

Hamilton Bancorp, Inc.
Form 10-Q
February 14, 2017
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 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

(State or other jurisdiction of incorporation or organization)

46-0543309

(I.R.S. Employer Identification Number)

501 Fairmount Avenue, Suite 200, Towson, Maryland

(Address of Principal Executive Offices)

21286

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] 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] NO]

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

Large accelerated filer]

Accelerated filer]

Non-accelerated filer]

Smaller reporting company]

(Do not check if smaller reporting company)

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

YES] NO]

3,409,243 shares of the Registrant's common stock, par value \$0.01 per share, were issued and outstanding as of February 14, 2017.

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Hamilton Bancorp, Inc. and Subsidiaries

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Table of Contents**Part I. – Financial Information****Item 1. Financial Statements****HAMILTON BANCORP, INC. AND SUBSIDIARY****Consolidated Statements of Financial Condition****December 31, 2016 and March 31, 2016**

	December 31, 2016 (Unaudited)	March 31, 2016 (Audited)
Assets		
Assets		
Cash and due from banks	\$ 15,703,886	\$47,101,688
Federal funds sold	2,611,864	20,346,848
Cash and cash equivalents	18,315,750	67,448,536
Certificates of deposit held as investment	499,303	3,968,229
Securities available for sale, at fair value	106,754,363	70,484,400
Federal Home Loan Bank stock, at cost	1,640,100	1,042,500
Loans held for sale	-	259,450
Loans	331,398,269	221,859,056
Allowance for loan losses	(2,063,569)	(1,702,365)
Net loans and leases	329,334,700	220,156,691
Premises and equipment, net	4,228,766	3,555,474
Premises and equipment held for sale	-	405,000
Foreclosed real estate	460,220	443,015
Accrued interest receivable	1,481,388	948,166
Bank-owned life insurance	18,132,876	12,709,908
Deferred income taxes	7,408,268	2,353,141
Income taxes refundable	-	228,920
Goodwill and other intangible assets	9,393,243	7,386,111
Other assets	2,186,102	1,527,014
Total Assets	\$ 499,835,079	\$ 392,916,555
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	\$ 22,397,875	\$ 19,747,437
Interest-bearing deposits	385,927,067	294,246,214
Total deposits	408,324,942	313,993,651
Borrowings	26,194,142	14,805,237

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Advances by borrowers for taxes and insurance	1,112,278	1,079,794
Other liabilities	3,529,827	1,493,290
Total liabilities	439,161,189	331,371,972
Commitments and contingencies	-	-
Shareholders' Equity		
Common stock, \$.01 par value, 100,000,000 shares authorized. Issued: 3,413,646 shares at December 31, 2016 and March 31, 2016	34,136	34,136
Additional paid in capital	31,631,868	31,242,731
Retained earnings	32,707,101	32,659,455
Unearned ESOP shares	(2,221,800)	(2,369,920)
Accumulated other comprehensive loss	(1,477,415)	(21,819)
Total shareholders' equity	60,673,890	61,544,583
Total Liabilities and Shareholders' Equity	\$499,835,079	\$392,916,555

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

Table of Contents**HAMILTON BANCORP, INC. AND SUBSIDIARY****Consolidated Statements of Operations (Unaudited)****Three and Nine Months Ended December 31, 2016 and 2015**

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	2016	2015
Interest revenue				
Loans, including fees	\$3,878,223	\$2,805,851	\$11,026,020	\$6,906,069
U.S. treasuries, government agencies and FHLB stock	33,022	91,940	182,130	276,415
Municipal and corporate bonds	107,564	31,722	226,230	94,145
Mortgage-backed securities	310,709	272,751	829,437	848,181
Federal funds sold and other bank deposits	28,065	18,005	147,504	31,650
Total interest revenue	4,357,583	3,220,269	12,411,321	8,156,460
Interest expense				
Deposits	673,348	458,024	1,959,630	1,241,457
Borrowed funds	74,336	38,191	192,977	64,487
Total interest expense	747,684	496,215	2,152,607	1,305,944
Net interest income				
	3,609,899	2,724,054	10,258,714	6,850,516
Provision for loan losses	780,000	70,000	1,040,006	190,000
Net interest income after provision for loan losses	2,829,899	2,654,054	9,218,708	6,660,516
Noninterest revenue				
Service charges	104,882	102,979	319,489	304,951
Gain on sale of investment securities	23,720	20,497	23,720	42,212
Gain on sale of loans held for sale	1,438	7,826	23,047	43,395
(Loss) gain on sale of property and equipment	(11,043)	-	(11,043)	407,188
Earnings on bank-owned life insurance	126,302	87,616	364,928	264,062
Other	42,784	14,675	119,937	49,194
Total noninterest revenue	288,083	233,593	840,078	1,111,002
Noninterest expenses				
Salaries	1,354,327	1,102,598	4,092,481	3,018,168
Employee benefits	359,987	293,260	1,056,741	809,583
Occupancy	234,310	195,155	709,081	548,817
Advertising	16,305	43,295	91,635	89,109
Furniture and equipment	93,058	85,077	290,818	237,752
Data processing	206,596	154,977	583,407	439,989
Legal services	47,831	52,100	161,278	110,091
Other professional services	284,979	131,353	808,309	291,260

