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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2018

OR

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

For the transition period from _______________ to _______________

Commission File No. 001-35693

Hamilton Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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

incorporation or organization)	Identification Number)
501 Fairmount Avenue, Suite 200, Towson, Maryland	**21286**
(Address of Principal Executive Offices)	Zip Code

(410) 823-4510

(Registrant's telephone number)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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 [X] Smaller reporting company [X]

Emerging growth company [ ]

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

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

YES [ ] NO [X]

The Registrant's common stock, par value $0.01 per share, consisted of 3,416,414 shares issued and outstanding as of February 13, 2019.

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Hamilton Bancorp, Inc. and Subsidiary

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Part I. – Financial Information

Item 1. Financial Statements

HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

December 31, 2018 and March 31, 2018

	December 31, 2018 (Unaudited)	March 31, 2018 (Audited)
Assets		
Assets		
Cash and due from banks	**$*15,175,250***	$*15,488,396*
Federal funds sold	***11,372,590***	*7,880,019*
Cash and cash equivalents	***26,547,840***	*23,368,415*
Certificates of deposit held as investment	***499,121***	*499,189*
Securities available for sale, at fair value	***65,577,855***	*75,404,136*
Federal Home Loan Bank stock, at cost	***2,676,200***	*3,122,400*
Loans	***369,456,616***	*390,420,885*
Allowance for loan losses	***(3,031,106***)	*(2,821,903*)
Net loans and leases	***366,425,510***	*387,598,982*
Premises and equipment, net	***3,759,246***	*3,945,825*
Foreclosed real estate	***457,778***	*457,778*
Accrued interest receivable	***1,448,581***	*1,468,382*
Bank-owned life insurance	***17,799,920***	*17,455,850*
Income taxes refundable	***40,000***	*40,000*
Goodwill and other intangible assets	***9,082,215***	*9,176,764*
Other assets	***1,940,161***	*2,995,741*
Total Assets	**$*496,254,427***	$*525,533,462*
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	**$*27,545,786***	$*29,557,943*
Interest-bearing deposits	***356,625,156***	*375,585,032*
Total deposits	***384,170,942***	*405,142,975*
Borrowings	***51,050,000***	*60,672,140*
Advances by borrowers for taxes and insurance	***1,059,677***	*1,962,665*

Other liabilities	***3,483,868***	*3,679,550*
Total liabilities	***439,764,487***	*471,457,330*
Commitments and contingencies	***-***	-
Shareholders' Equity		
Common stock, $.01 par value, 100,000,000 shares authorized. Issued and outstanding: 3,416,414 shares at December 31, 2018 and 3,407,613 shares at March 31, 2018	***34,164***	*34,076*
Additional paid in capital	***32,548,023***	*32,113,534*
Retained earnings	***27,339,778***	*25,920,490*
Unearned ESOP shares	***(1,925,560)***	*(2,073,680)*
Accumulated other comprehensive loss	***(1,506,465)***	*(1,918,288)*
Total shareholders' equity	***56,489,940***	*54,076,132*
Total Liabilities and Shareholders' Equity	**$*496,254,427***	$*525,533,462*

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

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HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations (Unaudited)

Three and Nine Months Ended December 31, 2018 and 2017

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	**2017**	**2018**	**2017**
Interest revenue				
Loans, including fees	$4,259,628	$4,104,127	$13,071,517	$11,890,765
U.S. treasuries, government agencies and FHLB stock	48,499	37,836	165,402	117,034
Municipal and corporate bonds	94,773	102,847	283,838	329,386
Mortgage-backed securities	271,072	297,851	811,475	951,330
Federal funds sold and other bank deposits	113,357	18,998	337,608	100,145
Total interest revenue	4,787,329	4,561,659	14,669,840	13,388,660
Interest expense				
Deposits	1,020,221	714,350	2,815,303	2,044,413
Borrowed funds	328,819	209,926	859,847	502,830
Total interest expense	1,349,040	924,276	3,675,150	2,547,243
Net interest income	3,438,289	3,637,383	10,994,690	10,841,417
Provision for loan losses	80,000	345,000	382,496	625,000
Net interest income after provision for loan losses	3,358,289	3,292,383	10,612,194	10,216,417
Noninterest revenue				
Service charges	123,885	109,151	365,434	347,201
Loss on sale of investment securities	-	(12,736)	-	(2,356)
Gain on sale of loans held for sale	8,609	-	34,482	-
Gain on sale of property and equipment	-	212,743	-	212,743
Earnings on bank-owned life insurance	115,419	123,597	344,070	369,991
Other	33,260	29,860	124,177	95,972
Total noninterest revenue	281,173	462,615	868,163	1,023,551
Noninterest expenses				
Salaries	1,675,976	1,445,336	4,671,013	4,415,848
Employee benefits	351,670	373,699	1,097,813	1,115,185
Occupancy	253,488	259,595	768,502	759,848
Advertising	21,524	22,487	53,506	63,685
Furniture and equipment	103,400	92,894	272,671	262,632
Data processing	202,915	176,114	604,456	522,469
Legal services	70,115	153,615	138,314	374,610
Other professional services	96,510	218,879	298,045	611,699
Merger related expenses	502,835	-	558,598	-

Deposit insurance premiums	***56,760***	*91,470*	***270,690***	*222,359*
Foreclosed real estate expense and losses	***4,447***	*43,706*	***13,749***	*45,005*
Other operating	***424,505***	*452,423*	***1,313,712***	*1,306,791*
Total noninterest expense	***3,764,145***	*3,330,218*	***10,061,069***	*9,700,131*
Income before income taxes	***(124,683)***	*424,780*	***1,419,288***	*1,539,837*
Income tax expense	***-***	*2,351,970*	***-***	*2,663,897*
Net (loss) income	**$*(124,683)***	$*(1,927,190)*	**$*1,419,288***	$*(1,124,060)*
Net (loss) income per common share:				
Basic	**$*(0.04)***	$*(0.60)*	**$*0.44***	$*(0.35)*
Diluted	**$*(0.04)***	$*(0.60)*	**$*0.44***	$*(0.35)*

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

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HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income (Unaudited)

Three and Nine Months Ended December 31, 2018 and 2017

	Three Months Ended December 31,		**Nine Months Ended December 31,**	
	2018	**2017**	**2018**	**2017**
Net (loss) income	**$*(124,683)***	$*(1,927,190)*	**$*1,419,288***	$*(1,124,060)*
Other comprehensive income (loss):				
Unrealized gain (loss) on investment securities available for sale	***1,110,739***	*(393,475)*	***505,094***	*243,772*
Reclassification adjustment for realized loss on investment securities available for sale included in net income	**-**	*12,736*	**-**	*2,356*
Total unrealized gain (loss) on investment securities available for sale	***1,110,739***	*(380,739)*	***505,094***	*246,128*
Unrealized (loss) gain on derivative transactions	***(287,116)***	*122,388*	***(93,271)***	*22,784*
Income tax (benefit) expense relating to investment securities available for sale and derivative transactions	**-**	*(101,906)*	**-**	*73,083*
Other comprehensive income (loss)	***823,623***	*(156,445)*	***411,823***	*195,829*
Total comprehensive income (loss)	**$*698,940***	$*(2,083,635)*	**$*1,831,111***	$*(928,231)*

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)

Nine Months Ended December 31, 2018 and 2017

	Common stock	Additional paid-in capital	Retained earnings	Unearned ESOP shares	Accumulated other comprehensive loss	Total shareholders' equity
Balances at April 1, 2017	**$ 34,111**	**$ 31,656,235**	**$ 31,730,673**	**$ (2,221,800)**	**$ (1,407,989)**	**$ 59,791,230**
Net income	-	-	(1,124,060)	-	-	(1,124,060)
Unrealized gain on available for sale securities, net of tax effect of $ 97,085	-	-	-	-	149,043	149,043
Unrealized gain on derivative transactions securities, net of tax effect of $(24,002)	-	-	-	-	46,786	46,786
Stock based compensation - options	-	172,177	-	-	-	172,177
Restricted stock - compensation and activity	-	173,457	.	.	.	173,457
ESOP shares allocated for release	-	48,434	-	148,120	-	196,554
Balances at December 31, 2017	**$ 34,111**	**$ 32,050,303**	**$ 30,606,613**	**$ (2,073,680)**	**$ (1,212,160)**	**$ 59,405,187**
Balances at April 1, 2018	**$ 34,076**	**$ 32,113,534**	**$ 25,920,490**	**$ (2,073,680)**	**$ (1,918,288)**	**$ 54,076,132**
Net income	**-**	**-**	**1,419,288**	**-**	**-**	**1,419,288**
Unrealized gain on available for sale securities, net of tax effect of $ -0-	**-**	**-**	**-**	**-**	**505,094**	**505,094**
Unrealized loss on derivative transactions, net of tax effect of $ -0-	**-**	**-**	**-**	**-**	**(93,271)**	**(93,271)**
Stock based compensation - options	**-**	**184,542**	**-**	**-**	**-**	**184,542**
Restricted stock - compensation and activity	**88**	**192,180**	**-**	**-**	**-**	**192,268**
ESOP shares allocated for release	**-**	**57,767**	**-**	**148,120**	**-**	**205,887**

Balances at December 31, 2018	**$ 34,164**	**$ 32,548,023**	**$ 27,339,778**	**$ (1,925,560)**	**$ (1,506,465)**	**$ 56,489,940**

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

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HAMILTON BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

Nine Months Ended December 31, 2018 and 2017

	Nine Months Ended December 31,	
	2018	**2017**
Cash flows from operating activities		
Interest received	$***15,083,585***	$*13,864,923*
Fees and commissions received	***493,843***	*444,472*
Interest paid	***(4,033,791***)	*(3,236,631*)
Cash paid to suppliers and employees	***(8,247,761***)	*(8,418,190*)
Origination of loans held for sale	***(1,733,400***)	-
Proceeds from sale of loans held for sale	***1,767,882***	-
Income taxes payable (refundable)	***-***	*31,549*
Net cash provided by operating activities	***3,330,358***	*2,686,123*
Cash flows from investing activities		
Proceeds from maturing and called securities available for sale, including principal pay downs	***11,891,251***	*12,219,990*
Proceeds from sale of investment securities available for sale	***-***	*11,608,699*
Purchase of investment securities available for sale	***(1,985,000***)	*(1,208,990*)
Purchase (redemption) of Federal Home Loan Bank stock	***446,200***	*(1,083,700*)
Loans made, net of principal repayments	***20,672,174***	*778,762*
Purchase of loan portfolios	***-***	*(51,049,819*)
Purchase of premises and equipment	***(63,665***)	*(443,450*)
Proceeds from sale of premises and equipment	***-***	*769,914*
Proceeds from sale of foreclosed real estate	***145,820***	*35,896*
Net cash provided (used) by investing activities	***31,106,780***	*(28,372,698*)
Cash flows from financing activities		
Net decrease in:		
Deposits	***(20,761,542***)	*(19,836,138*)
Advances by borrowers for taxes and insurance	***(902,988***)	*(760,104*)
Proceeds from borrowings	***24,000,000***	*40,000,000*
Payments of borrowings	***(33,500,000***)	*(13,007,050*)
Interest rate swap on FHLB borrowings	***(93,271***)	*22,784*
Issuance of restricted stock	***88***	-
Net cash (used) provided by financing activities	***(31,257,713***)	*6,419,492*
Net increase (decrease) in cash and cash equivalents	***3,179,425***	*(19,267,083*)

Cash and cash equivalents at beginning of period	***23,368,415***	*29,353,921*
Cash and cash equivalents at end of period	**$*26,547,840***	$*10,086,838*

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)

	Nine Months Ended December 31,	
	2018	**2017**
Reconciliation of net income (loss) to net cash provided by operating activities		
Net income (loss)	**$*1,419,288***	$*(1,124,060)*
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Amortization of premiums on certificates of deposit	***68***	*68*
Amortization of premiums on securities	***425,126***	*668,133*
Loss on sale of investment securities	***-***	*2,356*
Loss on sale of foreclosed real estate	***4,232***	*1,299*
Gain on loans held for sale	***(34,482)***	*-*
Loan discount accretion	***3,440***	*46,841*
Deposit premium amortization	***(210,491)***	*(328,646)*
Borrowing premium amortization	***(122,140)***	*(352,463)*
Core deposit intangible asset amortization	***94,548***	*94,548*
Premises and equipment depreciation and amortization	***250,243***	*243,348*
Gain on sale of premises and equipment	***-***	*(212,743)*
Stock based compensation	***376,722***	*345,634*
Provision for loan losses	***382,496***	*625,000*
ESOP shares allocated for release	***205,887***	*196,555*
Decrease (increase) in:		
Accrued interest receivable	***19,801***	*(203,068)*
Loans held for sale	***34,482***	*-*
Cash surrender value of life insurance	***(344,070)***	*(369,991)*
Income taxes refundable and deferred income taxes	***-***	*2,695,446*
Other assets	***1,055,583***	*301,007*
Increase (decrease) in:		
Accrued interest payable	***(26,010)***	*(8,279)*
Deferred loan origination fees	***(34,690)***	*(35,711)*
Other liabilities	***(169,675)***	*100,849*
Net cash provided by operating activities	**$*3,330,358***	$*2,686,123*
Noncash investing activity		
Real estate acquired through foreclosure	**$*145,820***	$*17,305*

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

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Notes to Consolidated Financial Statements (Unaudited)

December 31, 2018

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

Nature of Operations

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

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

On *October 23, 2018,* the Company and Orrstown Financial Services, Inc. ("Orrstown"), the parent company of Orrstown Bank located in Shippensburg, Pennsylvania, signed a definitive agreement and plan of merger under which

the Company will merge with and into Orrstown, with Orrstown as the surviving company. Immediately thereafter, Hamilton Bank will merge with and into Orrstown Bank, with Orrstown Bank as the surviving institution. At the effective time of the merger, each share of Hamilton Bancorp's common stock will be converted into the right to receive (*1*) *$4.10* in cash, subject to adjustment downward as set forth in the Merger Agreement and (*2*) *0.54* shares of Orrstown common stock. The Merger Agreement provides each party with specified termination rights. If the Merger is *not* consummated under specified circumstances, Hamilton Bancorp has agreed to pay Orrstown a termination fee of *$2.2* million. The transaction is expected to close in the *second* quarter of calendar *2019.*

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

On *September 11, 2015,* the Company completed its acquisition of Fairmount Bancorp, Inc. ("Fairmount Bancorp") through the merger of Fairmount Bancorp, the parent company of Fairmount Bank, with and into the Company pursuant to the Agreement and Plan of Merger dated as of *April 15, 2015,* by and between the Company and Fairmount Bancorp. As a result of the merger, each shareholder of Fairmount Bancorp received a cash payment equal to *thirty* dollars (*$30.00*) for each share of Fairmount Bancorp common stock, or an aggregate of approximately *$15.4* million. Immediately following the merger of Fairmount Bancorp into the Company, Fairmount Bank was merged with and into the Bank, with the Bank as the surviving entity.

HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

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

Summary of Significant Accounting Policies

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

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

Use of Estimates. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible

to significant change in the near term relate to the determination of the allowance for loan losses, deferred income tax valuation allowances, the fair value of investment securities and other than temporary impairment of investment securities.

Investment Securities. Management determines the appropriate classification of investment securities at the time of purchase. Securities that *may* be sold before maturity are classified as available for sale and carried at fair value. Investment securities that management has the intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. All investment securities held by Hamilton at *December 31, 2018* and *March 31, 2018* were classified as available for sale.

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

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

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

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

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

Loans are considered impaired when, based on current information, management considers it unlikely that collection of principal and interest payments will be made according to contractual terms. If collection of principal is evaluated as doubtful, all payments are applied to principal. Impaired loans are measured: (i) at the present value of expected cash flows discounted at the loan's effective interest rate; (ii) at the observable market price; or (iii) at the fair value of

the collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, an impairment is recognized through an allocation of the allowance for loan losses and corresponding provision for loan losses. Generally, identified impairments are charged-off against the allowance for loan losses.

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

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

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 (Continued)

The allowance for loan losses is increased by provisions charged to income and reduced by charge-offs, net of recoveries. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the loan portfolio, adverse situations that *may* affect the borrower's ability to repay, estimated value of any underlying collateral and current economic conditions. The look back period for historical losses consists of reviewing a *48* month look back period for net charge-offs. Prior to *September 30, 2018,* we reviewed both a *36* and *48* month look back period individually for net charge-offs to develop a range in which the allowance for loan losses should be within. The range has grown smaller over the past year to a point where the difference in the *two* calculations of the allowance for loan loss is deemed immaterial. As a result, and for efficiency purposes, we began to only utilize a historical charge-off period of *48* months in determining the necessary allowance for loan losses. We believe, although similar in amount, that a *48*-month period is more representative of our charge-off history. This period *may* change in the future depending on the performance of the loan portfolio. In addition, we also adjusted the environmental factors of the legacy and acquired loan portfolios so that they are *not* the same for each loan portfolio going forward. The environmental factors for each acquired loan portfolio and the legacy loan portfolio will be evaluated on their own merits so as to stand on their own characteristics. These changes at *September 30, 2018* resulted in additional provisions of *$294,000* and were primarily related to the acquired loan portfolios and the adjustment of their environmental factors.

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

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

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

evaluated on an annual basis to determine impairment, if any. Any impairment of goodwill would be recognized against income in the period of impairment.

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

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

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For derivative instruments designated as fair-value hedges, the change in fair value of the derivative is recognized in the consolidated statement of operations under the same heading as the change in fair value of the hedged item for the portion attributable to the hedged risk. For accounting purposes, if the derivative is highly effective, the change in fair values relating to the asset or liability and the hedged item will offset *one* another and result in *no* impact to overall income.

Gains (losses) on derivatives representing either hedge components excluded from the assessment of effectiveness or hedge ineffectiveness are recognized in earnings.

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

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

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

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

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

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Note *2:* New Accounting Pronouncements

Recent Accounting Pronouncements

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

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

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

ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This guidance clarifies the definition of a business and assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under this guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or group of similar assets), the assets acquired would *not* represent a business. In addition, in order to be considered a business, an acquisition would have to include at a minimum an input and a substantive process that together significantly contribute to the ability to create an output. The amended guidance also narrows the definition of outputs by more closely aligning it with how outputs are described in FASB guidance for revenue recognition. This guidance was effective for annual periods beginning after *December 15, 2017,* including interim periods within those fiscal years, with early adoption permitted. The Company adopted this guidance effective *April 1, 2018* and it did *not* have a material impact on our consolidated financial statements.

