	**1,131,661**			328,597		
Total deposits	**$422,306,602**			$313,993,651		

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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 September 30, 2016 and March 31, 2016.

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. At September 30, 2016 and March 31, 2016, the Bank had $104.2 million and $58.0 million 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 September 30, 2016 and March 31, 2016 is presented below.

	September 30, 2016			March 31, 2016		
	Amount	**Rate**	**Maturity Date**	Amount	Rate	Maturity Date
FHLB advance	$-			$2,000,000	0.43%	6/3/2016
FHLB advance	-			2,000,000	0.60%	9/3/2016
FHLB advance	1,500,000	**0.75%**	**3/31/2017**	1,500,000	0.75%	3/31/2017
FHLB advance	1,000,000	**4.24%**	**7/31/2017**	1,000,000	4.24%	7/31/2017
FHLB advance	1,000,000	**4.01%**	**8/21/2017**	1,000,000	4.01%	8/21/2017
FHLB advance	1,000,000	**0.91%**	**8/31/2017**	1,000,000	0.91%	8/31/2017
FHLB advance	1,500,000	**3.23%**	**11/24/2017**	1,500,000	3.23%	11/24/2017
FHLB advance	1,500,000	**3.40%**	**11/27/2017**	1,500,000	3.40%	11/27/2017
FHLB advance	1,000,000	**2.60%**	**7/2/2018**	1,000,000	2.60%	7/2/2018
FHLB advance	1,000,000	**3.05%**	**7/3/2018**	1,000,000	3.05%	7/3/2018
FHLB advance	1,000,000	**2.60%**	**10/2/2018**	1,000,000	2.60%	10/2/2018
FHLB advance	5,000,000	**4.28%**	**7/23/2018**	-		
FHLB advance	5,000,000	**3.94%**	**9/19/2018**	-		
FHLB advance	5,000,000	**3.38%**	**10/2/2018**	-		
	25,500,000			14,500,000		
Premium on borrowings assumed	840,635			305,237		
Total borrowings	$26,340,635			$14,805,237		

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.

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.

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Under the revised prompt corrective action requirements, as of January 1, 2015, insured depository institutions are required to meet the following in order to qualify as “well capitalized:” (1) a common equity Tier 1 risk-based capital ratio of 6.5%; (2) a Tier 1 risk-based capital ratio of 8%; (3) a total risk-based capital ratio of 10% and (4) a Tier 1 leverage ratio of 5%. As of September 30, 2016, the Bank met all capital adequacy requirements under the Basel III Capital Rules to be considered “well capitalized” under prompt corrective action rules.

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

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

The following table presents actual and required capital ratios as of September 30, 2016 and March 31, 2016 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, 2016 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)*			
September 30, 2016								
Common equity tier 1 capital (to risk-weighted assets)	**$38,463**	**11.71%**	**$16,837**	**5.125%**	**$22,997**	**7.00 %**	**$21,354**	**6.50 %**
Total risk-based capital (to risk-weighted assets)	**40,454**	**12.31%**	**28,335**	**8.625%**	**34,495**	**10.50%**	**32,853**	**10.00%**
Tier 1 capital (to risk-weighted assets)	**38,463**	**11.71%**	**21,765**	**6.625%**	**27,925**	**8.50 %**	**26,282**	**8.00 %**
Tier 1 capital (to adjusted total assets)	**38,463**	**7.65 %**	**20,123**	**4.000%**	**20,123**	**4.00 %**	**25,153**	**5.00 %**
March 31, 2016								
Common equity tier 1 capital (to risk-weighted assets)	$44,518	19.06%	$11,971	5.125%	$16,350	7.00 %	$15,182	6.50 %
Total risk-based capital (to risk-weighted assets)	46,262	19.81%	20,146	8.625%	24,525	10.50%	23,357	10.00%
Tier 1 capital (to risk-weighted assets)	44,518	19.06%	15,474	6.625%	19,854	8.50 %	18,686	8.00 %
Tier 1 capital (to adjusted total assets)	44,518	11.78%	15,114	4.000%	15,114	4.00 %	18,892	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.

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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 September 30, 2016, 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 September 30, 2016, there were 75,000 restricted stock awards issued and outstanding and 219,650 stock option awards granted under the 2013 Equity Incentive Plan.

Stock Options:

Under the above plan, the exercise price for stock options is the market price at date of grant. The maximum option term is ten years and the options granted shall vest in five equal annual installments of 20% with the first installment becoming exercisable on the first anniversary of the date of grant, 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 $104,605 for the three and six months ended September 30, 2016 and 2015, respectively.

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

option is based on the U.S. Treasury rate equal to the expected term of the option in effect at the time of the grant.

The fair value of options granted during the fiscal year ended March 31, 2014 was determined using the following weighted-average assumptions as of grant date.

	February 3, 2014 (Grant Date)	
Risk free interest rate	2.07	%
Expected term (in years)	7.0	
Expected stock price volatility	27.30	%
Dividend yield	0.00	%

The fair value of the options granted at grant date was $4.65

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A summary of stock option activity for the six months ended September 30, 2016 is as follows:

Six Months Ended September 30, 2016:	**Shares**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (years)**
Outstanding at April 1, 2016	**219,650**	**$ 13.85**	**7.3**
Granted	-	-	-
Exercised	-	-	-
Forfeited, exchanged or expired	-	-	-
Outstanding at September 30, 2016	**219,650**	**$ 13.85**	**7.3**
Vested at September 30, 2016	**87,860**	**$ 13.85**	**7.3**

At September 30, 2016, there was $557,892 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.3 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 $13.60 at September 30, 2016, the options outstanding had no intrinsic value.