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Merger related expenses	-	196,645	219,417	828,225
Branch consolidation expense	-	-	437,424	-
Deposit insurance premiums	63,571	63,105	251,759	151,970
Foreclosed real estate expense and losses (gains)	(1,578)	3,270	6,530	17,157
Other operating	457,466	459,817	1,367,726	1,114,428
Total noninterest expenses	3,116,852	2,780,652	10,076,606	7,656,549
Income (loss) before income taxes	1,130	106,995	(17,820)	114,969
Income tax (benefit) expense	(58,239)	234,176	(65,466)	324,830
Net income (loss)	\$59,369	\$(127,181)	\$47,646	\$(209,861)
Net income (loss) per common share:				
Basic	\$0.02	\$(0.04)	\$0.01	\$(0.07)
Diluted	\$0.02	\$(0.04)	\$0.01	\$(0.07)

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

Table of Contents**HAMILTON BANCORP, INC. AND SUBSIDIARY****Consolidated Statements of Comprehensive (Loss) Income (Unaudited)****Three and Nine Months Ended December 31, 2016 and 2015**

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	2016	2015
Net income (loss)	\$59,369	\$(127,181)	\$47,646	\$(209,861)
Other comprehensive income:				
Unrealized loss on investment securities available for sale	(2,467,108)	(801,265)	(2,380,040)	(716,655)
Reclassification adjustment for realized gain on investment securities available for sale included in net income	(23,720)	(20,497)	(23,720)	(42,212)
Total unrealized loss on investment securities available for sale	(2,490,828)	(821,762)	(2,403,760)	(758,867)
Income tax benefit relating to investment securities available for sale	(982,508)	(324,144)	(948,164)	(299,335)
Other comprehensive income (loss)	(1,508,320)	(497,618)	(1,455,596)	(459,532)
Total comprehensive loss	\$(1,448,951)	\$(624,799)	\$(1,407,950)	\$(669,393)

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

Table of Contents**HAMILTON BANCORP, INC AND SUBSIDIARY****Consolidated Statements of Changes in Shareholders' Equity (Unaudited)****Nine Months Ended December 31, 2016 and 2015**

	Common stock	Additional paid-in capital	Retained earnings	Unearned ESOP shares	Accumulated other comprehensive 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	-	-	(209,861)	-	-	(209,861)
Unrealized loss on available for sale securities, net of tax effect of \$ (299,335)	-	-	-	-	(459,532)	(459,532)
Stock based compensation - options	-	156,907	-	-	-	156,907
Restricted stock - compensation and activity	4	168,995	-	-	-	168,999
ESOP shares allocated for release	-	38,210	-	148,120	-	186,330
Balance December 31, 2015	\$ 34,181	\$31,196,927	\$32,542,210	\$(2,369,920)	\$(760,847)) \$ 60,642,551
Balance March 31, 2016	\$ 34,136	\$31,242,731	\$32,659,455	\$(2,369,920)	\$(21,819)) \$ 61,544,583
Net income	-	-	47,646	-	-	47,646
Unrealized loss on available for sale securities, net of tax effect of \$ (948,164)	-	-	-	-	(1,455,596)	(1,455,596)
Stock based compensation - options	-	156,907	-	-	-	156,907
Stock based compensation - restricted stock	-	169,279	-	-	-	169,279
ESOP shares allocated for release	-	62,951	-	148,120	-	211,071
Balance December 31, 2016	\$ 34,136	\$31,631,868	\$32,707,101	\$(2,221,800)	\$(1,477,415)) \$ 60,673,890