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

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Notes to Consolidated Financial Statements (Continued)

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

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

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

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

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

HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

ASU No. 2016-01, Financial Instruments – Recognition and Measurement of Financial Assets and Liabilities. This ASU requires equity investments to be measured at fair value with changes in fair value recognized in net income, excluding equity investments that are consolidated or accounted for under the equity method of accounting. The amendment allows equity investments without readily determinable fair values to be measured at cost minus impairment, with a qualitative assessment required to identify impairment. The amendment also requires public companies to use exit prices to measure the fair value of financial instruments purposes; requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statement; it eliminates the disclosure requirements related to measurement assumptions for the fair value of instruments measured at amortized cost. In addition, for liabilities measured at fair value under the fair value option, to present in other comprehensive income changes in fair value due to changes in instrument specific credit risk. The Company's management engaged a *third*-party expert in the field of valuation and reporting to assist management and ensure adequate documentation of financial controls and analysis performed in its review of "exit pricing" of the fair values of loans, deposits, and other financial instruments. This ASU is effective for public companies for fiscal years beginning after *December 15, 2017,* including interim periods within those fiscal years. We adopted this ASU effective *April 1, 2018.* With the adoption of this ASU, equity securities can *no* longer be classified as available for sale, and as such marketable equity securities are disclosed as a separate line item on the Consolidated Statement of Financial Condition with changes in the fair value of equity securities reflected in net income. At *December 31, 2018* the Company did *not* have any equity securities. During the *first* quarter of fiscal *2019,* we began using an exit price notion when measuring the fair value of our loan portfolio, excluding loans held for sale, for disclosure purposes. The adoption of this ASU did *not* have a significant impact on our consolidated financial statements.

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

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

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

Note *3*: Earnings per Share

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

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Both the basic and diluted earnings per share for the *three* and *nine* months ended *December 31, 2018* and *2017* are summarized below:

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017	**Nine Months Ended December 31, 2018**	Nine Months Ended December 31, 2017
Net income	**$ *(124,683)***	$ *(1,927,190)*	**$ *1,419,288***	$ *(1,124,060)*
Weighted average common shares outstanding - basic	***3,209,207***	*3,189,056*	***3,209,100***	*3,188,949*
Weighted average common shares outstanding - diluted	***3,209,207***	*3,189,056*	***3,209,895***	*3,188,949*
Income per common share - basic and diluted	**$ *(0.04)***	$ *(0.60)*	**$ *0.44***	$ *(0.35)*
Anti-dilutive shares	***184,060***	*118,525*	***183,265***	*118,525*

Note *4:* Investment Securities Available for Sale

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

December 31, 2018	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
U.S. government agencies	**$*744,186***	**$ -**	**$*16,850***	**$*727,336***
Municipal bonds	***12,347,163***	**-**	***705,934***	***11,641,229***
Corporate bonds	***2,000,000***	**-**	***99,496***	***1,900,504***
Mortgage-backed securities	***52,844,355***	***11,438***	***1,547,007***	***51,308,786***
	$*67,935,704*	**$ *11,438***	**$*2,369,287***	**$*65,577,855***

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

There were *no* sales of investment securities during the *three* and *nine* months ended *December 31, 2018.* Proceeds from the sale of investment securities were *$7,364,939* and *$11,608,699* during the *three* and *nine* months ended *December 31, 2017,* with gains of *$33,747* and *$57,099* and losses of *$46,483* and *$59,455,* respectively.

As of *December 31, 2018,* and *March 31, 2018,* all mortgage-backed securities are backed by U.S. Government-Sponsored Enterprises (GSE's), except *one* private label mortgage-backed security that was acquired in the Fraternity acquisition in *May 2016* with a book value of *$37,687* and fair value of *$38,032* as of *December 31, 2018.*

As of *December 31, 2018,* and *March 31, 2018,* the Company had *one* security pledged to the Federal Reserve Bank with a book value of *$744,186* at both dates and a fair value of *$727,336* and *$723,023,* respectively.

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

	Available for Sale December 31, 2018		March 31, 2018	
	Amortized cost	**Fair value**	Amortized cost	Fair value
Maturing				
Within one year	**$-**	**$-**	$*2,009,160*	$*1,995,625*
Over one to five years	***1,227,258***	***1,197,309***	*1,231,928*	*1,196,368*
Over five to ten years	***4,665,976***	***4,447,904***	*3,578,827*	*3,500,641*
Over ten years	***9,198,115***	***8,623,856***	*10,368,499*	*9,686,082*
Mortgage-backed securities, in monthly installments	***52,844,355***	***51,308,786***	*61,078,665*	*59,025,420*
	$*67,935,704*	**$*65,577,855***	$*78,267,079*	$*75,404,136*

The following table presents the Company's investments' gross unrealized losses and the corresponding fair values by investment category and length of time that the securities have been in a continuous unrealized loss position at *December 31, 2018* and *March 31, 2018.*

	Less than 12 months		**12 months or longer**		**Total**	
December 31, 2018	**Gross unrealized losses**	**Fair value**	**Gross unrealized losses**	**Fair value**	**Gross unrealized losses**	**Fair value**
U.S. government agencies	**$-**	**$-**	**$*16,850***	**$*727,336***	**$*16,850***	**$*727,336***
Municipal bonds	**-**	**-**	***705,934***	***11,641,229***	***705,934***	***11,641,229***
Corporate bonds	**-**	**-**	***99,496***	***1,900,504***	***99,496***	***1,900,504***
Mortgage-backed securities	***56,462***	***1,801,231***	***1,490,545***	***46,787,724***	***1,547,007***	***48,588,955***
	$*56,462*	**$*1,801,231***	**$*2,312,825***	**$*61,056,793***	**$*2,369,287***	**$*62,858,024***

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

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

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

Note *5:* **Loans Receivable and Allowance for Loan Losses**

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

	December 31, 2018				March 31, 2018			
	Legacy (1)	**Acquired**	**Total Loans**	**% of Total**	Legacy (1)	Acquired	Total Loans	% of Total
Real estate loans:								
One-to four-family:								
Residential (2)	***$83,117,881***	***$66,255,260***	***149,373,141***	***40 %***	*$85,248,184*	*$72,749,066*	*$157,997,250*	*41 %*
Residential construction	***3,430,203***	***-***	***3,430,203***	***1 %***	*5,450,827*	*-*	*5,450,827*	*1 %*
Investor (3)	***7,337,281***	***16,407,266***	***23,744,547***	***6 %***	*9,275,031*	*17,460,809*	*26,735,840*	*7 %*
Commercial	***105,755,786***	***9,289,784***	***115,045,570***	***31 %***	*100,403,769*	*11,762,485*	*112,166,254*	*29 %*
Commercial construction	***1,543,313***	***1,059,217***	***2,602,530***	***1 %***	*5,763,784*	*1,352,019*	*7,115,803*	*2 %*
Total real estate loans	***201,184,464***	***93,011,527***	***294,195,991***	***80 %***	*206,141,595*	*103,324,379*	*309,465,974*	*80 %*
Commercial business (4)	***35,276,493***	***1,706,509***	***36,983,002***	***10 %***	*38,302,739*	*1,841,226*	*40,143,965*	*10 %*
	15,077,068	***4,941,051***	***20,018,119***	***5 %***	*13,956,327*	*6,039,462*	*19,995,789*	*5 %*

Home equity loans								
Consumer (5)	***16,329,237***	***699,371***	***17,028,608***	***5 %***	*18,849,448*	*766,063*	*19,615,511*	*5 %*
Total Loans	***267,867,262***	***100,358,458***	***368,225,720***	***100 %***	*277,250,109*	*111,971,130*	*389,221,239*	*100%*
Net deferred loan origination fees and costs	***(178,056)***	***-***	***(178,056)***		*(212,746)*	-	*(212,746)*	
Loan premium (discount)	***1,708,908***	***(299,956)***	***1,408,952***		*1,922,428*	*(510,036)*	*1,412,392*	
	$*269,398,114*	**$*100,058,502***	**$*369,456,616***		$*278,959,791*	$*111,461,094*	$*390,420,885*	

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

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

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

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

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

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

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Commercial business loans are made to provide funds for equipment and general corporate needs. Repayment of a loan primarily uses the funds obtained from the operation of the borrower's business. Commercial loans also include lines of credit that are utilized to finance a borrower's short-term credit needs and/or to finance a percentage of eligible receivables and inventory. The Company's loan portfolio also includes equipment leases, which consists of leases for essential commercial equipment used by small to medium sized businesses.

The home equity loans consist of both conforming loans and revolving lines of credit to consumers which are secured by residential real estate. These loans are typically secured with *second* mortgages on the homes. Consumer loans include share loans, installment loans and, to a lesser extent, personal lines of credit. Share loans represent loans that are collateralized by a certificate of deposit or other deposit product. Installment loans are used by customers to purchase primarily automobiles; but *may* be used to also purchase boats and recreational vehicles.

The following table details activity in the allowance for loan losses by portfolio segment for the *three* and *nine*-month periods ended *December 31, 2018* and *2017.* The allowance for loan losses allocated to each portfolio segment is *not* necessarily indicative of future losses in any particular portfolio segment and does *not* restrict the use of the allowance to absorb losses in other portfolio segments.

Three Months Ended December 31, 2018	**Residential Real Estate**	**Investor Real Estate**	**Commercial Real Estate**	**Commercial Construction**	**Commercial Business**	**Home Equity**	**Consumer**	**Unallocated**	**Total**
Allowance for credit losses:									
Beginning balance	$*665,676*	$*314,571*	$*1,312,441*	$*12,390*	$*532,611*	$*72,831*	$*98,676*	$*21,733*	$*3,030,929*
Charge-offs	*-*	*(32,909*)	*-*	*-*	*(133,729*)	*-*	*-*	*-*	*(166,638*)
Recoveries	*41,059*	*33,609*	*-*	*-*	*10,880*	*-*	*1,267*	*-*	*86,815*
Provision for credit losses	*(24,321*)	*(36,632*)	*(31,557*)	*(4,090*)	*160,895*	*1,555*	*(4,214*)	*18,364*	*80,000*
Ending balance	$*682,414*	$*278,639*	$*1,280,884*	$*8,300*	$*570,657*	$*74,386*	$*95,729*	$*40,097*	$*3,031,106*

Nine Months Ended December 31, 2018	**Residential Real Estate**	**Investor Real Estate**	**Commercial Real Estate**	**Commercial Construction**	**Commercial Business**	**Home Equity**	**Consumer**	**Unallocated**	**Total**
Allowance for credit losses:									
Beginning balance	$*608,723*	$*51,690*	$*1,253,383*	$*33,430*	$*673,982*	$*69,459*	$*131,236*	$-	$*2,821,903*
Charge-offs	*(13,769*)	*(41,022*)	*(31,320*)	-	*(208,729*)	-	*(2,465*)	-	*(297,305*)
Recoveries	*43,301*	*33,675*	*31,320*	-	*10,880*	-	*4,836*	-	*124,012*
Provision for credit losses	*44,159*	*234,296*	*27,501*	*(25,130*)	*94,524*	*4,927*	*(37,878*)	*40,097*	*382,496*
Ending balance	$*682,414*	$*278,639*	$*1,280,884*	$*8,300*	$*570,657*	$*74,386*	$*95,729*	$*40,097*	$*3,031,106*
Allowance allocated to:									
Legacy Loans:									
Individually evaluated for impairment	$*253,811*	$-	$-	$-	$-	$-	$-	$-	$*253,811*
Collectively evaluated for impairment	*276,937*	*50,593*	*1,241,051*	*7,254*	*566,217*	*59,952*	*95,516*	*40,097*	*2,337,617*
Acquired Loans:									
Individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-	$-	$-
Collectively evaluated for impairment	*151,666*	*228,046*	*39,833*	*1,046*	*4,440*	*14,434*	*213*	-	*439,678*

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Three Months Ended December 31, 2017	Residential Real Estate	Investor Real Estate	Commercial Real Estate	Commercial Construction	Commercial Business	Home Equity	Consumer	Unallocated	Total
Allowance for credit losses:									
Beginning balance	$ *528,288*	$ *52,255*	$ *1,360,433*	$ *12,074*	$ *327,130*	$ *62,570*	$ *128,241*	$ -	$ *2,470,991*
Charge-offs	-	*(111,360)*	*(100,236)*	-	-	-	-	-	*(211,596)*
Recoveries	*3,937*	-	-	-	*171*	-	*1,034*	-	*5,142*
Provision for credit losses	*35,875*	*103,790*	*148,707*	*11,100*	*45,987*	*619*	*(1,078)*	-	*345,000*
Ending balance	$ *568,100*	$ *44,685*	$ *1,408,904*	$ *23,174*	$ *373,288*	$ *63,189*	$ *128,197*	$ -	$ *2,609,537*

Nine Months Ended December 31, 2017	Residential Real Estate	Investor Real Estate	Commercial Real Estate	Commercial Construction	Commercial Business	Home Equity	Consumer	Unallocated	Total
Allowance for credit losses:									
Beginning balance	$ *553,539*	$ *35,275*	$ *1,375,894*	$ *9,031*	$ *149,461*	$ *70,071*	$ *1,544*	$ -	$ *2,194,815*
Charge-offs	*(8,907)*	*(126,482)*	*(100,236)*	-	-	-	*(486)*	-	*(236,111)*
Recoveries	*3,937*	*18,129*	-	-	*551*	-	*3,216*	-	*25,833*
Provision for credit losses	*19,531*	*117,763*	*133,246*	*14,143*	*223,276*	*(6,882)*	*123,923*	-	*625,000*
Ending balance	$ *568,100*	$ *44,685*	$ *1,408,904*	$ *23,174*	$ *373,288*	$ *63,189*	$ *128,197*	$ -	$ *2,609,537*
Allowance allocated to:									
Legacy Loans:									
Individually evaluated for	$ *272,707*	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ *272,707*

impairment									
Collectively evaluated for impairment	*295,393*	*44,685*	*1,408,904*	*23,174*	*373,288*	*63,189*	*128,197*	-	*2,336,830*
<u>Acquired Loans:</u>									
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	-	-	-	-	-	-	-	-	-

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Our recorded investment in loans at *December 31, 2018* and *2017* related to each balance in the allowance for probable loan losses by portfolio segment and disaggregated on the basis of our impairment methodology was as follows:

December 31, 2018	**Residential Real Estate**	**Investor Real Estate**	**Commercial Real Estate**	**Commercial Construction**	**Commercial Business**	**Home Equity**	**Consumer**	**Total**
Legacy Loans:								
Individually evaluated for impairment	$*1,773,176*	$*31,752*	$*4,139,177*	$-	$*743,160*	$*6,785*	$*91,662*	$*6,785,712*
Collectively evaluated for impairment	*84,774,908*	*7,305,529*	*101,616,609*	*1,543,313*	*34,533,333*	*15,070,283*	*16,237,575*	*261,081,5*
Ending balance	$*86,548,084*	$*7,337,281*	$*105,755,786*	$*1,543,313*	$*35,276,493*	$*15,077,068*	$*16,329,237*	$*267,867,2*
Acquired Loans:								
Individually evaluated for impairment	$*440,242*	$*261,659*	$-	$-	$-	$*164*	$*55,492*	$*757,557*
Collectively evaluated for impairment	*65,815,018*	*16,145,606*	*9,289,784*	*1,059,217*	*1,706,509*	*4,940,887*	*643,880*	*99,600,90*
Ending balance	$*66,255,260*	$*16,407,265*	$*9,289,784*	$*1,059,217*	$*1,706,509*	$*4,941,051*	$*699,372*	$*100,358,4*

				Commercial	Commercial		Consumer	Total

December 31, 2017	Residential Real Estate	Investor Real Estate	Commercial Real Estate	Construction	Business	Home Equity		
Legacy Loans:								
Individually evaluated for impairment	$*1,697,585*	$*121,514*	$*4,500,043*	$-	$*905,178*	$*21,579*	$-	$*7,245,899*
Collectively evaluated for impairment	*85,532,435*	*7,254,483*	*96,357,409*	*3,995,441*	*38,083,051*	*13,780,512*	*20,075,548*	*265,078,8*
Ending balance	$*87,230,020*	$*7,375,997*	$*100,857,452*	$*3,995,441*	$*38,988,229*	$*13,802,091*	$*20,075,548*	$*272,324,7*
Acquired Loans:								
Individually evaluated for impairment	$*1,061,049*	$*579,172*	$*199,920*	$-	$-	$-	$*56,708*	$*1,896,849*
Collectively evaluated for impairment	*73,640,662*	*17,629,734*	*11,960,924*	*856,970*	*1,928,232*	*6,874,136*	*728,392*	*113,619,0*
Ending balance	$*74,701,711*	$*18,208,906*	$*12,160,844*	$*856,970*	$*1,928,232*	$*6,874,136*	$*785,100*	$*115,515,8*

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Past due loans, segregated by age and class of loans, as of and for the *nine* months ended *December 31, 2018* and as of and for the year ended *March 31, 2018,* were as follows:

	December 31, 2018			March 31, 2018		
	Legacy	**Acquired**	**Total**	Legacy	Acquired	Total
Current	**$*262,125,497***	**$*99,620,976***	**$*361,746,473***	$*270,807,643*	$*109,972,473*	$*380,780,116*
Accruing past due loans:						
30-59 days past due:						
Real estate loans:						
Residential	***71,020***	***18,488***	***89,508***	*63,618*	*689,364*	*752,982*
Investor	**-**	***29,357***	***29,357***	-	-	-
Commercial	**-**	**-**	**-**	-	-	-
Commercial construction	**-**	**-**	**-**	-	-	-
Commercial business	***120,418***	**-**	***120,418***	*135,502*	-	*135,502*
Home equity loans	**-**	***68***	***68***	-	-	-
Consumer	***23,357***	***25,753***	***49,110***	*148,876*	-	*148,876*
Total 30-59 days past due	***214,795***	***73,666***	***288,461***	*347,996*	*689,364*	*1,037,360*
60-89 days past due:						
Real estate loans:						
Residential	***72,377***	***121,223***	***193,600***	*70,291*	-	*70,291*
Investor	**-**	**-**	**-**	-	-	-
Commercial	**-**	**-**	**-**	-	-	-
Commercial construction	**-**	**-**	**-**	-	-	-
Commercial business	***460,762***	**-**	***460,762***	*134,524*	-	*134,524*
Home equity loans	**-**	**-**	**-**	-	-	-
Consumer	***5,233***	**-**	***5,233***	*28,300*	-	*28,300*
Total 60-89 days past due	***538,372***	***121,223***	***659,595***	*233,115*	-	*233,115*
90 or more days past due:						
Real estate loans:						
Residential	**-**	**-**	**-**	-	-	-
Investor	***222,485***	***113,029***	***335,514***	*734,818*	*471,423*	*1,206,241*
Commercial	**-**	**-**	**-**	-	-	-