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.

A summary of changes in the Company’s nonvested shares for the six months ended September 30, 2016 is as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at March 31, 2016	**50,600**	**$ 13.76**
Granted	-	-
Vested	(80)	14.00
Forfeited	-	-
Nonvested at September 30, 2016	**50,520**	**$ 13.76**
Fair Value of shares vested	**$426,768**	

The Company recorded restricted stock awards expense of $56,426 and $112,852 during the three and six months ended September 30, 2016 and $52,426 and $112,572 during the three and six months ended September 30, 2015, respectively. As of September 30, 2016, there was $543,665 of total unrecognized compensation expense related to nonvested shares granted under the 2013 stock incentive plan. The cost is expected to be recognized over a weighted-average period of 2.4 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:

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

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

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

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

Fair value measurements on a recurring basis

Securities available for sale – If quoted prices are available in an active market for identical assets, securities are classified within Level 1 of the hierarchy. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. At September 30, 2016 and March 31, 2016, the Bank has categorized its investment securities available for sale as follows:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
September 30, 2016				
U.S. government agencies	**$ -**	**$4,033,964**	**$-**	**$4,033,964**
Municipal bonds	**-**	**12,752,629**	**-**	**12,752,629**
Corporate bonds	**-**	**-**	**1,910,234**	**1,910,234**
Mortgage-backed	**-**	**77,043,943**	**-**	**77,043,943**

Total investment securities available for sale	**$ -**	**$93,830,536**	**$1,910,234**	**$95,740,770**

March 31, 2016	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
U.S. government agencies	$ -	$10,532,996	$-	$10,532,996
Municipal bonds		4,112,564		4,112,564
Corporate bonds	-	-	1,898,640	1,898,640
Mortgage-backed	-	53,940,200	-	53,940,200
Total investment securities available for sale	$ -	$68,585,760	$1,898,640	$70,484,400

Derivative – Interest rate swap agreement – Our methodology consists of a discounted cash flow model where all future floating cash flows are projected and both floating and fixed cash flows are discounted to the valuation date. The curve utilized for discounting and projecting is built by obtaining publicly available third party market quotes. As of September 30, 2016, the bank has categorized its interest rate swap and related loan as follows:

September 30, 2016	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Loans - Commercial real estate loan	$ -	$3,461,796	$ -	$3,461,796
Derivative - Interest rate swap agreement	$ -	$(245,889)	$ -	$(245,889)

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The following table presents the valuation and unobservable inputs for Level 3 assets measured at fair value on a recurring basis at September 30, 2016:

Description	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
Corporate bonds	$1,910,234	3rd party valuation	Discount to reflect current market conditions	0.00% - 10.00%

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. At September 30, 2016 and March 31, 2016, the fair values consist of loan balances of $7,026,359 and $7,438,106 that have been written down by $288,800 and $59,571, 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. At September 30, 2016 and March 31, 2016, the fair value of foreclosed real estate was estimated to be $460,220 and $443,015, respectively. Fair value was determined based on offers and/or appraisals. Cost to sell the assets was based on standard market factors. The Company has categorized its foreclosed assets as Level 3.

September 30, 2016	**Level 1 inputs**	**Level 2 inputs**	**Level 3 inputs**	**Total**
Impaired loans	**$ -**	**$-**	**$6,737,559**	**$6,737,559**
Foreclosed real estate	**-**	**-**	**460,220**	**460,220**
Premises and equipment held for sale	**-**	**-**	**405,000**	**405,000**
Loans held for sale	**-**	**1,449,000**	**-**	**1,449,000**
Total impaired loans and foreclosed real estate	**$ -**	**$1,449,000**	**$7,602,779**	**$9,051,779**

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
March 31, 2016				
Impaired loans	$ -	$-	$7,378,535	$7,378,535
Foreclosed real estate	-	-	443,015	443,015
Premises and equipment held for sale			405,000	405,000
Loans held for sale	-	266,176	-	266,176
Total fair value of assets on a nonrecurring basis	$ -	$266,176	$8,226,550	$8,492,726

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The following table presents the valuation and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis at September 30, 2016:

Description	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
Impaired loans, net of allowance	$6,737,559	Appraised value	Discount to reflect current market conditions	0.00%-25.00%
		Discounted cash flows	Discount rates	2.63%-7.25%
Foreclosed real estate	$460,220	Appraised value	Discount to reflect current market conditions	0.00%-25.00%
Premises and equipment held for sale	$405,000	Appraised Value	Discount to reflect current market conditions	0.00%-10.00%

The following table summarizes changes in foreclosed real estate for the six months ended September 30, 2016, which is measured on a nonrecurring basis using significant unobservable, level 3, inputs.

Balance, March 31, 2016	**$443,015**
Transfer to foreclosed real estate	17,205
Proceeds from sale of foreclosed real estate	