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

Table of Contents**HAMILTON BANCORP, INC. AND SUBSIDIARY****Consolidated Statements of Cash Flows (Unaudited)****Nine Months Ended December 31, 2016 and 2015**

	Nine Months Ended	
	December 31,	2015
	2016	
Cash flows from operating activities		
Interest received	\$12,443,330	\$8,379,943
Fees and commissions received	428,385	761,333
Interest paid	(3,005,077)	(1,397,455)
Cash paid to suppliers and employees	(8,881,370)	(7,160,562)
Origination of loans held for sale	(2,397,825)	(4,486,900)
Proceeds from sale of loans held for sale	2,680,322	4,955,978
Increase in deferred tax asset and income tax refundable	(1,479,473)	(204,030)
Net cash (used) provided by operating activities	(211,708)	848,307
Cash flows from investing activities		
Acquisition, net of cash acquired	(11,006,813)	(12,723,871)
Proceeds from sale of securities available for sale	4,273,234	9,985,335
Proceeds from maturing and called securities available for sale, including principal pay downs	24,634,898	14,067,458
Proceeds from sale of certificates of deposit	2,228,273	-
Proceeds from maturing and called certificates of deposit	1,724,000	514,510
Redemption of Federal Home Loan Bank stock	185,000	-
Purchase of investment securities available for sale	(50,585,898)	-
Loans made, net of principal repayments	(1,442,039)	(13,728,071)
Purchase of premises and equipment	(190,682)	(47,219)
Proceeds from sale of premises and equipment	429,177	463,839
Proceeds from sale of foreclosed real estate	-	11,752
Net cash used by investing activities	(29,750,850)	(1,456,267)
Cash flows from financing activities		
Net increase (decrease) in		
Deposits	(15,202,712)	13,308,083
Advances by borrowers for taxes and insurance	32,484	(95,546)
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	(19,170,228)	13,212,541
Net (decrease) increase in cash and cash equivalents	(49,132,786)	12,604,581

Cash and cash equivalents at beginning of period	67,448,536	16,643,888
Cash and cash equivalents at end of period	\$18,315,750	\$29,248,469
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.

Table of Contents**HAMILTON BANCORP, INC. AND SUBSIDIARY****Consolidated Statements of Cash Flows (Unaudited)****(Continued)**

	Nine Months Ended	
	December 31,	
	2016	2015
Reconciliation of net income (loss) to net cash (used) provided by operating activities		
Net income (loss)	\$47,646	\$(209,861)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Amortization of premiums on securities	600,201	311,204
Amortization of premiums on certificates of deposit	12,927	7,043
Gain on sale of investment securities	(23,720)	(42,212)
Loan discount accretion	(103,330)	25,811
Deposit premium amortization	(455,107)	(52,656)
Borrowing premium amortization	(404,632)	(41,955)
Core deposit intangible asset amortization	89,506	38,620
Premises and equipment depreciation and amortization	251,976	200,092
Loss (gain) on disposal of premises and equipment	11,043	(407,188)
Stock based compensation	326,186	325,902
Provision for loan losses	1,040,006	190,000
ESOP shares allocated for release	211,071	186,330
Decrease (increase) in		
Accrued interest receivable	(533,222)	(161,838)
Loans held for sale	259,450	425,683
Cash surrender value of life insurance	(364,927)	(264,062)
Income taxes refundable and deferred income taxes	(1,544,939)	120,800
Other assets	2,300,101	374,756
Increase (decrease) in		
Accrued interest payable	7,269	3,100
Deferred loan origination fees	55,433	41,263
Other liabilities	(1,994,646)	(222,525)
Net cash (used) provided by operating activities	\$ (211,708)	\$848,307
Noncash investing activity		
Real estate acquired through foreclosure	\$17,205	\$12,560

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

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Notes to Consolidated Financial Statements (Unaudited)

December 31, 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.

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and with instructions for Form 10-Q and Regulation S-X as promulgated by the Securities and Exchange Commission (the “SEC”). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the preceding unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. We derived the balances as of March 31, 2016 from audited financial statements. Operating results for the three and nine months ended December 31, 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 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.

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

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.

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*") 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.