Commercial construction	**-**	**-**	**-**	*-*	*-*	*-*
Commercial business	**-**	**-**	**-**	*-*	*-*	*-*
Home equity loans	**-**	**-**	**-**	*-*	*-*	*-*
Consumer	**-**	**-**	**-**	*-*	*-*	*-*
Total 90 or more days past due	***222,485***	***113,029***	***335,514***	*734,818*	*471,423*	*1,206,241*
Total accruing past due loans	***975,652***	***307,918***	***1,283,570***	*1,315,929*	*1,160,787*	*2,476,716*
Non-accruing loans:						
Real estate loans:						
Residential	***365,610***	***300,530***	***666,140***	*526,584*	*338,060*	*864,644*
Investor	***31,752***	***128,937***	***160,689***	*60,949*	*300,872*	*361,821*
Commercial	***4,139,177***	**-**	***4,139,177***	*4,356,264*	*198,938*	*4,555,202*
Commercial construction	**-**	**-**	**-**	*-*	*-*	*-*
Commercial business	***143,145***	**-**	***143,145***	*165,285*	*-*	*165,285*
Home equity loans	**-**	***97***	***97***	*12,605*	*-*	*12,605*
Consumer	***86,429***	**-**	***86,429***	*4,850*	*-*	*4,850*
Non-accruing loans:	***4,766,113***	***429,564***	***5,195,677***	*5,126,537*	*837,870*	*5,964,407*
Total Loans	**$*267,867,262***	**$*100,358,458***	**$*368,225,720***	$*277,250,109*	$*111,971,130*	$*389,221,239*
Nonaccrual interest not accrued:						
Real estate loans:						
Residential	**$*2,289***	**$*7,237***	**$*9,526***	$*8,250*	$*53,120*	$*61,370*
Investor	***2,066***	***6,490***	***8,556***	*8,513*	*15,604*	*24,117*
Commercial	***252,381***	**-**	***252,381***	*294,619*	*-*	*294,619*
Commercial construction	**-**	**-**	**-**	*-*	*-*	*-*
Commercial business	***8,796***	**-**	***8,796***	*12,891*	*-*	*12,891*
Home equity loans	**-**	**-**	**-**	*436*	*-*	*436*
Consumer	***1,459***	**-**	***1,459***	*385*	*-*	*385*
Total nonaccrual interest not accrued	**$*266,991***	**$*13,727***	**$*280,718***	$*325,094*	$*68,724*	$*393,818*

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Impaired loans as of and for the *three* and *nine* months ended *December 31, 2018* and *2017,* and the year ended *March 31, 2018,* was as follows:

	Impaired Loans at December 31, 2018			**Three months ended December 31, 2018**		**Nine months ended December 31, 2018**	
	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Legacy:							
With no related allowance recorded:							
Real estate loans:							
Residential	$*706,098*	$*538,723*	$-	$*558,414*	$ *3,719*	$*538,965*	$ *7,666*
Investor	-	-	-	-	-	-	-
Commercial	*6,375,413*	*4,139,177*	-	*4,309,168*	-	*4,280,325*	*53,278*
Commercial construction							
Commercial business	*1,369,695*	*743,160*	-	*863,260*	*25,781*	*925,694*	*70,558*
Home equity loans	*33,287*	*6,785*	-	*7,036*	*1,910*	*7,293*	*2,043*
Consumer	*91,745*	*91,662*	-	*92,474*	*2,542*	*92,822*	*2,542*
With an allowance recorded:							
Real estate loans:							
Residential	$*1,248,874*	$*1,234,453*	$*253,811*	$*1,237,197*	$ *12,337*	$*1,246,235*	$ *37,255*
Investor	*57,831*	*31,752*	-	*32,427*	*1,108*	*32,291*	*1,108*
Commercial	-	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Total legacy impaired	*9,882,943*	*6,785,712*	*253,811*	*7,099,976*	*47,397*	*7,123,625*	*174,450*
Acquired (1):							
With no related allowance recorded:							
Real estate loans:							
Residential	*456,272*	*440,242*	-	*439,495*	*5,457*	*425,256*	*7,179*
Investor	*405,538*	*261,659*	-	*263,562*	*4,722*	*246,751*	*13,859*
Commercial							
Commercial construction							

Commercial business							
Home equity loans	***37,858***	***164***	***-***	***238***	***1,851***	***79***	***2,501***
Consumer	***88,545***	***55,492***	***-***	***56,249***	***1,401***	***57,957***	***3,949***
With an allowance recorded:							
Real estate loans:							
Residential	***-***	***-***	***-***	***-***	***-***	***-***	***-***
Investor	***-***	***-***	***-***	***-***	***-***	***-***	***-***
Commercial	***-***	***-***	***-***	***-***	***-***	***-***	***-***
Commercial construction	***-***	***-***	***-***	***-***	***-***	***-***	***-***
Commercial business	***-***	***-***	***-***	***-***	***-***	***-***	***-***
Home equity loans	***-***	***-***	***-***	***-***	***-***	***-***	***-***
Consumer	***-***	***-***	***-***	***-***	***-***	***-***	***-***
Total acquired impaired	***988,213***	***757,557***	***-***	***759,544***	***13,431***	***730,043***	***27,488***
Total impaired	**$*10,871,156***	**$*7,543,269***	**$*253,811***	**$*7,859,520***	**$ *60,828***	**$*7,853,668***	**$*201,938***

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

	Impaired Loans at December 31, 2017			Three months ended December 31, 2017		Nine months ended December 31, 2017	
	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Legacy:							
With no related allowance recorded:							
Real estate loans:							
Residential	$*513,736*	$*371,312*	$ -	$*376,225*	$ *280*	$*387,772*	$ *1,451*
Investor	*127,420*	*121,514*		*122,576*	-	*123,362*	*3,772*
Commercial	*6,487,088*	*4,500,043*	-	*4,689,502*	-	*4,703,598*	*1,077*
Commercial construction	-	-	-	-	-	-	-
Commercial business	*1,303,000*	*905,178*	-	*937,594*	*24,038*	*894,330*	*75,926*
Home equity loans	*48,218*	*21,579*	-	*22,072*	*76*	*23,100*	*316*
Consumer	-	-	-	-	-	-	-
With an allowance recorded:							
Real estate loans:							
Residential	*1,354,169*	*1,326,273*	*272,707*	*1,330,015*	*13,248*	*1,341,584*	*39,333*
Investor	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Total legacy impaired	*9,833,631*	*7,245,899*	*272,707*	*7,477,984*	*37,642*	*7,473,746*	*121,875*
Acquired (1):							
With no related allowance recorded:							
Real estate loans:							
Residential	*1,211,254*	*1,061,049*	-	*1,063,445*	*4,247*	*1,077,738*	*26,087*
Investor	*687,849*	*579,172*	-	*663,538*	*2,893*	*697,174*	*34,582*
Commercial	*249,920*	*199,920*	-	*200,589*	*1,888*	*202,263*	*5,700*
Commercial construction	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity loans	*42,583*	-	-	-	-	-	*600*
Consumer	*99,349*	*56,708*	-	*58,084*	*1,338*	*62,234*	*4,464*
With an allowance recorded:							

Real estate loans:							
Residential	-	-	-	-	-	-	-
Investor	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity loans	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Total acquired impaired	*2,290,955*	*1,896,849*	-	*1,985,656*	*10,366*	*2,039,409*	*71,433*
Total impaired	$*12,124,586*	$*9,142,748*	$*272,707*	$*9,463,640*	$ *48,008*	$*9,513,155*	$ *193,308*

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

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

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

The following table documents changes in the carrying amount of acquired impaired loans (Purchased Credit Impaired or "PCI") for the *nine* months ended *December 31, 2018* and *2017,* along with the outstanding balance at the end of the period:

	December 31, 2018	December 31, 2017
Recorded investment at beginning of period	$*1,021,424*	$*1,341,935*
Accretion	*2,505*	*25,964*
Reductions for payments	*(649,168*)	*(324,806*)
Recorded investment at end of period	$*374,761*	$*1,043,093*
Oustanding principal balance at end of period	$*470,368*	$*1,297,471*

A summary of changes in the accretable yield for PCI loans for the *nine* months ended *December 31, 2018* and *2017* is as follows:

	December 31, 2018	December 31, 2017
Accretable yield, beginning of period	$ *31,895*	$*59,639*
Accretion	*(2,505*)	*(25,964*)
Reclassification from nonaccretable difference	-	-
Accretable yield, end of period	$ *29,390*	$*33,675*

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, 2018* and *March 31, 2018* follows:

December 31, 2018	Number of contracts	Performing	Nonperforming	Total
Real estate loans:				
Residential	***16***	$***1,295,469***	$ ***226,119***	$***1,521,588***
Investor	-	-	-	-
Commercial	***2***	-	***1,195,421***	***1,195,421***
Commercial construction	-	-	-	-
Commercial business	***1***	***600,016***	-	***600,016***
Home equity loans	-	-	-	-
Consumer	-	-	-	-
	19	$***1,895,485***	$ ***1,421,540***	$***3,317,025***

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

The following table presents the number of contracts and the dollar amount of TDRs that were added during the *three* and *nine*-month periods ended *December 31, 2018* and *2017.* There were *no* TDRs added during the *three*-month period ended *December 31, 2018.* The amount shown reflects the outstanding loan balance at the time of the modification. There are *no* commitments to extend credit under existing TDRs as of *December 31, 2018.*

	Loans Modified as a TDR for the Three Months Ended			
	December 31, 2018		December 31, 2017	
Troubled Debt Restructurings	**Number of contracts**	**Outstanding recorded investment**	Number of contracts	Outstanding recorded investment
Real estate loans:				
Residential	**-**	**$ -**	*2*	$ *50,432*

	Loans Modified as a TDR for the nine months ended			
	December 31, 2018		December 31, 2017	
Troubled Debt Restructurings	**Number of contracts**	**Outstanding recorded investment**	Number of contracts	Outstanding recorded investment
Real estate loans:				

One-to four-family	***1***	**$ *20,565***	*3*	$ *52,363*

There were *no* TDRs that defaulted in the *three* or *nine* months ended *December 31, 2018* and *2017.* Payment default under a TDR is defined as any TDR that is *90* days or more past due following the time that the loan was modified or the inability of the TDR to make the required payment subsequent to the modification.

In calculating the allowance for loan losses, individual TDRs are evaluated for impairment. TDRs are evaluated for impairment based upon either the present value of cash flows or, if collateral dependent, the lower of cost or fair value of the underlying collateral. If it is determined that the cash flows or underlying collateral is less than the carrying amount of the loan, the difference in value will be charged-off through earnings, unless the TDR is performing, in which case a specific reserve *may* be set-up for that TDR.

Credit quality indicators

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

Pass

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

Special Mention

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

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

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

Substandard

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

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

Doubtful

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

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

Loss

Loans classified as loss are considered uncollectable and of such little value that their continuance as loans is unjustified. A loss classification does *not* mean a loan has absolutely *no* value; partial recoveries *may* be received in the future. When loans or portions of a loan are considered a loss, it will be the policy of the Bank to write-off the amount designated as a loss. Recoveries will be treated as additions to the allowance for loan losses.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

The following tables present the *December 31, 2018* and *March 31, 2018,* balances of classified loans based on the risk grade. Classified loans include Special Mention, Substandard, Doubtful, and Loss loans. The Bank had *no* loans classified as Doubtful or Loss as of *December 31, 2018* or *March 31, 2018.*

	December 31, 2018			**March 31, 2018**		
	LEGACY	**ACQUIRED**	**TOTAL**	**LEGACY**	**ACQUIRED**	**TOTAL**
Risk Rating:						
Rating - Pass:						
Real estate loans:						
Residential	***$83,743,323***	***$64,856,380***	***$148,599,703***	*$87,863,805*	*$70,901,293*	*$158,765,098*
Investor	***7,305,529***	***15,873,106***	***23,178,635***	*9,214,082*	*16,719,346*	*25,933,428*
Commercial	***101,616,609***	***9,289,784***	***110,906,393***	*92,955,370*	*11,563,547*	*104,518,917*
Commercial construction	***1,543,313***	***1,059,217***	***2,602,530***	*5,763,784*	*1,352,019*	*7,115,803*
Commercial Business	***34,835,870***	***1,706,509***	***36,542,379***	*37,978,293*	*1,841,226*	*39,819,519*
Home Equity	***15,070,123***	***4,805,766***	***19,875,889***	*13,935,732*	*5,928,787*	*19,864,519*
Consumer	***16,227,625***	***669,618***	***16,897,243***	*18,733,489*	*733,669*	*19,467,158*
Total Pass	***260,342,392***	***98,260,380***	***358,602,772***	*266,444,555*	*109,039,887*	*375,484,442*
Rating - Special Mention:						
Real estate loans:						
Residential	***2,327,412***	***958,638***	***3,286,050***	*2,365,652*	*925,521*	*3,291,173*
Investor	***-***	***273,806***	***273,806***	*-*	*297,209*	*297,209*
Commercial	***-***	***-***	***-***	*3,092,135*	*-*	*3,092,135*
Commercial construction	***-***	***-***	***-***	*-*	*-*	*-*
Commercial Business	***297,478***	***-***	***297,478***	*134,524*	*-*	*134,524*
Home Equity	***-***	***135,121***	***135,121***	*-*	*110,675*	*110,675*
Consumer	***9,950***	***-***	***9,950***	*96,474*	*-*	*96,474*
Total Special Mention	***2,634,840***	***1,367,565***	***4,002,405***	*5,688,785*	*1,333,405*	*7,022,190*
Rating - Substandard:						
Real estate loans:						
Residential	***477,349***	***440,242***	***917,591***	*469,554*	*922,252*	*1,391,806*
Investor	***31,752***	***260,354***	***292,106***	*60,949*	*444,254*	*505,203*
Commercial	***4,139,177***	***-***	***4,139,177***	*4,356,264*	*198,938*	*4,555,202*
Commercial construction	***-***	***-***	***-***	*-*	*-*	*-*

Commercial Business	***143,145***	***-***	***143,145***	*189,922*	-	*189,922*
Home Equity	***6,945***	***164***	***7,109***	*20,595*	-	*20,595*
Consumer	***91,662***	***29,753***	***121,415***	*19,485*	*32,394*	*51,879*
Total - Substandard	***4,890,030***	***730,513***	***5,620,543***	*5,116,769*	*1,597,838*	*6,714,607*
Rating - Doubtful	**-**	**-**	**-**	-	-	-
Rating - Loss	**-**	**-**	**-**	-	-	-
TOTAL LOANS	**$*267,867,262***	**$*100,358,458***	**$*368,225,720***	$*277,250,109*	$*111,971,130*	$*389,221,239*

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

The Bank's maximum exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the credit commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. The Bank has established an off-balance sheet reserve for potential losses associated with any outstanding commitment or unused line of credit. The off-balance sheet reserve is a percentage of the outstanding commitment or unused line of credit that is based upon a discounted charge-off history associated with each respective loan segment. The reserve at *December 31, 2018* and *March 31, 2018* totaled *$57,000* and *$50,000,* respectively. At *December 31, 2018,* management is *not* aware of any accounting loss to be incurred by funding these loan commitments at this time.

The Bank had the following outstanding commitments and unused lines of credit as of *December 31, 2018* and *March 31, 2018:*

Outstanding Commitment and Used Lines of Credit	**December 31, 2018**	**March 31, 2018**
Unused commercial lines of credit	**$*13,004,510***	$*9,187,810*
Unused home equity lines of credit	***23,263,860***	*22,560,376*
Unused consumer lines of credit	***26,770***	*29,331*
Residential construction loan commitments	***6,934,369***	*4,234,076*
Commercial construction loan commitments	***2,678,900***	*8,968,416*
Home equity loan commitments	***200,000***	*389,600*
Commercial loan commitments	***3,671,000***	*5,125,000*
Standby letter of credit	***766,783***	*250,224*

Note *6:* Goodwill and Other Intangible Asset

The Company's intangible assets (goodwill and core deposit intangible) at *December 31, 2018* consisted of assets recorded in *December 2009* associated with the acquisition of a branch office in Pasadena, Maryland and the acquisitions of Fairmount and Fraternity in *September 2015* and *May 2016,* respectively. Only the goodwill related to the branch office acquisition in the amount of *$2.7* million is deductible for tax purposes. We conducted our annual impairment test of goodwill in the *fourth* quarter of fiscal *2018* utilizing Company information as of *December 31, 2017.* Subsequently, due to the significant increase in tax expense resulting from the recording of a valuation allowance on our net deferred tax assets at the end of the *fourth* quarter of fiscal *2018,* we concluded that a triggering event had occurred. Therefore, we performed an additional goodwill impairment analysis utilizing Company information as of *March 31, 2018.* Based upon the impairment tests performed, the fair values as determined exceeded the carrying values of our only reporting unit. As a result, *no* impairment to goodwill was recorded for the *2018* fiscal year. The core deposit intangible assets are being amortized straight-line over a life of *eight* years.

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Notes to Consolidated Financial Statements (Continued)

The following table presents the changes in the net book value of intangible assets for the *nine* months ended *December 31, 2018* and *2017:*

	Goodwill	Core deposit intangible
Balance April 1, 2017	$*8,563,530*	$*739,298*
Amortization	-	*(94,548*)
Balance December 31, 2017	***8,563,530***	***644,750***

	Goodwill	Core deposit intangible
Balance April 1, 2018	$*8,563,530*	$*613,234*
Amortization	-	*(94,549*)
Balance December 31, 2018	**$*8,563,530***	**$*518,685***

At *December 31, 2018,* future expected annual amortization associated with the core deposit intangible is as follows:

Year ending March 31,	Amount
2019	***31,519***
2020	***123,737***
2021	***98,070***
2022	***98,070***
2023	***98,070***
2024	***64,177***
2025	***5,042***
	$*518,685*

Note *7:* Derivative – Interest Rate Swap Agreement

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does *not* represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. The Company posted *$762,000* and *$751,000* under collateral arrangements as of *December 31, 2018* and *March 31, 2018,* respectively, to satisfy collateral requirements associated with the risk exposure associated with all interest rate swap agreements.