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Notes to Consolidated Financial Statements (Unaudited)

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

Management considers a number of factors in estimating the required level of the allowance. These factors include: historical loss experience in the loan portfolios; the levels and trends in past-due and nonaccrual loans; the status of nonaccrual loans and other loans identified as having the potential for further deterioration; credit risk and industry concentrations; trends in loan volume; the effects of any changes in lending policies and procedures or underwriting standards; and a continuing evaluation of the economic environment. Management modified the analysis during the quarter ended September 30, 2016 by keeping our net charge-off history as a percentage of loans, as it pertains to each loan segment, constant across all risk ratings and altering our qualitative factors either up or down based upon the respective risk rating for each loan segment. The change in methodology did not have a material impact on the amount of the allowance for loan and lease losses at September 30, 2016 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 No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This update made the following changes that may affect the Company: (1) Debt Prepayment or Debt Extinguishment Costs: Cash payments for debt prepayment or debt extinguishment costs should be classified as cash flows for financing activities. (2) Proceeds from the settlement of Bank-Owned Life Insurance Policies: Cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash flows from investing activities. The cash payments for premiums on bank-owned policies may be classified as cash flows from investing activities, operating activities, or a combination of investing and operating activities. The amendments in this Update will be effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company does not expect the guidance to have a material impact on its financial statements.

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

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

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

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

15, 2017 and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

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

Adjustments. This update eliminates the requirement to retrospectively adjust the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill. These adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date that if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. The update also requires the nature of and reason for the business combination, to be disclosed in the consolidated financial statements. ASU 2015-16 became effective for fiscal years beginning after December 15, 2015, and 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.

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Note 3: Acquisitions**Fraternity Community Bancorp, Inc.**

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

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

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

	As recorded by Fraternity Community Bancorp, Inc.	Fair Value Adjustments	As recorded by Hamilton Bancorp, Inc.
Identifiable assets:			
Cash and cash equivalents	\$15,196,058	\$-	\$15,196,058
Investment securities available for sale	17,570,712	-	17,570,712
FHLB Bank Stock	782,600	-	782,600
Loans	108,872,041	(126,757)A	108,745,284

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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
Definite lived intangible assets acquired	-	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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Explanation of fair value adjustments:

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

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

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

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

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

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

Of the total estimated purchase price, we have allocated \$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 December 31, 2015 and nine-month periods ended December 31, 2016 and 2015 as if the Fraternity acquisition had occurred as of the beginning of the periods presented.

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	Three Months Ended		
	December 31, 2015	Nine Months Ended December 31, 2016	2015
Net interest income	\$3,978,170	\$10,862,778	\$10,589,458
Other non-interest revenue	236,691	862,502	1,245,048
Total revenue	4,214,861	11,725,279	11,834,506
Provision expense	70,000	1,040,006	190,000
Other non-interest expense	3,775,757	9,420,767	11,044,009
Income before income taxes	369,104	1,264,507	600,497
Income tax expense	389,641	385,181	534,920
Net (loss) income	\$(20,537)	\$879,325	\$65,577
Basic (loss) earnings per share	\$(0.01)	\$0.28	\$0.02
Diluted (loss) earnings per share	\$(0.01)	\$0.28	\$0.02

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. For the three and nine months ending December 31, 2015, acquisition costs of \$196,000 and \$828,000, respectively, associated with the acquisition of Fairmount are included in non-interest expense. For the nine months ending December 31, 2016 there were no acquisition costs attributable to Fairmount because that acquisition had been completed at that time. The acquisition expenses are non-deductible and the reasoning for income tax expense being higher in those periods relative to pre-tax income.

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 had we 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
Definite lived intangible assets acquired	-	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 this measurement period, we made a net adjustment of \$215,000 in the purchase price allocations. These adjustments included items relating to the valuation of loans, property and equipment, payables and deferred taxes.

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

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Pro forma Condensed Combined Financial Information. The following schedule includes consolidated statements of operations data for the unaudited pro forma results for the nine month periods ended December 31, 2016 and 2015 as if the Fairmount acquisition had occurred as of the beginning of the periods presented.