Interest Rate SWAPS Designated as Cash Flow Hedges

During fiscal *2017,* the Company entered into several interest rate swaps that were designated as cash flow hedges. The interest rate swaps have notional amounts totaling *$11.6* million as of *December 31, 2018* and were designated as cash flow hedges of certain Federal Home Loan Bank advances. The purpose of the cash flow hedges is to match-fund longer-term assets with longer-term borrowings to reduce potential interest rate risk and cost by swapping a variable rate borrowing for a fixed rate borrowing. The aggregate fair value of the swaps is recorded in other assets (liabilities) with changes in fair value associated with the effective portion recorded in other comprehensive income (loss) and the ineffective portion recorded in other non-interest income (expense). The cash flow hedges were determined to be ineffective beginning with the quarter ended *September 30, 2017.* As such, a loss of *$1,996* and *$1,075* of ineffectiveness has been reported in noninterest revenue for the *three* and *nine*-month periods ended *December 31, 2018,* respectively, compared to a loss of *$5,445* and *$9,124* reported as an offset to noninterest revenue for the *three* and *nine*-month period ended *December 31, 2017.*

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Summary information about the interest rate swaps designated as cash flow hedges is as follows:

Interest Rate Swap	Notional Amount	Effective Start Date	Maturity Date	Pay Fixed Rate	Receive Floating Rate
FHLB Advance Swap 1	$*1,850,000*	March 9, 2017	March 9, 2022	*2.24* %	3-Month LIBOR
FHLB Advance Swap 2	*1,850,000*	March 9, 2017	March 9, 2024	*2.41* %	3-Month LIBOR
FHLB Advance Swap 3	*1,850,000*	March 9, 2017	March 9, 2027	*2.57* %	3-Month LIBOR
FHLB Advance Swap 4	*2,000,000*	March 29, 2017	March 29, 2022	*2.08* %	3-Month LIBOR
FHLB Advance Swap 5	*2,000,000*	March 29, 2017	March 29, 2024	*2.24* %	3-Month LIBOR
FHLB Advance Swap 6	*2,000,000*	March 29, 2017	March 29, 2027	*2.40* %	3-Month LIBOR
Total Notional Amount	$*11,550,000*				

Interest revenue/(expense) recorded on the swap transactions totaled $(*60*) and (*$1,892*) for the *three* and *nine* months ended *December 31, 2018* and is reported as a component of interest expense on FHLB Advances.

The following table reflects cash flow hedges included in the Consolidated Statements of Financial Condition as of *December 31, 2018* and *March 31, 2018:*

	December 31, 2018		March 31, 2018	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Included in assets:				
Interest rate swaps related to FHLB Advances	**$*11,550,000***	**$*123,118***	$*11,550,000*	$*217,464*

The following tables present the net gain (loss) recorded in accumulated other comprehensive income (loss) and the Consolidated Statements of Operations relating to the cash flow derivative instruments for the *three* and *nine*-month periods ended *December 31, 2018* and *2017:*

	Three Month and Period Ended December 31, 2018			Three Month and Period Ended December 31, 2017		
	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	**Amount of Gain (Loss) Reclassified from OCI to Interest Income**	**Amount of Gain (Loss) Recognized in Other Noninterest Revenue (Ineffective Portion)**	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI to Interest Income	Amount of Gain (Loss) Recognized in Other Noninterest Revenue (Ineffective Portion)
Interest Rate Contract	$*(287,116)*	$ -	$ *(1,996*)	$*122,388*	$ -	$ *(5,445*)

	Nine Month and Period Ended December 31, 2018			Nine Month and Period Ended December 31, 2017		
	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	**Amount of Gain (Loss) Reclassified from OCI to Interest Income**	**Amount of Gain (Loss) Recognized in Other Noninterest Revenue (Ineffective Portion)**	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI to Interest Income	Amount of Gain (Loss) Recognized in Other Noninterest Revenue (Ineffective Portion)
Interest Rate Contract	**$*(93,271)***	**$ -**	**$ *(1,075*)**	$*22,784*	$ -	$ *(9,124*)

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Interest Rate SWAPS Designated as Fair Value Hedges

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

During the *second* quarter of fiscal *2016,* the Company entered into the interest rate swap agreement with a *$3.3* million notional amount to convert a fixed rate commercial real estate loan at *3.99%* into a variable rate for a term of approximately *10* years. The notional amount of the interest rate swap and the offsetting commercial real estate loan were *$3.0* million at *December 31, 2018.* The derivative is designated as a fair value hedge.

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

The fair value hedge is summarized below:

	December 31, 2018			March 31, 2018		
	Notional Amount	**Principal Amount**	**Fair Value**	Notional Amount	Principal Amount	Fair Value
Included in Loans and Leases:						
Commercial real estate loan	**$-**	***$ 3,027,702***	***$2,984,595***	$-	$ *3,091,892*	$*3,022,744*

Included in Other Assets:						
Interest Rate Swap	***$3,027,702***	**$ -**	***$43,107***	*$3,091,892*	-	*$69,148*

No gain or loss was recognized in earnings with respect to the interest rate swap for the *three* or *nine* months ended *December 31, 2018* and *2017* due to the fact the gain or increase in the fair value of the commercial real estate loan was offset by the loss or decrease in the fair value of the interest rate swap.

Note *8:* Deposits

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

	December 31, 2018		March 31, 2018	
	Amount	% of Total	Amount	% of Total
Savings	***$41,548,268***	***10.8 %***	*$42,499,381*	*10.6 %*
Noninterest-bearing checking	***27,365,942***	***7.1 %***	*29,557,943*	*7.3 %*
Interest-bearing checking	***28,478,231***	***7.4 %***	*27,219,286*	*6.7 %*
Money market accounts	***48,128,831***	***12.5 %***	*58,466,228*	*14.4 %*
Time deposits	***238,448,636***	***62.1 %***	*246,988,613*	*61.0 %*
	$383,969,908	***100.0 %***	*$404,731,451*	*100.0%*
Premium on deposits asssumed	***201,034***		*411,524*	
Total deposits	***$384,170,942***		*$405,142,975*	

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

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

Borrowings consist of advances from the Federal Home Loan Bank (FHLB). The Bank *may* borrow up to *25* percent of its assets under a line of credit agreement with the FHLB. Advances under the line of credit are secured by certain loans owned by the Bank. As of *December 31, 2018,* and *March 31, 2018,* the Bank had *$73.6* million and *$68.3* million, respectively, of available credit from the FHLB. Advances are limited by the balance of loans available for pledge. The amount of loans that were deemed eligible to pledge as collateral totaled *$114.8* million at *December 31, 2018* and *$127.1* million at *March 31, 2018.* As a condition of obtaining the line of credit from the FHLB, the FHLB also requires the Bank purchase shares of capital stock in the FHLB. Information relating to borrowings at *December 31, 2018* and *March 31, 2018* is presented below.

	December 31, 2018			March 31, 2018		
	Amount	**Rate**	**Maturity Date**	Amount	Rate	Maturity Date
FHLB advance (1)	***$5,550,000***	***2.57%***	**3/11/2019**	$*5,550,000*	*1.84%*	6/11/2018
FHLB advance (2)	***6,000,000***	***2.58%***	**3/29/2019**	*6,000,000*	*1.90%*	6/29/2018
FHLB advance	***3,000,000***	***2.71%***	**8/26/2019**	*1,000,000*	*2.60%*	7/2/2018
FHLB advance	***3,000,000***	***1.59%***	**8/26/2019**	*1,000,000*	*3.05%*	7/3/2018
FHLB advance	***1,500,000***	***1.95%***	**11/25/2019**	*5,000,000*	*3.94%*	7/23/2018
FHLB advance	***3,000,000***	***2.31%***	**2/3/2020**	*1,000,000*	*1.74%*	7/31/2018
FHLB advance	***1,000,000***	***2.86%***	**8/4/2020**	*1,000,000*	*1.40%*	8/21/2018
FHLB advance	***2,000,000***	***2.56%***	**8/27/2020**	*4,000,000*	*1.94%*	8/27/2018
FHLB advance	***1,000,000***	***2.15%***	**11/30/2020**	*3,000,000*	*1.41%*	8/27/2018
FHLB advance	***2,000,000***	***2.28%***	**12/28/2020**	*5,000,000*	*3.38%*	9/19/2018
FHLB advance	***2,000,000***	***2.49%***	**2/1/2021**	*1,000,000*	*2.60%*	10/2/2018
FHLB advance	***3,000,000***	***2.93%***	**7/26/2021**	*1,000,000*	*1.95%*	12/31/2018
FHLB advance	***2,000,000***	***3.01%***	**8/4/2021**	*3,000,000*	*1.38%*	7/31/2019
FHLB advance	***1,000,000***	***2.88%***	**8/23/2021**	*3,000,000*	*1.96%*	8/26/2019

FHLB advance	***3,000,000***	***1.48%***	**8/25/2021**	*3,000,000*	*1.59%*	8/26/2019
FHLB advance	***2,000,000***	***2.68%***	**8/27/2021**	*3,000,000*	*1.42%*	8/26/2019
FHLB advance	***3,000,000***	***2.79%***	**8/29/2022**	*1,500,000*	*1.95%*	11/25/2019
FHLB advance	***2,000,000***	***3.14%***	**9/19/2022**	*1,500,000*	*1.78%*	11/27/2019
FHLB advance	***3,000,000***	***2.70%***	**8/28/2023**	*3,000,000*	*2.31%*	2/3/2020
FHLB advance	***2,000,000***	***3.20%***	**9/19/2023**	*1,000,000*	*2.15%*	11/30/2020
FHLB advance	-	-	-	*2,000,000*	*2.28%*	12/28/2020
FHLB advance	-	-	-	*2,000,000*	*2.49%*	2/1/2021
FHLB advance	-	-	-	*3,000,000*	*1.48%*	8/25/2021
	51,050,000			*60,550,000*		
Premium on FHLB advances assumed	***-***			*122,140*		
Total borrowings	**$*51,050,000***			$*60,672,140*		

(1) - FHLB Advance is tied to *three* derivative cash flow hedges in increments of *$1.85* million each. The *three* individual cash flow hedges are for a term of five, *seven* and *ten* years, respectively and are tied to the *3*-month LIBOR rate. In order for the cash flow hedges to remain effective, the corresponding FHLB Advance will have to be renewed every *three* months until the respective cash flow hedge matures. The maturity date for the *three* cash flow hedges are *March 9, 2022, 2024,* and *2027.*

(2) - FHLB Advance is tied to *three* derivative cash flow hedges in increments of *$2.0* million each. The *three* individual cash flow hedges are for a term of five, *seven* and *ten* years, respectively and are tied to the *3*-month LIBOR rate. In order for the cash flow hedges to remain effective, the corresponding FHLB Advance will have to be renewed every *three* months until the respective cash flow hedge matures. The maturity for the *three* cash flow hedges are *March 29, 2022, 2024,* and *2027.*

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Note *10:* Regulatory Capital Ratios

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

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

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

Under the revised prompt corrective action requirements, as of *January 1, 2015,* insured depository institutions are required to meet the following in order to qualify as "well capitalized:" (*1*) a common equity Tier *1* risk-based capital ratio of *6.5%;* (*2*) a Tier *1* risk-based capital ratio of *8%;* (*3*) a total risk-based capital ratio of *10%* and (*4*) a Tier *1* leverage ratio of *5%.* As of *December 31, 2018,* the Bank met all capital adequacy requirements under the Basel III Capital Rules to be considered "well capitalized" under prompt corrective action rules.

The implementation of the capital conservation buffer began on *January 1, 2016* at the *0.625%* level and was phased in over a *four*-year period until it reached *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.

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

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

The following table presents actual and required capital ratios as of *December 31, 2018* and *March 31, 2018* for Hamilton Bank and the Company under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of *January 1, 2015* based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of *January 1, 2019* when the Basel III Capital Rules became 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.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

	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)							
December 31, 2018								
Common equity tier 1 capital (to risk-weighted assets)								
Hamilton Bank	***$43,688***	***12.55%***	***$22,186***	***6.375%***	***$24,361***	***7.00 %***	***$22,621***	***6.50 %***
Hamilton Bancorp	***49,329***	***14.12%***	***22,277***	***6.375%***	***24,461***	***7.00 %***	***22,714***	***6.50 %***
Total risk-based capital (to risk-weighted assets)								
Hamilton Bank	***46,776***	***13.44%***	***34,366***	***9.875%***	***36,541***	***10.50%***	***34,801***	***10.00%***
Hamilton Bancorp	***52,417***	***15.00%***	***34,508***	***9.875%***	***36,692***	***10.50%***	***34,945***	***10.00%***
Tier 1 capital (to risk-weighted assets)								
Hamilton Bank	***43,688***	***12.55%***	***27,406***	***7.875%***	***29,581***	***8.50 %***	***27,841***	***8.00 %***
Hamilton Bancorp	***49,329***	***14.12%***	***27,519***	***7.875%***	***27,703***	***8.50 %***	***27,956***	***8.00 %***
Tier 1 capital (to adjusted total assets)								
Hamilton Bank	***43,688***	***8.91 %***	***19,619***	***4.000%***	***19,619***	***4.00 %***	***24,523***	***5.00 %***
Hamilton Bancorp	***49,329***	***10.00%***	***19,732***	***4.000%***	***19,732***	***4.00 %***	***24,665***	***5.00 %***
March 31, 2018								
Common equity tier 1 capital (to risk-weighted assets)								
Hamilton Bank	*$39,126*	*10.61%*	*$23,498*	*6.375%*	*$25,802*	*7.00 %*	*$23,959*	*6.50 %*
Hamilton Bancorp	*47,308*	*12.79%*	*23,582*	*6.375%*	*25,894*	*7.00 %*	*24,044*	*6.50 %*
Total risk-based capital (to risk-weighted assets)								
Hamilton Bank	*41,998*	*11.39%*	*36,399*	*9.875%*	*38,703*	*10.50%*	*36,860*	*10.00%*
Hamilton Bancorp	*50,180*	*13.57%*	*36,529*	*9.875%*	*38,841*	*10.50%*	*36,992*	*10.00%*
Tier 1 capital (to risk-weighted assets)								
Hamilton Bank	*39,126*	*10.61%*	*29,027*	*7.875%*	*31,331*	*8.50 %*	*29,488*	*8.00 %*
Hamilton Bancorp	*47,308*	*12.79%*	*29,131*	*7.875%*	*31,443*	*8.50 %*	*29,593*	*8.00 %*

Tier 1 capital (to adjusted total assets)								
Hamilton Bank	*39,126*	*7.64 %*	*20,497*	*4.000%*	*20,497*	*4.00 %*	*25,621*	*5.00 %*
Hamilton Bancorp	*47,308*	*9.15 %*	*20,674*	*4.000%*	*20,674*	*4.00 %*	*25,843*	*5.00 %*

(1) - Under prompt corrective action

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

In its regulatory report filed as of *December 31, 2018,* the Bank exceeded all regulatory capital requirements and was considered "well capitalized" under regulatory guidelines. Management is *not* aware of any events that would have caused this classification to change. Failure to meet the capital requirements could affect, among other things, the Bank's ability to accept brokered deposits and *may* significantly affect the operations of the Bank. Management has *no* plans that should change the classification of the capital adequacy.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Note *11:* Stock Based Compensation

In *November 2013,* the Company's shareholders approved a new Equity Incentive Plan (the *"2013* Equity Incentive Plan''). The *2013* Equity Incentive Plan allows for up to *148,120* shares to be issued to employees, executive officers or Directors in the form of restricted stock, and up to *370,300* shares to be issued to employees, executive officers or Directors in the form of stock options. At *December 31, 2018,* there were *92,701* restricted stock awards issued and outstanding and *268,204* stock option awards granted under the *2013* Equity Incentive Plan.

Stock Options:

Under the above plan, the exercise price for stock options is the market price at date of grant. The maximum option term is *ten* years and the options granted shall vest in *five* equal annual installments of *20%* with the *first* installment becoming exercisable on the *first* anniversary of the date of grant and succeeding installments on each anniversary thereafter. The Company plans to issue new shares to satisfy share option exercises. The total cost that has been incurred for the stock option plan was *$61,514* and *$184,542* for the *three* and *nine* months ended *December 31, 2018* and *$57,392* and *$172,177* for the *three* and *nine* months ended *December 31, 2017,* respectively.

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

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

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

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

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

December 31, 2018:	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at April 1, 2018	***242,350***	**$ *13.84***	*6.1*
Granted	***20,354***	***14.25***	*9.3*
Exercised	***-***	***-***	-
Forfeited, exchanged or expired	***-***	***-***	-
Outstanding at December 31, 2018	***262,704***	**$ *13.87***	*5.6*
Vested at December 31, 2018	***184,060***	**$ *13.84***	*5.2*

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

As of *December 31, 2018,* there was *$146,164* 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 *1.7* 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 *$13.90* at *December 31, 2018,* the options outstanding had an intrinsic value of *$18,583.*

Restricted Stock:

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

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

December 31, 2018:	Shares	Weighted-Average Fair Value
Nonvested shares at April 1, 2018	***19,440***	**$** ***13.74***
Granted	***8,801***	***14.25***
Vested	***(380***)	***13.61***
Forfeited	***-***	***-***
Nonvested shares at December 31, 2018	***27,861***	**$** ***13.90***

Fair Value of shares vested at December 31, 2018 **$*901,276***

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

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

The Company recorded restricted stock awards expense of *$64,089* and *$192,268* during the *three* and *nine* months ended *December 31, 2018* and *$57,819* and *$173,457* during the *three* and *nine* months ended *December 31, 2017,* respectively. As of *December 31, 2018,* there was *$158,591* of total unrecognized compensation cost related to nonvested shares granted under the *2013* stock incentive plan. The cost is expected to be recognized over a weighted-average period of *1.6* years.

HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Note *12:* Fair Value Measurements

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

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

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

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

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

Fair value measurements on a recurring basis

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

follows:

December 31, 2018	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
U.S. government agencies	**$ -**	**$*727,336***	**$-**	**$*727,336***
Municipal bonds	**-**	***11,641,229***	**-**	***11,641,229***
Corporate bonds		**-**	***1,900,504***	***1,900,504***
Mortgage-backed securities	**-**	***51,308,786***	**-**	***51,308,786***
Total investment securities available for sale	**$ -**	**$*63,677,351***	**$*1,900,504***	**$*65,577,855***

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

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Notes to Consolidated Financial Statements (Continued)

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

December 31, 2018	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Loans - Commercial real estate loan	**$ -**	**$*2,984,595***	**$ -**	**$*2,984,595***
Derivative - Interest rate swap designated as fair value hedge	**-**	***43,107***	**-**	***43,107***
Derivatives - Interest rate swaps designated as cash flow hedge	**-**	***123,118***	**-**	***123,118***

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

The following table presents the valuation and unobservable inputs for Level *3* assets measured at fair value on a recurring basis at *December 31, 2018:*

Description	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
Investment securities	$*1,900,504*	3rd party valuation	Discount to reflect current market conditions	*0.00%-10.00%*

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

	Nine Months Ended December 31, 2018	Fiscal Year Ended March 31, 2018
Balance, beginning of year	**$*1,954,092***	$*1,930,786*
Transfers in:		
Corporate bonds	**-**	*1,954,076*
Mortgage-backed securities	**-**	*16*
Municipal bonds	**-**	-
Transfers out:		
Corporate bonds	**-**	-
Mortgage-backed securities	***16***	*2,473*
Municipal bonds	**-**	*1,928,313*
Change in valuation	***(53,572***)	-
Balance, end of year	**$*1,900,504***	$*1,954,092*

Fair value measurements on a nonrecurring basis

Impaired Loans - The Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level *3* fair values. As of *December 31, 2018,* and *March 31, 2018,* the fair values consist of loan balances of *$7,543,269* and *$8,720,339* that have been written down by *$255,863* and *$266,256,* respectively, as a result of specific loan loss allowances.

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Foreclosed real estate – The Bank's foreclosed real estate is measured at the lower of carrying value or fair value less estimated cost to sell. At *December 31, 2018* and *March 31, 2018,* the fair value of foreclosed real estate was estimated to be *$457,778* for both periods. 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.*

December 31, 2018	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Impaired loans	**$ -**	**$ -**	**$*7,289,458***	**$*7,289,458***
Foreclosed real estate	**-**	**-**	***457,778***	***457,778***

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

The following table presents the valuation and unobservable inputs for Level *3* assets measured at fair value on a nonrecurring basis at *December 31, 2018:*

Description	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
Impaired loans, net of allowance	$*7,289,458*	Appraised value	Discount to reflect current market conditions	*0.00%-25.00%*
		Discounted cash flows	Discount rates	*2.63%-7.25%*
Foreclosed real estate	$*457,778*	Appraised value	Discount to reflect current market conditions	*0.00%-25.00%*

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

	Nine Months Ended December 31, 2018	Fiscal Year Ended March 31, 2018
Balance at beginning of period	**$*457,778***	$*503,094*
Transfer to foreclosed real estate	***150,052***	*23,834*
Write-down of foreclosed real estate	**-**	*(31,955*)
Proceeds from sale of foreclosed real estate	***(145,820*** **)**	*(35,896*)
Loss on sale of foreclosed real estate	***(4,232*** **)**	*(1,299*)
Balance at end of period	**$*457,778***	$*457,778*

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

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HAMILTON BANCORP, INC., AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

	December 31, 2018		March 31, 2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Level 1 inputs				
Cash and cash equivalents	**$*26,547,840***	**$*26,547,840***	$*23,368,415*	$*23,368,415*
Level 2 inputs				
Federal Home Loan Bank stock	***2,676,200***	***2,676,200***	*3,122,400*	*3,122,400*
Bank-owned life insurance	***17,799,920***	***17,799,920***	*17,455,850*	*17,455,850*
Level 3 inputs				
Certificates of deposit held as investment	***499,121***	***485,928***	*499,189*	*492,751*
Loans receivable, net of unearned income	***366,428,914***	***352,433,858***	*387,328,993*	*385,818,260*
Financial liabilities				
Level 2 inputs				
Deposits	***384,170,942***	***385,031,487***	*405,142,975*	*405,026,957*
Advance payments by borrowers for taxes and insurance	***1,059,677***	***1,059,677***	*1,962,665*	*1,962,665*
Borrowings	***51,050,000***	***50,394,636***	*60,672,140*	*60,494,922*

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

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

Beginning in the *first* quarter *2018,* the fair value of loans is determined using an exit price methodology as prescribed by ASU *2016-01,* which became effective for the Company during in the *first* quarter ended *June 30, 2018.* The exit price estimation of fair value is based on the present value of the expected cash flows. The projected cash flows are based on the contractual terms of the loans, adjusted for prepayments and use of a discount rate based on the relative risk of the cash flows, taking into account the loan type, maturity of the loan, liquidity risk, servicing costs, and a required return on debt and capital (Level *3*). In addition, an incremental liquidity discount is applied to certain loans, using historical sales of loans during periods of similar economic conditions as a benchmark. In comparison, loan fair values as of *March 31, 2018* were estimated based on an entrance price methodology. As a result, the fair value adjustments as of *December 31, 2018* and *March 31, 2018* are *not* comparable.

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

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

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

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

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

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

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

Safe Harbor Statement for Forward-Looking Statements

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

Forward-looking statements are not guarantees of future performance. Numerous risks and uncertainties could cause or contribute to the Company's actual results, performance, and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government, legislative and regulatory changes, the quality and composition of the loan and investment securities portfolio, loan demand, deposit flows, competition, changes in accounting principles and guidelines, and change or other circumstances related to the Company's recently announced merger with Orrstown Financial Services, Inc. ("Orrstown") that negatively affects the Company's financial condition or results of operations, including delays in closing the merger, the diversion of management's time from existing business operations due to time spent related to the merger or integration efforts, potential litigation in connection with the merger, higher than expected transaction or other costs and expenses, or higher than expected attrition of the customers or key employees of the Company. Additional factors that may affect our results are discussed in Part II,

Item 1A of this form 10-Q and Item 1A of Hamilton Bancorp, Inc.'s Annual Report on Form 10-K filed June 29, 2018 with the Securities and Exchange Commission under the sections titled *"Risk Factors"*. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

General

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

Founded in 1915 and celebrating over 103 years of service, the Bank is a community-oriented financial institution, dedicated to serving the financial service needs of consumers and businesses within its market area, which is considered greater Maryland, southern Pennsylvania, Washington D.C., and northern Virginia. We offer a variety of deposit products and provide loans secured by real estate located in our market area. Our real estate loans consist primarily of one-to four-family mortgage loans, as well as commercial real estate loans, and home equity loans and lines of credit. We also offer commercial term and line of credit loans and, to a limited extent, consumer loans. We currently operate out of our corporate headquarters in Towson, Maryland and our seven full-service branch offices located in Baltimore City, Cockeysville, Towson, Rosedale, Ellicott City and Pasadena, Maryland. The Company does not own or lease any property but instead uses the premises, equipment and other property of the Bank.

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

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

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

Summary of Recent Performance and Other Activities

The Company and its wholly owned subsidiary, Hamilton Bank, continued to show improvement in overall earnings, as well as revenue and lower loan loss provisions during the three months ended December 31, 2018 compared to the same period a year ago. Earnings improved from a net loss of $1.9 million to a net loss of $125,000 for the comparable periods, an improvement of $1.8 million. The net loss for the current quarter resulted from $503,000 in merger related expenses pertaining to the pending merger with Orrstown, while the net loss in the prior year quarter was impacted by the recording of a one-time adjustment equal to $2.2 million to our deferred tax asset through tax expense. The adjustment was due to the reduction in the corporate income tax rate that was enacted through the passage of the *Tax Cuts and Jobs Act* (the “Jobs Act”). Over these same comparable periods, interest revenue grew from $4.6 million to $4.8 million, an increase of $196,000. This increase is reflective of the overall growth of the loan

portfolio during the prior year due to both organic and purchased loans. The increase in interest revenue is offset by a $425,000 increase in interest expense over this same period resulting from the rise in interest rates on deposits and borrowings.

Non-interest revenue of $281,000 for the three months ended December 31, 2018 represented a $182,000 decrease compared to $463,000 for the three months ended December 31, 2017. Noninterest revenue is lower compared to a year ago due to $213,000 in revenue generated during the prior year period relating to the sale and re-location of our Pigtown branch within the same community of Baltimore City. We went from owning our old location to leasing our new smaller, space. Excluding the prior year period gain on sale of the branch, noninterest revenue increased $31,000 quarter-over-quarter. On a comparative basis, there were increases relating to gain on sale of loans, service charges, and other noninterest revenue, partially offset by a reduction in earnings on bank-owned life insurance (BOLI). In the prior fiscal year, the Company made a decision to hold in portfolio the majority of our residential loan originations versus selling them in the secondary market to partially offset the increased run-off associated with this loan type. Beginning in fiscal 2019, however, we again started to sell qualified residential loan originations into the secondary market as a means to generate noninterest revenue and diversify our income stream. For the three and nine months ended December 31, 2018 we recorded gains of $9,000 and $34,000 on the sale of these loans, respectively.

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Non-interest expense for the quarter ended December 31, 2018 increased $434,000 to $3.8 million compared to the quarter ended December 31, 2017. The increase is attributable to $503,000 in merger related expenses that have been incurred relating to the pending merger with Orrstown. Excluding the merger expenses, our non-interest expenses have actually decreased compared to the prior year period, indicating we have been able to manage a larger loan portfolio from an operational cost basis and increase our interest revenue as noted earlier. However, the recent rise in interest rates and the impact to our cost of funds has resulted in a higher efficiency ratio of 87.7%, excluding merger expenses, for the three months ended December 31, 2018 compared to 81.2% for the three months ended December 31, 2017. We have experienced significant declines in both legal and other professional services expense quarter-over-quarter related to costs incurred in the prior year, including costs associated with our charter conversion and payments under non-compete agreements that were a part of the Fraternity Community Bancorp, Inc. acquisition. Both these declines were more than offset by increases in salaries and data processing expense. Salaries increased due to respective annual salary increases, along with bonus accruals that were not present in the prior year period due to our net loss position, while data processing increased because of new technology we incorporated to create a better banking experience for our customers. Management remains committed to managing our operational expenses.

For the three and nine months ended December 31, 2018, the Company did not report any income tax expense due to the release of a portion of the valuation allowance on our net deferred tax assets established in the prior fiscal year. Management concluded, based upon analysis and substantive evidence, particularly negative evidence associated with being in a three-year cumulative loss position, that it is more likely than not that the Company will be unable to generate sufficient taxable income in the foreseeable future to fully utilize the net deferred tax assets. If, in the future, the Company generates taxable income on a sustained basis sufficient to support the deferred tax assets, the need for a deferred tax valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation at that time. The establishment of a valuation allowance on our net deferred tax assets for financial reporting purposes does not affect how the net operating loss carryforwards may be utilized on our subsequent income tax returns. Income tax expense for the periods reported is based upon year-to-date results and may not be reflective of annual earnings.

The following highlights contain additional financial data and events relating to the three and nine months ended December 31, 2018 compared to the same periods ended December 31, 2017:

The Company reported a net loss of $125,000, or $0.04 per common share, and net income of $1.9 million, or $0.60 per common share for the three and nine months ended December 31, 2018, respectively, compared to a net loss of $1.9 million, or $0.60 per common share, and a net loss of $1.1 million, or $0.35 per common share for the comparable periods ended December 31, 2017. This represents an increase of $3.0 million in earnings for the nine-month comparable periods.

Net interest income for the three months ended December 31, 2018 was $3.4 million, or $199,000 lower than the same period a year ago. For the nine months ended December 31, 2018, net interest income increased $153,000, or 1.4%, to $11.0 million compared to $10.8 million for the same nine-month period a year ago.

The net interest margin decreased 13 basis points from 3.07% to 2.94% for the three months ended December 31, 2017 and 2018, respectively, due to the decrease in net interest income. The net interest margin for the nine months ended December 31, 2018 declined slightly from 3.07% to 3.06% due to an increase in average interest-earning assets.

Return on average assets and equity for the first nine months of fiscal 2019 improved to 0.37% and 3.41%, compared to negative return of 0.29% and 2.45% for the first nine months of fiscal 2018.

Efficiency ratio was higher for the nine months ended December 31, 2018 at 84.8% compared to 81.8% for the nine months ended December 31, 2017 primarily as a result of the merger costs related to Orrstown. Excluding the merger costs, the efficiency ratio improved to 80.1% for the comparable periods from 81.8%, respectively; an improvement of 2.1%. The improvement is attributable to increased interest revenue and the reduction of non-interest expenses (exclusive of merger expenses), including legal and other professional services.

Total assets declined $29.3 million from $525.5 million at March 31, 2018 to $496.3 million at December 31, 2018. The decline in overall assets is attributable to declines in investments and gross loans.

Cash and cash equivalents increased $3.2 million, or 13.6%, to $26.5 million at December 31, 2018, compared to $23.4 million at March 31, 2018, while investments declined $9.8 million from $75.4 million to $65.6 million over the same period. The decline in the investment portfolio is related to normal principal paydowns on mortgage-backed securities.

Gross loans decreased $21.0 million, or 5.4%, from $389.2 million at March 31, 2018 to $368.2 million at December 31, 2018. The decrease is due to principal paydowns and pay-offs within the loan portfolio, including $9.6 million in pay-offs composed of one commercial relationship that totaled $6.3 million and a $3.3 million commercial real estate loan that was on nonaccrual.

The allowance for loan losses to nonperforming loans improved to 54.8% at December 31, 2018 from 39.4% at March 31, 2018. This improvement resulted from the pay-off on a $3.3 million nonaccrual loan during the second quarter and a $209,000 increase in the allowance for loan losses over that period.

Annualized net charge-offs to average loans improved to 0.06% for the nine-month period ended December 31, 2018 compared to 0.26% for the fiscal year ended March 31, 2018, while the allowance for loan losses as a percentage of gross loans increased from 0.73% to 0.82% over this same period.

Total deposits decreased $21.0 million to $384.2 million at December 31, 2018, while borrowings decreased $9.6 million to $51.1 million. The decline in deposits was related to higher costing time deposits which declined by $8.5 million; while lower costing core deposits declined by $12.2 million. Core deposits at December 31, 2018 made up 37.9% of total deposits compared to 38.9% and 37.5% at March 31, 2018 and December 31, 2017, respectively.

At December 31, 2018 the Company had a book value of $16.53 per common share and a tangible book value of $13.88 per common share compared to $15.87 and $13.18, respectively, at March 31, 2018. Book value and tangible book value increased as a result of the net income reported for the fiscal year. Tangible book value, a non-GAAP measure, was determined as follows:

	December 31, 2018	March 31, 2018
Tangible book value per common share:		
Total shareholders' equity	**$56,489,940**	$54,076,132
Less: Goodwill and other intangible assets	**(9,082,215)**	(9,176,764)
Tangible common equity (Non-GAAP)	**$47,407,725**	$44,899,368
Outstanding common shares	**3,416,414**	3,407,613

Book value per common share (GAAP)	**$16.53**	$15.87
Tangible book value per common share (Non-GAAP)	**$13.88**	$13.18

The Company maintained strong liquidity based upon cash equivalents held and the amount and make-up of its investment portfolio. At December 31, 2018 the Bank was deemed “well capitalized” under federal regulations.

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Strategic Plan

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

We identified several strategic priorities in our three-year Strategic Plan that focused on the following core areas:

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

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

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

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

Critical Accounting Policies

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

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

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

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

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

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

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

If the estimated value of investments is less than the cost or amortized cost, we evaluate whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of the investment. If such an event or change has occurred and we determine that the impairment is other-than-temporary, we record the impairment of the investment in the period in which the event or change occurred. We also consider how long a security has been in a loss position in determining if it is other than temporarily impaired. Management also assesses the nature of the unrealized losses taking into consideration factors such as changes in risk-free interest rates, general credit spread widening, market supply and demand, creditworthiness of the issuer, and quality of the underlying collateral. At December 31, 2018, all of our securities were either issued by U.S. government agencies, U.S. government-sponsored enterprises, municipalities, or corporations.

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

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Based on our annual analysis of impairment testing performed in the fourth quarter of fiscal 2018, there was no evidence of impairment with respect to the Company’s goodwill or intangible assets. Subsequent to this testing, there was a triggering event at March 31, 2018 associated with the establishment of a valuation allowance on our deferred tax asset. Due to this event, we re-evaluated the impairment testing on our goodwill and intangible assets and concluded that there was still no impairment.

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

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

Analysis of Financial Condition at December 31, 2018 and March 31, 2018

Assets. Total assets decreased $29.3 million to $496.3 million at December 31, 2018 from $525.5 million at March 31, 2018. The decrease is primarily attributable to a $21.0 million reduction in gross loans and a $9.8 million decrease in the investment portfolio, partially offset by a $3.2 million increase in cash and cash equivalents.

Cash and Cash Equivalents. Cash and cash equivalents at December 31, 2018 totaled $26.5 million compared to $22.0 million and $23.4 million at September 30, 2018 and March 31, 2018, respectively. The 20.5% increase since September 30, 2018 was due to principal paydowns and/or pay-offs within the loan portfolio and a declining investment portfolio from normal principal payments associated with the mortgage-backed security portfolio. Excluding funds needed for liquidity and operational needs, management intends to utilize any excess cash for future loan growth and/or purchase of investment securities.

Investment Securities. Our investment portfolio consists primarily of investment grade securities including U.S. government agency and government-sponsored entity (“GSEs”) securities, securities issued by states, counties and municipalities, corporate bonds, and mortgage-backed securities. At December 31, 2018, all securities are classified as available for sale. While we usually intend to hold investment securities until maturity, this classification provides us the opportunity to divest of securities that may no longer meet our liquidity objectives. During the nine months ended December 31, 2018, we did not sell any securities.

Investment securities decreased $9.8 million, or 13.0%, to $65.6 million at December 31, 2018, from $75.4 million at March 31, 2018. The decrease is attributable to $9.1 million in cash flows resulting from normal principal payments associated with our collateralized mortgage obligation and mortgage-backed security portfolios, partially offset by the purchase of one security during the first quarter of fiscal 2019 with a book value of $2.0 million. The fair value of the investment portfolio increased $505,000 from an unrealized net loss position of $2.9 million at March 31, 2018 to an unrealized net loss position of $2.4 million at December 31, 2018. The improvement in fair value of the investment portfolio is a result of the decrease in longer-term interest rates over the past nine months.