	Nine Months Ended December 31,	
	2016	2015
Net interest income	\$10,258,714	\$8,323,913
Other non-interest revenue	840,079	1,214,209
Total revenue	11,098,793	9,538,122
Provision expense	1,040,006	180,000
Other non-interest expense	10,076,607	7,662,302
Income before income taxes	(17,820)	1,695,820
Income tax expense	(65,466)	624,593
Net income	\$47,646	\$1,071,226
Basic earnings per share	\$0.01	\$0.34
Diluted earnings per share	\$0.01	\$0.34

The pro forma condensed financial information in the table above for the nine months ending December 31, 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 \$1.1 million 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 had we actually completed the acquisition at the beginning of the periods presented, nor does it indicate future results for any other interim or full year period. Pro forma basic and diluted earnings per common share were calculated using Hamilton Bancorp's actual weighted

average shares outstanding for the periods presented, assuming the acquisition occurred at the beginning of the periods presented.

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

	Three months ended December 31,		Nine Months Ended December 31,	
	2016 2015	2016	2015	
Legal	\$- \$68,528	\$55,500	\$433,051	
Professional services	- 128,117	157,567	316,959	
Advertising	- -	-	2,779	
Data processing	- -	-	48,745	
Other	- -	6,350	26,691	
Total meger related expenses	\$- \$196,645	\$219,417	\$828,225	

In addition, included in other professional service expense in the Statement of Operations for the three and nine months ended December 31, 2016 is \$145,000 and \$387,000 relating to non-compete agreements and \$26,800 and \$80,400 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 was for a six-month period that ended November 2016.

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Note 4: Earnings per Share

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

Both the basic and diluted earnings per share for the three and nine months ended December 31, 2016 and 2015 are summarized below:

	Three months ended December 31,		Nine Months Ended December 31,	
	2016	2015	2016	2015
Net income (loss)	\$59,369	\$(127,181)	\$47,646	\$(209,861)
Weighted average common shares outstanding - basic	3,176,815	3,166,470	3,176,708	3,166,230
Weighted average common shares outstanding - diluted	3,179,281	N/A	3,179,174	N/A
Income (loss) per common share - basic and diluted	\$0.02	\$(0.04)	\$0.01	\$(0.07)
Anti-dilutive shares	85,394	43,930	85,394	43,930

During the three and nine months ending December 31, 2015, none of the common stock equivalents were dilutive due to the loss reported during that period.

Note 5: Investment Securities Available for Sale

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

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<u>December 31, 2016</u>	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government agencies	\$3,529,287	\$ 442	\$20,324	\$3,509,405
Municipal bonds	17,141,022	2,503	994,563	16,148,962
Corporate bonds	2,000,000	-	86,472	1,913,528
Mortgage-backed securities	86,523,845	53,349	1,394,726	85,182,468
	\$109,194,154	\$ 56,294	\$2,496,085	\$106,754,363

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

Proceeds from sales of investment securities were \$4,273,234 and \$4,957,280 during the three months ended December 31, 2016 and 2015, respectively, with gains of \$36,131 and losses of \$12,411 for the three months ended December 31, 2016 and gains of \$23,197 and losses of \$2,700 for the three months ended December 31, 2015.

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Proceeds from sales of investment securities were \$4,273,234 and \$9,985,335 during the nine months ended December 31, 2016 and 2015, respectively, with gains of \$36,131 and losses of \$12,411 for the nine months ended December 31, 2016 and gains of \$95,912 and losses of \$53,700 for the nine months ended December 31, 2015.

As of December 31, 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 \$95,489 and fair value of \$95,356 as of December 31, 2016.

As of December 31, 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 \$729,816 and \$1,993,266, respectively.

The amortized cost and estimated fair value of debt securities by contractual maturity at December 31, 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		March 31, 2016	
	December 31, 2016			
	Amortized	Fair	Amortized	Fair
	cost	value	cost	value
Maturing				
Within one year	\$-	\$-	\$731,217	\$731,060
Over one to five years	4,240,900	4,236,036	3,268,217	3,287,589
Over five to ten years	4,178,327	4,051,550	9,830,135	9,751,610
Over ten years	14,251,082	13,284,308	2,751,156	2,773,941
Mortgage-backed securities, in monthly installments	86,523,845	85,182,469	53,939,706	53,940,200
	\$109,194,154	\$106,754,363	\$70,520,431	\$70,484,400

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

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December 31, 2016 and March 31, 2016.