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

Loans. Excluding loan premiums and loan origination fees and costs, gross loans decreased by $21.0 million, or 5.4%, to $368.2 million at December 31, 2018 from $389.2 million at March 31, 2018. The decrease is primarily attributable to normal principal pay-downs and pay-offs within the loan portfolio. Pay-offs over this period included $6.3 million in loans associated with one commercial relationship and a $3.3 million nonaccrual loan in which we collected all of our principal and past due interest, plus all legal and other expenses incurred. Included in gross loans at December 31, 2018 are acquired loans with a book balance of $100.4 million associated with the prior acquisitions of Fraternity and Fairmount institutions (these loans are reflected in the "acquired" loan column of the table below). At December 31 and March 31, 2018 gross loans receivable represented 74.1% of total assets. The following table details the composition of loans and the related percentage mix and growth of total loans:

	December 31, 2018				March 31, 2018			
	Legacy	**Acquired**	**Total**	**Percent of Total**	Legacy	Acquired	Total	Percent of Total
Real estate loans:								
One-to four-family:								
Residential	**$83,117,881**	**$66,255,260**	**$149,373,141**	**40.6 %**	$85,248,184	$72,749,066	$157,997,250	40.6 %
Residential construction	**3,430,203**	**-**	**3,430,203**	**0.9 %**	5,450,827	-	5,450,827	1.4 %
Investor	**7,337,281**	**16,407,266**	**23,744,547**	**6.5 %**	9,275,031	17,460,809	26,735,840	6.9 %
Commercial	**105,755,786**	**9,289,784**	**115,045,570**	**31.2 %**	100,403,769	11,762,485	112,166,254	28.8 %
Commercial construction	**1,543,313**	**1,059,217**	**2,602,530**	**0.7 %**	5,763,784	1,352,019	7,115,803	1.8 %
Total real estate loans	**201,184,464**	**93,011,527**	**294,195,991**	**79.9 %**	206,141,595	103,324,379	309,465,974	79.5 %
Commercial business	**35,276,493**	**1,706,509**	**36,983,002**	**10.0 %**	38,302,739	1,841,226	40,143,965	10.4 %
Home equity loans	**15,077,068**	**4,941,051**	**20,018,119**	**5.5 %**	13,956,327	6,039,462	19,995,789	5.1 %
Consumer	**16,329,237**	**699,371**	**17,028,608**	**4.6 %**	18,849,448	766,063	19,615,511	5.0 %
Gross loans	**$267,867,262**	**$100,358,458**	**$368,225,720**	**100.0 %**	$277,250,109	$111,971,130	$389,221,239	100.0 %

The Company's largest category of loans continues to be residential one-to four-family loans as a result of the loans acquired in the Fraternity and Fairmount acquisitions. This segment of our loan portfolio comprises 40.6% of the entire loan portfolio at December 31, 2018, the same percentage as of March 31, 2018 despite a decrease of $8.6 million. During the last half of fiscal 2017 and into fiscal 2018 we retained in portfolio many of the traditional residential mortgage loans we originated, versus selling them in the secondary market, due to the increase in normal attrition within this loan segment resulting from our acquisitions. Prior to that time, we generally sold these loans in the secondary market at a premium to assist with managing interest rate risk and to enhance non-interest revenue. At the beginning of this year, we began to once again sell most newly originated residential loans that qualify into the secondary market versus putting them in portfolio for those same reasons. To date we have originated and sold $1.7 million in loans into the secondary market. Because of this, we expect the one-to four-family residential loan portfolio to continue to decline as we focus more on the growth within the commercial portfolio to replace the residential run-off and assist with managing interest rate risk.

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As a means to supplement our residential loan portfolio, the Company began to promote its one-to-four family residential construction lending program several years ago. Over the first three quarters of fiscal 2019, the Bank has originated $8.9 million of commitments in residential construction loans. At December 31, 2018 there were $8.7 million in residential construction commitments, of which $3.4 million in funds have been advanced; compared to $8.7 million in residential construction commitments at March 31, 2018, of which $5.4 million in funds had been advanced. The construction period on residential homes is typically nine to twelve months.

Real estate investor loans represent funds advanced to borrowers for the purchase or refinance of non-owner occupied one-to-four family properties. These loans made up $23.7 million, or 6.5%, of gross loans at December 31, 2018, including a remaining balance of $16.4 million of such loans acquired from Fraternity and Fairmount. This type of lending typically involves more risk than originating owner-occupied one-to-four family residential mortgages. The Bank typically refrains from originating this type of loan.

The Bank continues to focus on growth through origination and/or purchase of both commercial real estate and commercial business loans as these loans offer higher rates of return and shorter maturity periods than typical retail lending. Over the nine months ended December 31, 2018, we saw strong organic growth within our commercial real estate loan portfolio. We organically originated $14.8 million in commercial real estate loans and transferred or reclassed nearly $2.0 million more from commercial construction loans over this period. This resulted in an overall increase, after several loan pay-offs and normal principal payments, of nearly $2.9 million within this loan segment. Commercial business loans declined from $40.1 million to $37.0 million, a decrease of 7.9% or $3.2 million. Commercial business loans, although relatively stable, can fluctuate based upon demands or pay-downs on respective lines of credit. Overall commercial loans, including commercial construction loans, have declined since March 31, 2018 due to $6.3 million in pay-offs associated with one commercial relationship that had several commercial loans with the Bank, the pay-off of a nonaccrual commercial real estate loan with a book balance of $3.3 million, and a $1.2 million take out of an SBA 504 commercial construction loan that occurred during the quarter ended December 31, 2018.

Bank-Owned Life Insurance. We invest in bank-owned life insurance (“BOLI”) to provide us with a funding source for our benefit plan obligations. BOLI also provides us noninterest income that is tax-exempt. Our investment in BOLI increased by $344,000 to $17.8 million at December 31, 2018. The increase is attributable to the increase in cash surrender value of the underlying insurance policies. Federal regulations generally limit our investment in BOLI to 25% of our Tier 1 capital plus our allowance for loan losses. Our amount of BOLI at December 31, 2018 exceeded these limits because of the BOLI we acquired in the Fraternity acquisition in May 2016 and the increase in cash surrender value of the policies over the years. Due to the amount of BOLI currently held, the Company has no plans to purchase additional BOLI at this time.

Deposits. Total deposits (excluding premiums on acquired deposits) decreased $20.8 million, or 5.1%, to $384.0 million at December 31, 2018 from $404.7 million at March 31, 2018. The Company continues to focus on generating

lower cost, core deposits (which includes all deposits other than certificates of deposit) to support continued loan growth. Core deposits accounted for 37.9% of total deposits at December 31, 2018, compared to 39.0% at March 31, 2018.

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

	December 31, 2018		March 31, 2018		Year-To-Date Growth	
	Total	**Percent of Total**	Total	Percent of Total	Amount	Growth Percent
Savings	**$41,548,268**	**10.8 %**	$42,499,381	10.6 %	$(951,113)	-2.2 %
Noninterest-bearing checking	**27,365,942**	**7.1 %**	29,557,943	7.3 %	(2,192,001)	-7.4 %
Interest-bearing checking	**28,478,231**	**7.4 %**	27,219,286	6.7 %	1,258,945	4.6 %
Money market accounts	**48,128,831**	**12.6 %**	58,466,228	14.4 %	(10,337,397)	-17.7 %
Time deposits	**238,448,636**	**62.1 %**	246,988,613	61.0 %	(8,539,977)	-3.5 %
	$383,969,908	**100.0 %**	$404,731,451	100.0 %	$(20,761,543)	-5.1 %
Premium on deposits asssumed	**201,034**		411,524		(210,490)	
Total deposits	**$384,170,942**		$405,142,975		$(20,972,033)	

Our strategy with respect to deposits has been to maintain our current certificate of deposit base as needed to support loan demand by pricing more competitively in the marketplace or through short-term certificate of deposit promotions, as we focus on growing our core deposits at a faster pace to reduce our overall cost of funds. During the first nine months of fiscal 2019, however, we have not been as aggressive in maintaining our certificates of deposits based upon funding and liquidity needs. Over this period, time deposits have decreased $8.5 million, or 3.5%, to $238.4 million at December 31, 2018. As interest rates have risen in the past nine months, the market for time deposits has become more competitive with respect to pricing. We have strategically decided not to price at the top of the market, unless through a promotional deposit product, or to match competitor pricing in certain circumstances as a means to manage interest expense. Over this period core deposits have also declined by $12.2 million, or 7.7%, from $157.7 million at March 31, 2018 to $145.5 million at September 30, 2018. The largest decline in core deposits has been in our money market accounts, which declined $10.1 million over this period. The decline in money market accounts is due to a prior promotional campaign offered by the Bank that included a money market account with a six-month introductory rate. During the quarter ended December 31, 2018, many of these introductory rates expired and the Bank was unable to retain many of these depositors. Because of the decrease in deposits, the Company began utilizing a certificate of deposit subscription service in the third quarter of fiscal 2018. The cost of these deposits is more expensive than traditional certificates of deposit because of the ability to provide the funding needed in a timely manner; but can be less costly than borrowing from the Federal Home Loan Bank or other sources. During the first nine months of fiscal 2019 we did not need to utilize this service to originate deposits to support any additional funding requirements.

Borrowings. Borrowings consist of both short and long-term advances from the Federal Home Loan Bank (FHLB). At December 31, 2018, outstanding advances from the FHLB decreased $9.6 million, or 15.9%, to $51.5 million compared to $60.7 million at March 31, 2018. Approximately $6.0 million of this decline occurred during the quarter ended September 30, 2018. During the first nine months of fiscal 2019 there were $30.5 million in borrowings that have either matured or been called. We elected to rollover $21.0 million of those borrowings and pay-off $9.6 million to date. The next date a borrowing is expected to mature or be called is not until August 2019.

At December 31, 2018, $7.5 million of the total advances are considered short-term and mature in less than one year, while the remaining $43.6 million in advances are considered long-term and mature in more than one year (See Note 9 of the Notes to Consolidated Financial Statements). Included in long-term advances is $11.6 million in advances that mature on a quarterly basis; however, they are associated with several cash flow hedge transactions and will be continuously renewed over the expected life of the hedged transactions. The hedge transactions currently have an average life of 5.3 years. Excluding the advances associated with the hedge transactions, the longest outstanding borrowing is for $2.0 million and matures in September 2023.

The FHLB borrowings provide an alternative means to support the cash outflow needed to fund new loan originations in coordination with deposit growth. FHLB borrowings can provide a less expensive means to support cash outflow when compared to selling higher yielding investment securities. These obligations are secured by our residential and home equity loan portfolios. At December 31, 2018, we had the ability to borrow approximately $73.6 million in additional funds from the FHLB, subject to our pledging sufficient assets. These obligations will be repaid as our cash position strengthens.

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Equity. Total equity increased $2.4 million or 4.5%, to $56.5 million at December 31, 2018 from $54.1 million at March 31, 2018. The change in equity is primarily attributable to net income of $1.4 million reported for the first nine months of fiscal 2019, along with a $434,000 increase in additional paid in capital resulting from equity awards granted in prior periods and a $412,000 increase in the accumulated other comprehensive loss associated with the fair value of the investment portfolio and cash flow hedges on FHLB borrowings. The fair value of the investment portfolio increased while the fair value of our cash flow hedge decreased due to rising interest rates that occurred over that same period. The Company's book value per common share was $16.53 at December 31, 2018 compared to $15.87 at March 31, 2018. At December 31, 2018, the Bank remains "well capitalized" as defined under federal regulations.

Analysis of Asset Quality at December 31, 2018, March 31, 2018, and December 31, 2017

The Bank's asset quality remains a primary focus of management and the Board of Directors. Nonperforming assets at December 31, 2018, were $6.0 million, a decrease of $1.6 million from March 31, 2018 and a $1.1 million decrease from December 31, 2017. Nonperforming assets to total assets decreased from 1.45% at March 31, 2018 to 1.21% at December 31, 2018. Nonperforming assets for the respective periods were as follows:

	At or For The Three Months Ended December 31, 2018	At or For The Year Ended March 31, 2018	At or For The Three Months Ended December 31, 2017
	(dollars in thousands)		
Nonaccruing loans	**$5,196**	$5,964	$ 6,195
Accruing loans delinquent more than 90 days	**335**	1,206	441
Foreclosed real estate	**458**	458	451
Total nonperforming assets	**$5,989**	$7,628	$ 7,087
Asset Quality Ratios:			
Nonperforming loans to gross loans	**1.50 %**	1.84 %	1.71 %
Nonperforming assets to total assets	**1.21 %**	1.45 %	1.36 %
Net charge-offs (annualized) to average loans	**0.06 %**	0.26 %	0.08 %

Nonaccrual loans decreased to $5.2 million at December 31, 2018 compared to $6.0 million at March 31, 2018. At the end of the first quarter of fiscal 2019, nonaccrual loans reached a high of $8.9 million due to the addition of a commercial real estate relationship with a recorded value of $3.1 million. The borrower on this loan continues to make timely payments to date under the original terms of that loan and has never been delinquent; however, review of their financial information indicates they do not have sufficient cash flow to service the debt, thus we have placed it on nonaccrual status. To date there is no impairment associated with this relationship based upon the most recently obtained appraised value. In July 2018, another commercial real estate loan that was already on nonaccrual, with a recorded value of $3.3 million, was resolved and paid-off with no loss to the Bank. Proceeds from the pay-off included payment of principal, past due interest and all legal and other expenses incurred. In addition, several other nonaccrual commercial loans paid-off during the quarter ended December 31, 2018 with minimal additional charge-offs, including a $197,000 commercial real estate loan, $254,000 in investor loans to one borrower, and two commercial lease loans equaling $66,000. The aggregate of the loans just described is primarily responsible for the $768,000 decrease in nonaccrual loans from March 31, 2018 to December 31, 2018.

As of December 31, 2018, there are two commercial real estate relationships totaling $4.1 million that are a part of the $5.2 million in nonaccrual loans, including the one relationship that was added in the first quarter of fiscal 2019 that was previously discussed. Both relationships have been reviewed for impairment and recorded at their fair value based upon recent appraisals, one of which has incurred $1.9 million in write-downs through charge-offs over the past two years. Management continues to actively explore options and work with the borrowers to obtain the best outcome for the Bank, which may or may not result in new or additional write-downs.

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There were $143,000 in nonaccrual commercial business loans at December 31, 2018 compared to $165,000 at March 31, 2018. The recorded book balance of $143,000 in loans is primarily comprised of three commercial lease loans to different borrowers with a combined contractual balance of $399,000 and charge-offs totaling $261,000. The purpose of the loans was to provide funding to purchase medical equipment related to cosmetic surgery. Based upon the inability to generate sufficient revenue, the borrowers stopped making payments on the leases or asked for the equipment to be repossessed. All three loans are fully guaranteed by the respective borrowers.

The remaining balance of nonaccrual loans at December 31, 2018 30, 2018 consisted of $797,000 in one-to four-family residential mortgage loans, including two loans with a book balance of $271,000 that were acquired loans, and $96,000 in residential investor loans. The majority of the residential investor loans were acquired in the Fairmount acquisition.

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

Loans 30-89 days past due decreased $322,000 to $948,000 at December 31, 2018 from $1.3 million at March 31, 2018. This decrease is attributable to a $540,000 and $123,000 decrease in delinquencies associated with one-to four-family residential mortgage loans and consumer loans, respectively, partially offset by a $311,000 increase in commercial business loans. Delinquencies related to one-to four-family residential loans decreased $540,000 from $823,000 at March 31, 2018 to $283,000 at December 31, 2018 due to the pay-off of one delinquent loan with a book balance of $555,000; while consumer loans decreased $123,000 over this same nine-month period due to a $127,000 decline in delinquent recreational vehicles. These decreases were partially offset by an increase in delinquent commercial business loans from $270,000 at March 31, 2018 to $581,000 at December 31, 2018. At September 30, 2018 there were no delinquent commercial business loans. The increase of $581,000 from September 30, 2018 to December 31, 2018 is related to four commercial medical lease loans. The Bank is monitoring the delinquent loans closely and working with the borrowers to develop a payment plan. If the borrowers are unable to bring these loans current or re-pay or re-finance the respective loans, there could be future charge-offs associated with these loans based upon collateral values.

Foreclosed real estate at December 30, 2018 was $458,000; unchanged from March 31, 2018. At December 31, 2018 there were five properties that comprised the foreclosed real estate balance. One of the five properties consists of semi-developed land with a fair value of $411,000. The property is listed for sale and is participated with another financial institution, with Hamilton being the lead lender. The remaining four properties totaling $70,000 are all participations and comprised of one-to- four family residential mortgage loans in which Hamilton owns less than 15% of and is not the lead lender. During the quarter ended December 31, 2018, one property that was booked to foreclosed

real estate earlier in the year for $130,000 was sold at a loss of $4,200.

The Bank recorded a $382,000 provision for loan loss during the first nine months of fiscal 2019 compared to a $625,000 provision for loan loss for the same period a year ago. The provision for loan loss for the nine months ended December 31, 2018 was a result of $173,000 in net charge-offs and roughly $294,000 in additional reserves associated with the revaluation of our environmental factors in the prior quarter (see Note 1 of the Financial Statements under *Summary of Significant Accounting Policies* for further discussion), partially offset by a decline in loan balances; compared to prior year provisions which were primarily related to growth within the loan portfolio due to organic loan originations and loan purchases. The allowance for loan losses at December 31, 2018 totaled $3.0 million, or 0.82% of gross loans, compared to the same $2.8 million, or 0.73% of gross loans, at March 31, 2018. The change in percentage was due to in part to both the decrease in overall loan balances and the increase in the allowance for loan losses itself. This overall percentage remains relatively low compared to peers as a result of our acquired loan portfolios. Loans acquired in an acquisition are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. We continue to monitor and manage the acquired loan portfolio to determine if additional provisions are necessary in relation to the estimated fair value placed on those loans at acquisition date as determined by management.

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The activity in the allowance for loan losses for the nine-month period ended December 31, 2018 includes $297,000 in charge-offs, offset by $124,000 in recoveries and a $382,000 provision for loan losses. We currently review the adequacy of the allowance for loan losses on a quarterly basis and are proactively managing problem assets. Based upon our analysis, we believe this allowance appropriately reflects the inherent risk of loss in our loan portfolio at December 31, 2018. We estimate the allowance for loan losses based upon a four-year charge-off history and certain environmental factors.

Results of Operations for the Three Months Ended December 31, 2018 and 2017 (unaudited)

General. Net loss for the quarter ended December 31, 2018 was $125,000, or $0.04 per common share, compared to net loss of $1.9 million, or $0.60 per common share for the quarter ended December 31, 2017; an improvement of $1.8 million quarter-over-quarter. The improvement was largely due to a $2.2 million tax adjustment in the prior year period to the Company's net deferred tax asset resulting from the reduction in the corporate tax rate associated with the federal government's passage of the *Jobs Act*; whereas there was no tax expense or benefit for the three month period ended December 31, 2018 because of the valuation allowance established at March 31, 2018 on the deferred tax asset. Also contributing to a lower net loss were the lower provision for loan losses, partially offset by a decrease in net interest income associated with rising rates on deposits and borrowings, a decline in noninterest revenue, and an increase in noninterest expenses related to $503,000 thousand in merger related expenses associated with the pending acquisition by Orrstown. Excluding the merger costs, net income would have been $378,000, or $0.12 per common share, for the three months ended December 31, 2018 compared to a net loss of $1.9 million, or $0.60 per common share for the quarter ended December 31, 2017.

Net Interest Income. Net interest income decreased $199,000, or 5.5%, to $3.4 million for the three-months ended December 31, 2018 compared to $3.6 million for the three-months ended December 31, 2017. The decrease in net interest income was due to a $425,000 increase in interest expense, partially offset by a $226,000 increase in interest revenue. The net interest margin decreased 13 basis point from 3.07% for the three months ended December 31, 2017 to 2.94% for the three months ended December 31, 2018.

The increase in interest revenue quarter-over-quarter was due to an increase in the average yield on interest-earning assets, partially offset by a decrease in the average balance of those same assets. The average yield on interest-earning assets increased 26 basis points to 4.10% from 3.84%, while the average balance decreased $7.1 million, or 1.5%, for the quarter ended December 31, 2018 compared to the same period in fiscal 2018. The decrease in average balances was primarily due to a declining investment portfolio.

The increase in interest expense for the quarter ended December 31, 2018 compared to the same quarter last year was the result of a 43 basis points increase in the average cost of interest-bearing liabilities. The average cost of interest-bearing liabilities increased from 0.88% for the three months ended December 31, 2017 to 1.31% for the three months ended December 31, 2018. Partially offsetting the rise in the average cost was a decrease of $8.7 million in the

average balance of interest-bearing liabilities from $420.4 million to $411.7 million. The decrease resulted from the decline in average interest-bearing deposits.

Interest Revenue. Interest revenue increased $226,000, or 4.9% to $4.8 million during the three months ended December 31, 2018 compared to $4.6 million for the three months ended December 31, 2017. The increase resulted from increases in interest and fees on loans and interest on federal funds sold and other bank deposits, partially offset by a decrease in interest revenue from investment securities.

Interest and fees on loans increased $156,000, or 3.8%, to $4.3 million for the three months ended December 31, 2018, compared to $4.1 million for the three months ended December 31, 2017. The increase in interest and fees on loans is due to a 19-basis point increase in the average yield earned on loans from 4.42% to 4.61% for the comparable periods. The increase in average yield is a result of higher interest rates on new loan originations, as well as interest revenue realized through the pay-off of certain purchased credit impaired loans (PCI) associated with our prior acquisitions. Partially offsetting the increase in interest revenue associated with the average yield is a $2.1 million decrease in the average balance of net loans from $371.5 million to $369.3 million quarter-over-quarter. The decrease in average loans was attributable to normal attrition associated with a larger loan portfolio resulting from loan purchases in the prior year, along with several large commercial relationships and loans that paid-off during the year.

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Interest revenue on total investment securities decreased $25,000 to $414,000 for the three months ended December 31, 2018 from $439,000 for the three months ended December 31, 2017. The decrease is due to the average balance of investment securities decreasing $19.0 million, or 21.1%, to $71.2 million for the three months ended December 31, 2018 from $90.2 million for the same period last year, while the average yield increased 38 basis points to 2.33% from 1.95%. The largest decrease in investment securities was in mortgage-backed securities, which decreased $16.2 million to $51.7 million for the three months ended December 31, 2018 from $67.9 million for the same period last year. The average balance of investment securities other than mortgage-backed securities also decreased quarter-over-quarter by $2.8 million. The overall decrease in average investments is attributable to normal principal paydowns related to mortgage-backed securities over the past twelve months as no securities were sold during this period. One investment security, with a book value of $2.0 million, was purchased during the first quarter of fiscal 2019.

Interest Expense. Interest expense increased $425,000, or 45.6%, to $1.3 million for the three months ended December 31, 2018 compared to $924,000 for the same period in fiscal 2018, due to the increase in the average cost of both interest-bearing deposits and borrowings. The average cost of interest-bearing deposits increased 36 basis points from 0.78% for the three months ended December 31, 2017 to 1.14% for the three months ended December 31, 2018. The increase in average cost was partially offset by a decrease in the average balance of interest-bearing deposits. The average balance of interest-bearing deposits decreased $8.1 million, or 2.2%, to $358.7 million for the three months ended December 31, 2018 from $366.8 million for the three months ended December 31, 2017. Due to the increase in costs, the interest expense associated with interest-bearing deposits increased $306,000, or 42.8%, period-over-period.

For the three-month period ended December 31, 2018, average interest-bearing deposit balances decreased for all types of deposits other than checking accounts which increased $4.6 million, when compared to the same period a year ago. As interest rates have risen over the past year, the market competition for deposits, in particular time deposits and money market accounts, has become more competitive with respect to pricing. We have strategically decided not to price our deposits at the top of the market, unless through a promotional deposit product, or to match competitor pricing in certain circumstances as a means to manage interest expense. The Company continues to focus on generating lower cost, core deposits (which includes all deposits other than certificates of deposit) to support continued loan growth. The average balance of core interest-bearing deposits decreased $3.1 million, or 2.6%, to $123.7 million for the three-month period ended December 31, 2018 compared to $126.8 million for the three months ended December 31, 2017. The average balance of time deposits also decreased $5.0 million, or 2.1%, to $235.0 million for the quarter ended December 31, 2018 compared to $239.9 million for the quarter ended December 31, 2017.

Noninterest-bearing deposits allow us to fund growth in interest-earning assets at minimal cost. Average noninterest-bearing deposits decreased $159,000, or less than 1.0%, to $29.5 million for the three months ended December 31, 2018, compared to $29.7 million for the three months ended December 31, 2017. Our cash management personnel and commercial loan officers remain focused in working with commercial clients to move their core deposit relationships to Hamilton Bank and provide lower cost of funds.

For the three-month period ended December 31, 2018, average borrowings were $53.0 million compared to an average balance of $53.6 million for the same period a year ago. The decrease in borrowings is associated with maturing FHLB advances that were paid-off versus rolled over at higher interest rates, partially offset with new advances entered into at the end of December 2017 that coincided with specific loan purchases and a seasonal decline in deposits. The borrowings at December 31, 2018 consist of only advances from the FHLB and totaled $51.1 million; a decrease of $8.5 million since June 30, 2018. Due to rising interest rates, we have paid-off maturing advances based upon available liquidity at that time versus rolling the advance over at the higher rate. Borrowings carry an average rate of 2.48% for the three months ended December 31, 2018; a 91 basis points increase from 1.57% for the same period a year ago. Borrowing from the FHLB in today's low interest rate environment can be a more cost-effective means to obtain funds if deposits are not growing compared to selling investment securities that are earning a higher yield.

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

	Three Months Ended December 31, (dollars in thousands)					
	2018			**2017**		
	Average Balance	**Interest**	**Yield/ Cost**	**Average Balance**	**Interest**	**Yield/ Cost**
Interest-earning assets:						
Interest bearing deposits with banks	**$26,950**	**$113**	**1.68 %**	$12,850	$19	0.59 %
Investment securities (1)	**19,478**	**143**	**2.94 %**	22,310	141	2.53 %
Mortgage-backed securities	**51,739**	**271**	**2.10 %**	67,919	298	1.76 %
Loans receivable, net (2)	**369,337**	**4,260**	**4.61 %**	371,486	4,103	4.42 %
Total interest-earning assets	**467,504**	**4,787**	**4.10 %**	474,565	4,561	3.84 %
Noninterest-earning assets	**34,465**			43,173		
Total assets	**$501,969**			$517,738		
Interest-bearing liabilities:						
Statement savings	**$39,648**	**$25**	**0.25 %**	$43,080	$13	0.12 %
Checking accounts	**29,601**	**3**	**0.04 %**	24,996	2	0.03 %
Money market	**54,468**	**90**	**0.66 %**	58,761	74	0.50 %
Certificates of deposit	**234,957**	**902**	**1.54 %**	239,920	625	1.04 %
Total interest-bearing deposits	**358,674**	**1,020**	**1.14 %**	366,757	714	0.78 %
Borrowings	**53,011**	**329**	**2.48 %**	53,645	210	1.57 %
Total interest-bearing liabilities	**411,685**	**1,349**	**1.31 %**	420,402	924	0.88 %
Noninterest-bearing liabilities and equity:						
Noninterest-bearing deposits	**29,549**			29,708		
Other noninterest-bearing liabilities	**5,233**			6,026		
Total liabilities	**446,467**			456,136		
Total shareholders' equity	**55,502**			61,602		
Total liabilities and shareholders' equity	**$501,969**			$517,738		
Net interest income		**$3,438**			$3,637	
Net interest rate spread (3)			**2.79 %**			2.98 %
Net interest-earning assets (4)	**$55,819**			$54,163		
Net interest margin (5)			**2.94 %**			3.07 %
Average interest-earning assets to average interest-bearing liabilities	**113.56 %**			112.88 %		

(1) Includes U.S agency and treasury securities, municipal and corporate bonds and to a much lesser extent, Federal Home Loan Bank equity securities.
(2) Loans on non-accrual status are included in average loans carrying a zero yield.
(3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing libilities.
(4) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(5) Net interest margin represents net interest income divided by average total interest-earning assets.

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Provision for Loan Losses. We establish provisions for loan losses that are charged to operations in order to maintain the allowance for loan losses at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. There was $80,000 charged to the provision for loan losses for the three months ended December 31, 2018 compared to a provision for loan loss of $345,000 for the three months ended December 31, 2017. In the current quarter, the $80,000 provision for loan loss recorded is primarily attributable to $80,000 in net charge-offs experienced during the quarter; compared to the provision for the prior year quarter, which was related to net charge-offs of $206,000 and growth within the loan portfolio, as reflected in the table below.

The allowance for loan losses was $3.0 million, or 54.8% of non-performing loans at December 31, 2018 compared to $2.6 million, or 39.3% of non-performing loans at December 31, 2017. The increase in the percentage is a result of the $1.1 million decrease in nonperforming loans over this period, partially offset by a $421,000 increase in the allowance for loan losses. The $5.5 million in non-performing loans at December 31, 2018 primarily consisted of two commercial real estate relationships totaling $4.1 million. The first relationship has a recorded value of $2.9 million and was placed on nonaccrual in June 2018, while the second relationship has a book value of $1.2 million and has had $1.9 million in charge-offs over the past two years. Both relationships have been recorded at their net realizable fair value based upon recent appraisals. No additional charge-offs are anticipated with these relationships at this time; however, changes in property values and other circumstances may result in additional charge-offs at a later date.

During the three months ended December 31, 2018, loan charge-offs totaled $167,000 with recoveries of $87,000, compared to $211,000 in charge-offs and $5,000 in recoveries during the three months ended December 31, 2017. During fiscal year 2019, we expect that we will continue our emphasis in growing commercial real estate and commercial business loans, which have higher interest rates than one-to four-family mortgage loans, thus are generally considered to bear higher risk than one-to four-family mortgage loans and could contribute to higher loan loss provisions going forward.

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

	Three Months Ended December 31,	
	2018	**2017**
	(dollars in thousands)	
Allowance for loan losses at beginning of period	**$3,031**	$2,471
Charge-offs:		
Real estate loans:		
Residential	**-**	-

Investor	**33**	111
Commercial	**-**	100
Commercial construction	**-**	-
Commercial business	**134**	-
Home equity	**-**	-
Consumer	**-**	-
Total charge-offs	**167**	211
Recoveries	**87**	5
Net charge-offs	**80**	206
Provision for loan losses	**80**	345
Allowance for loan losses at end of period	**$3,031**	$2,610
Allowance for loan losses to non-performing loans	**54.80 %**	39.33 %
Allowance for loan losses to total loans outstanding at the end of the period	**0.82 %**	0.67 %
Net charge-offs to average loans outstanding during the period (annualized)	**0.09 %**	0.22 %

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Noninterest Revenue. Noninterest revenue decreased $181,000 to $281,000 for the three months ended December 31, 2018, compared to $463,000 for the three months ended December 31, 2017. The following table outlines the changes in noninterest revenue for the three-month periods.

	Three months ended December 31,			
	2018	2017	$ Change	% Change
Service charges	**$123,885**	$109,151	$14,734	13.5
Loss on sale of investment securities	**-**	(12,736)	12,736	100.0
Gain on sale of loans held for sale	**8,609**	-	8,609	N/A
Gain on sale of property and equipment	**-**	212,743	(212,743)	(100.0)
Earnings on bank-owned life insurance	**115,419**	123,597	(8,178)	(6.6)
Other fees and commissions	**33,260**	29,860	3,400	11.4
Total noninterest revenue	**$281,173**	$462,615	$(181,442)	(39.2)

Service charges associated with retail and commercial deposit products increased during the three-months ending December 31, 2018 compared to the same period a year ago. Management remains focused on growing core deposits, particularly checking accounts, which typically generate more service fee income. The average balance relating to overall checking accounts for the three months ended December 31, 2018 was $59.2 million compared to an average balance of $54.7 million at December 31, 2017, an increase of 8.1%, or $4.4 million. We continue to review and evaluate our fee structure to be more aligned with our market. Customers, however, have become more cost conscious of fees and better manage their deposit relationship with the Bank.

During the three months ended December 31, 2018, the Company was able to enhance noninterest revenue by $9,000 relating to gains on loans sold to the secondary market. In the last quarter of fiscal 2017 and into fiscal 2018, the Company purposely held in portfolio the majority of our residential loan originations to partially offset the increased run-off associated with this loan segment. The increased run-off was due to higher balances resulting from our two prior acquisitions. Beginning in fiscal 2019, however, we again started to sell qualified residential loan originations into the secondary market as a means to generate noninterest revenue and diversify our income stream. In the prior year three-month period we also realized losses on the sale of investment securities of $13,000 compared to none for the three months ended December 31, 2018.

The $213,000 gain on sale of property and equipment for the prior year quarter ended December 31, 2017 is related specifically to the sale of our Pigtown branch in Baltimore City, along with various furniture and equipment that was associated with the property. This branch was relocated within the same community, but to a smaller, more efficient space that provided operational cost savings.

The other components that make up noninterest revenue for the three months ended December 31, 2018 include a $3,000 increase in other fees and commissions, along with an $8,000 decline in earnings associated with BOLI due to a reduction in the cash surrender value of the Company's outstanding BOLI related to the pay-out of death benefits in the fourth quarter of fiscal 2018. Other fees and commissions include the collection of certain loan fees, merchant card services and other miscellaneous items.

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Noninterest Expense. Noninterest expense increased $434,000 to $3.8 million for the three months ended December 31, 2018 compared to $3.3 million for the three months ended December 31, 2017. The increase is attributable to $503,000 in merger expenses related to the pending merger with Orrstown. These expenses include legal fees and services provided by the Company's investment bankers. The following table outlines the changes within noninterest expense for those periods.

	Three months ended December 31,			
	2018	2017	$ Change	% Change
Salaries and benefits	**$2,027,646**	$1,819,035	$208,611	11.5
Occupancy	**253,488**	259,595	(6,107)	(2.4)
Advertising	**21,524**	22,487	(963)	(4.3)
Furniture and equipment	**103,400**	92,894	10,506	11.3
Data processing	**202,915**	176,114	26,801	15.2
Legal services	**70,115**	153,615	(83,500)	(54.4)
Other professional services	**96,510**	218,879	(122,369)	(55.9)
Merger related expenses	**502,835**	-	502,835	N/A
Deposit insurance premiums	**56,760**	91,470	(34,710)	(37.9)
Foreclosed real estate expense and losses	**4,447**	43,706	(39,259)	89.8
Other operating	**424,505**	452,423	(27,918)	(6.2)
Total noninterest expense	**$3,764,145**	$3,330,218	$433,927	13.0

Excluding merger costs, overall our operating expenses have remained relatively unchanged, despite decreases in certain operating expenses related to specific expenses incurred in the prior year, offset by increases in other operating expenses, particularly salaries and benefits. We have been able to manage a larger loan portfolio from an operational cost basis and continue to increase our interest revenue. However, the recent rise in interest rates and the impact to our cost of funds has resulted in a higher efficiency ratio of 87.7% for the three months ended December 31, 2018 compared to 81.2% for the three months ended December 31, 2017. The efficiency ratio presented excludes the $503,000 in merger related expenses. Management remains committed to reducing operational expenses.

Salaries and benefit expense remain our highest operational cost and increased by $209,000, or 11.5%, quarter-over-quarter. This increase is due to annual evaluations and respective salary increases, along with bonus accruals that were not present in the prior year period due to our net loss position, partially offset by unfilled positions and a decrease in employee benefits related to lower costs associated with our employee stock ownership plan (ESOP). The decrease in the ESOP is related to the decrease in the Company's average stock price quarter-over-quarter. Also included in salaries and benefits for the three months ended December 31, 2018 and 2017, is $91,000 and $80,000 in expense, respectively, relating to prior equity awards granted to officers under the Company's Equity Incentive Plan. The equity awards provide for management to have a vested interest in the performance of the company and share in the benefit of an increase in shareholder value. Similarly, other operating expenses for the same periods include $35,000 in expense associated with equity awards granted to Directors.

The Company realized an increase in operating expenses relating to furniture and equipment and data processing for the three-month periods ended December 31, 2018 compared to the 2017 period. Data processing costs increased $27,000 for the comparable quarters due to annual cost increases, along with the introduction of new technology that has made banking easier for our customers, including products such as mobile banking and our on-line consumer loan application.

The Company has been able to offset the increase in certain noninterest expenses through reduced operating expenses in other operational areas, including legal and other professional services. Legal fees are lower by $84,000 due to fewer problem assets and the exclusion of certain costs incurred in the prior year period, including our charter conversion and branch sale and re-location. Other professional services also declined by $122,000 due to the exclusion of certain costs incurred in the prior year period, including the use of a financial consultant to assist with strategy and non-compete payments made to executives associated with the Fraternity Community Bancorp, Inc. acquisition. The terms and the payments under the consulting and non-compete agreements were fully satisfied in March and April 2018, respectively. FDIC insurance premiums decreased $35,000 to $57,000 for the three months ended December 31, 2018 compared to $91,000 for the three months ended December 31, 2017. The decrease in the premiums is attributable to a reduction in nonaccrual loans quarter-over-quarter and an increase in the Bank's capital position due to the $2 million of new capital brought down from the Holding Company to the Bank in August 2018. Foreclosed real estate expense also decreased $39,000 due to a write-down of one property in the prior year quarter to its net realizable value determined through a newly obtained appraisal.