	Less than 12 months		12 months or longer		Total	
	Gross		Gross		Gross	
<u>December 31, 2016</u>	Unrealized	Fair	Unrealized	Fair	Unrealized	Fair
	losses	value	losses	value	losses	value
U.S. government agencies	\$20,324	\$3,004,648	\$-	\$-	\$20,324	\$3,004,648
Municipal bonds	994,563	14,805,701	-	-	994,563	14,805,701
Corporate bonds	-	-	86,472	1,913,528	86,472	1,913,528
Mortgage-backed securities	1,103,455	71,475,638	291,271	7,375,148	1,394,726	78,850,786
	\$2,118,342	\$89,285,987	\$377,743	\$9,288,676	\$2,496,085	\$98,574,663

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

	Less than 12 months		12 months or longer		Total	
	Gross Unrealized losses	Fair value	Gross Unrealized losses	Fair value	Gross Unrealized losses	Fair value
<u>March 31, 2016</u>						
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.

Note 6: Loans Receivable and Allowance for Loan Losses

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

	December 31, 2016				% of Total	March 31, 2016			
	Legacy (1)	Acquired	Total Loans			Legacy (1)	Acquired	Total Loans	% of Total
Real estate loans:									
One-to four-family:									
Residential	\$44,297,741	\$87,924,992	\$132,222,733	40 %	\$46,263,709	\$23,036,569	\$69,300,278	31 %	
Residential construction	6,973,282	557,310	7,530,592	2 %	4,304,189	965,440	5,269,629	2 %	
Investor (2)	9,670,382	22,432,236	32,102,618	10 %	12,076,911	15,783,008	27,859,919	13 %	
Commercial	94,173,223	15,511,630	109,684,853	33 %	75,225,984	2,889,219	78,115,203	35 %	
Commercial construction	1,655,899	1,620,552	3,276,451	1 %	1,982,571	1,274,148	3,256,719	2 %	
	156,770,527	128,046,720	284,817,247	86 %	139,853,364	43,948,384	183,801,748	83 %	

Total real estate loans									
Commercial business	19,815,173	2,506,890	22,322,063	7 %	17,773,967	2,621,625	20,395,592	9 %	
Home equity loans	13,737,121	7,948,303	21,685,424	7 %	12,222,688	2,168,073	14,390,761	6 %	
Consumer	2,443,559	986,293	3,429,852	1 %	3,072,677	1,106,434	4,179,111	2 %	
Total Loans	192,766,380	139,488,206	332,254,586	100 %	172,922,696	49,844,516	222,767,212	100 %	
Net deferred loan origination fees and costs	(194,754)	-	(194,754)		(139,321)	-	(139,321)		
Loan premium (discount)	50,670	(712,233)	(661,563)		77,983	(846,818)	(768,835)		
	\$192,622,296	\$138,775,973	\$331,398,269		\$172,861,358	\$48,997,698	\$221,859,056		

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 (1) 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.

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

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 commercial construction loans and disburses the proceeds of those and similar loans only as work progresses on the related projects.

The following table details activity in the allowance for loan losses by portfolio segment for both the nine months ended December 31, 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.

	Legacy				Acquired					
	Provision	Provision			Provision					
Nine months ended: December 31, 2016	Allowance	for loan	Charge		Allowance	Allowance	for loan	Charge		Allowance
	3/31/2016	losses	offs	Recoveries	12/31/2016	3/31/2016	losses	offs	Recoveries	12/31/2016
Real estate loans:										
One-to four-family	\$428,027	\$118,357	\$-	\$2,482	\$548,866	\$-	\$90,949	\$97,509	\$6,560	\$-
Commercial	901,768	953,050	621,741	-	1,233,077	-	-	-	-	-
Commercial construction	42,377	345	-	-	42,722	-	-	-	-	-
Commercial business	228,199	(108,182)	1,521	28,827	147,323	-	-	-	-	-
Home equity loans	82,012	8,209	-	-	90,221	-	-	-	-	-
Consumer	19,982	(21,819)	4,073	7,270	1,360	-	(903)	-	903	-
	\$1,702,365	\$949,960	\$627,335	\$38,579	\$2,063,569	\$-	\$90,046	\$97,509	\$7,463	\$-
	Legacy					Acquired				

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

Year Ended:	Legacy				Acquired					
	Allowance	Provision	Charge	Recoveries	Allowance	Provision	Charge	Recoveries	Allowance	
March 31, 2016	3/31/2015	for Loan Losses	offs	3/31/2016	3/31/2016	for Loan Losses	offs	3/31/2016	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	\$-

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

	Legacy				Acquired			
	Allowance Individually evaluated for impairment	Collectively evaluated for impairment	Loan Balance Individually evaluated for impairment	Collectively evaluated for impairment	Allowance Individually evaluated for impairment	Collectively evaluated for impairment	Loan Balance Individually evaluated for impairment	Collectively evaluated for impairment
December 31, 2016								
Real estate loans:								
One-to four-family	\$288,098	\$260,768	\$1,787,289	\$59,154,116	\$-	\$-	\$1,269,425	\$109,645,113
Commercial	-	1,233,077	2,036,391	92,136,832	-	-	206,463	15,305,167
Commercial construction	-	42,722	-	1,655,899	-	-	-	1,620,552
Commercial business	-	147,323	781,623	19,033,550	-	-	-	2,506,890
Home equity loans	-	90,221	13,041	13,724,080	-	-	7,924	7,940,379

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Consumer	-	1,360	-	2,443,559	-	-	37,576	948,717
	\$288,098	\$1,775,471	\$4,618,344	\$188,148,036	\$-	\$-	\$1,521,388	\$137,966,818

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

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

	Legacy		Loan Balance		Acquired		Loan Balance	
	Allowance	Allowance	Individually	Collectively	Allowance	Allowance	Individually	Collectively
March 31, 2016	Individualy Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individualy 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
	\$59,571	\$1,642,794	\$5,974,073	\$166,948,623	\$-	\$-	\$1,464,033	\$48,380,483

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

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

	Loans 30-59 days past due	Loans 60-89 days past due	Loans		Total past due loans	Current loans	Totals loans	Accruing loans 90 or more days past due	Nonaccrual loans	Nonaccrual interest not accrued
			90 or more days past due							
December 31, 2016										
<u>Legacy</u>										
<u>Loans:</u>										
Real estate loans:										
One-to four-family	\$825,322	\$5,713	\$191,878	\$1,022,913	\$59,918,492	\$60,941,405	\$-	\$517,680	\$17,229	
Commercial	-	-	2,036,391	2,036,391	92,136,832	94,173,223	-	2,036,391	68,775	
Commercial construction	-	-	-	-	1,655,899	1,655,899	-	-	-	
Commercial business	-	-	-	-	19,815,173	19,815,173	-	-	-	
Home equity loans	-	-	-	-	13,737,121	13,737,121	-	4,163	73	
Consumer	-	-	-	-	2,443,559	2,443,559	-	-	-	
	\$825,322	\$5,713	\$2,228,269	\$3,059,304	\$189,707,076	\$192,766,380	\$-	\$2,558,234	\$86,077	

	Loans 30-59 days past due	Loans 60-89 days past due	Loans		Total past due loans	Current loans	Totals loans	Accruing loans 90 or more days past due	Nonaccrual loans	Nonaccrual interest not accrued
			90 or more days past due							
December 31, 2016										
<u>Acquired</u>										
<u>Loans:</u>										

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Real estate
loans:

One-to four-family	\$1,243,891	\$332,907	\$435,342	\$2,012,140	\$108,902,398	\$110,914,538	\$-	\$435,342	\$56,805
Commercial	-	20,338	11,190	31,528	15,480,102	15,511,630	-	31,528	-
Commercial construction	-	-	-	-	1,620,552	1,620,552	-	-	-
Commercial business	-	-	18,455	18,455	2,488,435	2,506,890	-	18,455	-
Home equity loans	-	-	-	-	7,948,303	7,948,303	-	30	-
Consumer	-	5,139	-	5,139	981,154	986,293	-	1,047	33
	\$1,243,891	\$358,384	\$464,987	\$2,067,262	\$137,420,944	\$139,488,206	\$-	\$486,402	\$56,838

	Loans					Totals loans	Accruing loans 90 or more days past due	Nonaccrual loans	Nonaccrued interest not accrued
	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				
	March 31, 2016								

Legacy

Loans:

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	\$18,490
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	47,640
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	\$67,147

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

	Loans			Total past due loans	Current loans	Totals loans	Accruing loans 90 or more days past due	Nonaccrual loans	Nonaccrual interest not accrued
	Loans 30-59 days past due	Loans 60-89 days past due	Loans 90 or more days past due						
March 31, 2016									
<u>Acquired Loans:</u>									
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

Impaired Loans as of and for the nine months ended December 31, 2016 and as of and for the year ended March 31, 2016, was as follows:

	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
December 31, 2016							
<u>Legacy Loans:</u>							
Real estate loans:							
One-to four-family	\$2,048,417	\$394,759	\$1,392,530	\$1,787,289	\$288,098	\$1,792,551	\$46,819
Commercial	3,433,621	2,036,391	-	2,036,391	-	2,610,661	987
Commercial construction	-	-	-	-	-	-	-
Commercial business	1,216,028	781,623	-	781,623	-	824,690	80,538
Home equity loans	37,916	13,041	-	13,041	-	14,628	188
Consumer	-	-	-	-	-	-	-

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\$6,735,982 \$3,225,814 \$1,392,530 \$4,618,344 \$288,098 \$5,242,530 \$128,532

December 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
<u>Acquired Loans:</u>							
Real estate loans:							
One-to four-family	\$1,734,058	\$1,269,425	\$ -	\$1,269,425	\$ -	\$1,148,691	\$ 40,076
Commercial	256,463	206,463	-	206,463	-	208,859	5,848
Commercial construction	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity loans	57,116	7,924	-	7,924	-	7,712	2,663
Consumer	68,230	37,576	-	37,576	-	40,396	4,228
	\$2,115,867	\$1,521,388	\$ -	\$1,521,388	\$ -	\$1,405,658	\$ 52,815

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

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
<u>Legacy Loans:</u>							
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

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
<u>Acquired Loans:</u>							
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 nine months ended December 31, along with the outstanding balance at the end of the period:

	December 31, 2016	December 31, 2015
Recorded investment at beginning of period	\$919,729	\$-
Fair value of loans acquired during the year	1,027,518	980,943
Accretion	20,738	-

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Reductions of payments	(501,432)	(22,608)
Recorded investment at end of period	\$1,466,553	\$958,335
Outstanding principal balance at end of period	\$1,907,842	1,324,972

A summary of changes in the accretable yield for PCI loans for the nine months ended December 31, 2016 and 2015 is as follows:

	December 31, 2016	December 31, 2015
Accretable yield at beginning of period	\$ 32,629	\$ -
Addition from acquisition	55,046	59,142
Accretion	(20,738)	-
Reclassification from nonaccretable difference	-	-
Accretable yield at end of period	\$ 66,937	\$ 59,142

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

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

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

December 31, 2016	Number of contracts	Performing	Nonperforming	Total
Real estate loans:				
One-to four-family	12	\$1,269,267	\$ 271,208	\$1,540,475
Commercial	2	-	2,036,391	2,036,391
Commercial construction	-	-	-	-
Commercial business	1	612,357	-	612,357
Home equity loans	-	-	-	-
Consumer	-	-	-	-
	15	\$1,881,624	\$ 2,307,599	\$4,189,223

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 nine-month periods ended December 31, 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			
	December 31, 2016		December 31, 2015	
Troubled Debt Restructurings	Number of recorded contracts	Outstanding investment	Number of recorded contracts	Outstanding investment
Real estate loans:				
One-to four-family	1	52,649	-	-

	Loans Modified as a TDR for the nine months ended			
	December 31, 2016		December 31, 2015	
Troubled Debt Restructurings	Number of recorded contracts	Outstanding investment	Number of recorded contracts	Outstanding investment
Real estate loans:				
One-to four-family	1	52,649	2	20,816

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Unaudited)

There were no TDRs that defaulted in the three months ended December 31, 2016 and 2015 or the nine months ended December 31, 2016 and 2015. Earlier in fiscal 2017, there were 11 newly added TDR loans to one borrower for non-owner occupied residential real estate properties that had subsequently defaulted within twelve months. However, these loans have since been sold as part of a larger pool of loans in October 2016 and are no longer being reflected in the these financial statements. Payment default under a TDR is defined as any TDR that is 90 days or more past due following the time that the loan was modified or the inability of the TDR to make the required payment subsequent to the modification.

Credit quality indicators

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

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

Pass

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

Special Mention

A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit

position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

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

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

Substandard

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

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

Doubtful

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

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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 December 31, 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 December 31, 2016 or March 31, 2016.

	Legacy				Acquired			
	Pass	Special Mention	Substandard	Total	Pass	Special Mention	Substandard	Total
December 31, 2016								
Real estate loans:								
One-to four-family	\$57,925,687	\$2,550,162	\$465,556	\$60,941,405	\$105,301,053	\$4,344,061	\$1,269,424	\$110,914,538
Commercial	85,771,988	6,364,843	2,036,391	94,173,222				