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Income Tax Expense. For the three months ended December 31, 2018, the Company did not report any income tax benefit on pre-tax loss of $125,000 compared to tax expense of $2.4 million for the three months ended December 31, 2017 after pre-tax income of $425,000. There was no tax expense during the current quarter due to the release of a portion of the valuation allowance on our net deferred tax assets established in the prior fiscal year. In accordance with Accounting Standards Codification (ASC) 740, *Accounting for Income Taxes*, at December 31, 2018, the Company has assessed whether the deferred tax assets are more likely than not to be realized based on an evaluative process that considers all available positive and negative evidence. As part of this evaluative process, management considered the following sources of taxable income: 1.) taxable income in prior carryback years; 2.) the future reversals of taxable temporary differences; 3.) tax planning strategies; and 4.) future taxable income exclusive of reversing temporary differences and carryforwards. In making a conclusion, management evaluated all the available positive and negative evidence impacting these sources of taxable income. The first three options are more quantifiable and verifiable; however, management has concluded they are not viable sources of taxable income. As such, the positive evidence that has been most heavily relied upon, but the most subjective, is future taxable income exclusive of reversing temporary differences and carryforwards. Based upon the Company being in a three-year cumulative loss position, which creates negative evidence, and because this evidence is considered significant, management has concluded that there is more negative evidence than positive evidence and therefore, it is more likely than not that the Company will be unable to generate sufficient taxable income in the foreseeable future to fully utilize the net deferred tax assets.

If, in the future, the Company generates taxable income on a sustained basis sufficient to support the deferred tax assets, the need for a deferred tax valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation at that time. The establishment of a valuation allowance on our deferred tax assets for financial reporting purposes does not affect how the net operating loss carryforwards may be utilized on our subsequent income tax returns. The valuation allowance on the Company's net deferred tax assets decreased $94,000 to $5.3 million at December 31, 2018, from $5.4 million at September 30, 2018 due to $503,000 in non-deductible merger expenses, partially offset by the net loss of $125,000 and adjustments for permanent and temporary differences between book and tax expenses. Income tax expense for the periods reported is based upon year-to-date results and may not be reflective of annual earnings.

The large tax expense for the prior year quarter ended December 31, 2017 is directly related to the passage of the *Jobs Act* that was signed into law on December 22, 2017. The Act amended the Internal Revenue Code to reduce income tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Act reduces the federal corporate income tax rate from a maximum 35 percent to a flat 21 percent tax rate. As a result, our net deferred tax assets at that time, which were based upon a 34 percent corporate tax rate, had to be re-evaluated to reflect the new tax rate of 21 percent. This one-time non-cash adjustment was estimated to be $2.2 million and was recorded through income tax expense.

Results of Operations for the Nine Months Ended December 31, 2018 and 2017 (unaudited)

General. Net income was $1.4 million, or $0.44 per common share for the nine-month period ended December 31, 2018 compared to a net loss of $1.1 million, or $0.35 per common share for the same period in fiscal 2018, a

period-over-period increase of $2.5 million. The increase in net income is largely due to a $2.2 million tax adjustment in the prior year period to the Company's net deferred tax asset resulting from the reduction in the corporate tax rate associated with the federal government's passage of the *Jobs Act*; whereas there was no tax expense or benefit for the nine month period ended December 31, 2018 because of the valuation allowance established at March 31, 2018 on our deferred tax asset. Also contributing to a higher net income was an increase in net interest income associated with higher average loan balances and a lower provision for loan losses, partially offset by a decline in noninterest revenue and an increase in operating expenses realized in the nine-month period ended December 31, 2018. The increase in operating expenses is related to $559,000 in merger related expenses associated with the pending merger with Orrstown. Excluding the merger expenses, net income would have been $2.0 million, or $0.62 per common share, for the nine months ended December 31, 2018.

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Net Interest Income. Net interest income increased $153,000, or 1.4%, to $11.0 million for the nine months ended December 31, 2018 compared to $10.8 million for the nine months ended December 31, 2017. The increase in net interest income was due to a $1.3 million increase in interest revenue, partially offset by a $1.1 million increase in interest expense. The increase in interest revenue was due to an increase in the average balance of interest-earning assets, particularly higher yielding loans, as well as an increase in average yield on interest-earning assets. The average balance in interest-earning assets increased $7.8 million, or 1.6%, over the first three quarters of fiscal year 2019 compared to the same period in fiscal 2018, while the average yield increased 30 basis points to 4.09% from 3.79%, respectively. The average balances increased period-over-period due to organic loan growth and the purchase of several pools of loans in the second half of fiscal 2018, including residential mortgage loan pools totaling $19.2 million and several guaranteed SBA loans equal to $3.2 million.

The increase in interest expense for the nine-month period ended December 31, 2018 compared to the same period last year was the result of a 35 basis points increase in the average cost of interest-bearing liabilities. The average cost of interest-bearing liabilities increased from 0.81% for the nine months ended December 31, 2017 to 1.16% for the nine months ended December 31, 2018. In addition, the average balance of interest-bearing liabilities also increased $6.0 million from $417.2 million to $423.3 million. The increase resulted from the growth in average borrowings, partially offset by a decrease in average interest-bearing deposits. The net interest margin decreased 1 basis point from 3.07% for the nine months ended December 31, 2017 to 3.06% for the nine months ended December 31, 2018.

Interest Revenue. Interest revenue increased $1.3 million, or 9.6% to $14.7 million during the nine months ended December 31, 2018 compared to $13.4 million for the nine months ended December 31, 2017. The increase resulted from increases in interest and fees on loans and interest on federal funds sold and other bank deposits, partially offset by a decrease in interest on investment securities.

Interest and fees on loans increased $1.2 million, or 9.9%, to $13.1 million for the nine months ended December 31, 2018, compared to $11.9 million for the nine months ended December 31, 2017. The increase in interest and fees on loans is due to a $20.5 million increase in the average balance of net loans from $354.1 million to $374.6 million period-over-period. The increase in average loans is attributable to organic growth generated by our commercial lending area and strategic loan purchases that occurred in the second half of fiscal 2018. In addition, the average yield earned on loans increased 17 basis points from 4.48% for the nine months ended December 31, 2017 to 4.65% for the nine months ended December 31, 2018. The increase in yield is a result of interest revenue recognized over the first nine months of the fiscal year relating to early pay-offs on acquired loans and the associated purchase accounting marks, pay-off on a $3.3 million nonaccrual commercial loan in which all past due interest was collected, as well as overall higher rates on new loan originations due to rising interest rates.

Interest revenue on total investment securities decreased $137,000 to $1.3 million for the nine months ended December 31, 2018 from $1.4 million for the nine months ended December 31, 2017. The decrease is due to the average balance of investment securities decreasing $22.5 million, or 23.1%, to $74.8 million for the nine months ended December 31, 2018 from $97.3 million for the same period last year, while the average yield increased 33 basis points to 2.25% from 1.92%. The largest decrease in investment securities was in mortgage-backed securities, which

decreased $18.8 million to $54.9 million for the nine months ended December 31, 2018 from $73.6 million for the same period last year. The average balance of investment securities other than mortgage-backed securities also decreased period-over-period by $3.7 million. The decrease in average investments is attributable to both normal principal paydowns related to mortgage-backed securities over the past twelve months, along with $11.6 million in securities that were sold between August and December 2017. There were no securities sold and only one investment security, with a book value of $2.0 million, purchased during the first quarter of fiscal 2019.

Interest Expense. Interest expense increased $1.1 million, or 44.3%, to $3.7 million for the nine months ended December 31, 2018 compared to $2.5 million for the same period in fiscal 2018, due to the increase in the average cost of both interest-bearing deposits and borrowings. The average cost of interest-bearing deposits increased 29 basis points from 0.73% for the nine months ended December 31, 2017 to 1.02% for the nine months ended December 31, 2018. The increase in the average cost of interest-bearing deposits was partially offset by a decrease in the average balance of interest-bearing deposits. The average balance of interest-bearing deposits decreased $5.9 million, or 1.6%, to $367.3 million for the nine months ended December 31, 2018 from $373.2 million for the nine months ended December 31, 2017. Due to the increase in average costs, the interest expense associated with interest-bearing deposits increased $771,000, or 37.7%, period-over-period.

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For the nine-month period ended December 31, 2018, average interest-bearing deposit balances decreased for all types of deposits other than checking accounts which increased $4.1 million, when compared to the same period a year ago. As interest rates have risen over the past year, the market for deposits, in particular time deposits and money market accounts, has become more competitive with respect to pricing. We have strategically decided not to price our deposits at the top of the market, unless through a promotional deposit product, or match competitor pricing in certain circumstances as a means to manage interest expense. The Company continues to focus on generating lower cost, core deposits (which includes all deposits other than certificates of deposit) to support continued loan growth. The average balance of core interest-bearing deposits decreased $3.0 million, or 2.3%, to $129.1 million for the nine-month period ended December 31, 2018 compared to $132.0 million for the nine months ended December 31, 2017. The average balance of time deposits also decreased $2.9 million, or 1.2%, to $238.3 million compared to $241.2 for the same periods, respectively.

Noninterest-bearing deposits allow us to fund growth in interest-earning assets at minimal cost. Average noninterest-bearing deposits decreased $428,000, or 1.4%, to $29.2 million for the nine months ended December 31, 2018, compared to $29.6 million for the nine months ended December 31, 2017. Our cash management personnel and commercial loan officers remain focused in working with commercial clients to move their core deposit relationships to Hamilton Bank and provide lower cost of funds.

For the nine-month period ended December 31, 2018, average borrowings were $56.0 million compared to an average balance of $44.0 million for the same period a year ago. The increase in average borrowings is associated with funds needed to purchase several loan portfolios over the last half of fiscal 2018 and a declining deposit base. The borrowings at December 31, 2018 consist of only advances from the FHLB and totaled $51.1 million; a decrease of $8.5 million since June 30, 2018. Due to rising interest rates, we have paid-off maturing advances based upon available liquidity at that time versus rolling the advance over at the higher rate. The borrowings carry an average rate of 2.48% for the nine months ended December 31, 2018; a 91 basis points increase from 1.57% for the same period a year ago. Borrowing from the FHLB in today's low interest rate environment can be a more cost-effective means to obtain funds if deposits are not growing compared to selling investment securities that are earning a higher yield.

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	Nine Months Ended December 31, (dollars in thousands)					
	2018			**2017**		
	Average Balance	**Interest**	**Yield/ Cost**	**Average Balance**	**Interest**	**Yield/ Cost**
Interest-earning assets:						
Cash and cash equivalents	**$29,413**	**$338**	**1.53 %**	$19,636	$100	0.68 %
Investment securities (1)	**19,915**	**449**	**3.01 %**	23,635	446	2.52 %
Mortgage-backed securities	**54,890**	**811**	**1.97 %**	73,637	951	1.72 %
Loans receivable, net (2)	**374,593**	**13,072**	**4.65 %**	354,132	11,891	4.48 %
Total interest-earning assets	**478,811**	**14,670**	**4.09 %**	471,040	13,388	3.79 %
Noninterest-earning assets	**34,546**			43,526		
Total assets	**$513,357**			$514,566		
Interest-bearing liabilities:						
Statement savings	**$40,449**	**$50**	**0.16 %**	$43,771	$41	0.12 %
Checking accounts	**30,018**	**8**	**0.04 %**	25,966	7	0.04 %
Money market	**58,583**	**292**	**0.66 %**	62,308	243	0.52 %
Certificates of deposit	**238,262**	**2,465**	**1.38 %**	241,176	1,753	0.97 %
Total interest-bearing deposits	**367,312**	**2,815**	**1.02 %**	373,221	2,044	0.73 %
Borrowings	**55,952**	**860**	**2.05 %**	44,022	503	1.52 %
Total interest-bearing liabilities	**423,264**	**3,675**	**1.16 %**	417,243	2,547	0.81 %
Noninterest-bearing liabilities and equity:						
Noninterest-bearing deposits	**29,157**			29,585		
Other noninterest-bearing liabilities	**5,475**			6,604		
Total liabilities	**457,896**			453,432		
Total shareholders’ equity	**55,461**			61,134		
Total liabilities and shareholders’ equity	**$513,357**			$514,566		
Net interest income		**$10,995**			$10,841	
Net interest rate spread (3)			**2.93 %**			2.98 %
Net interest-earning assets (4)	**$55,547**			$53,797		
Net interest margin (5)			**3.06 %**			3.07 %
Average interest-earning assets to average interest-bearing liabilities	**113.12 %**			112.89 %		

(1) Includes U.S agency and treasury securities, municipal and corporate bonds and to a much lesser extent, Federal Home Loan Bank equity securities.
(2) Loans on non-accrual status are included in average loans carrying a zero yield.
(3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing libilities.
(4) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(5) Net interest margin represents net interest income divided by average total interest-earning assets.

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Provision for Loan Losses. We establish provisions for loan losses that are charged to operations in order to maintain the allowance for loan losses at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. There was $382,000 charged to the provision for loan losses for the nine months ended December 31, 2018 compared to a provision for loan loss of $625,000 for the nine months ended December 31, 2017. In the first three quarters of fiscal 2019, the $382,000 provision for loan loss recorded is primarily attributable to $173,000 in net charge-offs experienced over this period and roughly $294,000 in additional reserves associated with the revaluation of our environmental factors (see Note 1 of the Financial Statements under *Summary of Significant Accounting Policies* for further discussion), partially offset by a decline in loan balances; compared to the provision for the prior year comparable period, which was related to net charge-offs of $210,000 and growth within the loan portfolio, as reflected in the table below.

The allowance for loan losses was $3.0 million, or 54.8% of non-performing loans at December 31, 2018 compared to $2.6 million, or 39.3% of non-performing loans at December 31, 2017. The increase in the percentage is a result of the $1.1 million decrease in nonperforming loans over this period, partially offset by a $421,000 increase in the allowance for loan losses. The $5.5 million in non-performing loans at December 31, 2018 primarily consisted of two commercial real estate relationships totaling $4.1 million. The first relationship has a recorded value of $2.9 million and was placed on nonaccrual in June 2018, while the second relationship has a book value of $1.2 million and has had $1.9 million in charge-offs over the past two years. Both relationships have been recorded at their net realizable fair value based upon appraisals performed within the last year. No additional charge-offs are anticipated with these relationships at this time; however, changes in property values and other circumstances may result in additional charge-offs at a later date.

During the nine months ended December 31, 2018, loan charge-offs totaled $297,000 with recoveries of $124,000, compared to $236,000 in charge-offs and $26,000 in recoveries during the nine months ended December 31, 2017. During fiscal year 2019, we expect that we will continue our emphasis in growing commercial real estate and commercial business loans, which have higher interest rates than one-to four-family mortgage loans, thus are generally considered to bear higher risk than one-to four-family mortgage loans and could contribute to higher loan loss provisions going forward.

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

	Nine Months Ended December 31,	
	2018	**2017**
	(dollars in thousands)	
Allowance for loan losses at beginning of period	**$2,822**	$2,195

Charge-offs:		
Real estate loans:		
Residential	**14**	9
Investor	**41**	126
Commercial	**31**	100
Construction	**-**	-
Commercial business	**209**	-
Home equity	**-**	-
Consumer	**2**	1
Total charge-offs	**297**	236
Recoveries	**124**	26
Net charge-offs	**173**	210
Provision for loan losses	**382**	625
Allowance for loan losses at end of period	**$3,031**	$2,610
Allowance for loan losses to non-performing loans	**54.80 %**	39.33 %
Allowance for loan losses to total loans outstanding at the end of the period	**0.82 %**	0.67 %
Net charge-offs to average loans outstanding during the period (annualized)	**0.06 %**	0.08 %

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Noninterest Revenue. Noninterest revenue decreased $155,000, or 15.2%, to $868,000 for the nine months ended December 31, 2018, compared to $1.0 million for the nine months ended December 31, 2017. The following table outlines the changes in noninterest revenue for the nine-month periods.

	Nine months ended December 31,			
	2018	2017	$ Change	% Change
Service charges	**$365,434**	$347,201	$18,233	5.3
Loss on sale of investment securities	**-**	(2,356)	2,356	100.0
Gain on sale of loans held for sale	**34,482**	-	34,482	N/A
Gain on sale of property and equipment	**-**	212,743	(212,743)	(100.0)
Earnings on bank-owned life insurance	**344,070**	369,991	(25,921)	(7.0)
Other fees and commissions	**124,177**	95,972	28,205	29.4
Total noninterest revenue	**$868,163**	$1,023,551	$(155,388)	(15.2)

Service charges associated with retail and commercial deposit products increased during the nine months ended December 31, 2018 compared to the same period a year ago. Management remains focused on growing core deposits, particularly checking accounts, which typically generate more service fee income. The average balance relating to overall checking accounts for the nine months ended December 31, 2018 was $59.2 million compared to an average balance of $55.6 million at December 31, 2017, an increase of 6.5%, or $3.6 million. We continue to review and evaluate our fee structure to be more aligned with our market. Customers, however, have become more cost conscious of fees and better manage their deposit relationship with the Bank.

During the nine months ended December 31, 2018, the Company was able to enhance noninterest revenue by $34,000 relating to gains on loans sold to the secondary market. In the last quarter of fiscal 2017 and into fiscal 2018, the Company purposely held in portfolio the majority of our residential loan originations to partially offset the increased run-off associated with this loan segment due to higher balances resulting from our two prior acquisitions. Beginning in fiscal 2019, however, we again started to sell qualified residential loan originations into the secondary market as a means to generate noninterest revenue and diversify our income stream. In the prior year nine-month period we also realized losses on the sale of investment securities of $2,000 compared to none for the nine months ended December 31, 2018.

The $213,000 gain on sale of property and equipment for the prior year period ended December 31, 2017 is related specifically to the sale of our Pigtown branch in Baltimore City, along with various furniture and equipment that was associated with the property. This branch was relocated within the same community, but to a smaller, more efficient space that provided operational cost savings.

In addition to these noninterest revenue items, the Company also experienced a $28,000 increase in other fees and commissions, offset by a $26,000 decline in earnings associated with BOLI. The decline in BOLI is due to a reduction in the cash surrender value of the company's outstanding BOLI related to the pay-out of death benefits in the fourth quarter of fiscal 2018. Other fees and commissions include the collection of certain loan fees, merchant card services and other miscellaneous items. Merchant card services increased $6,000 period-over-period.

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Noninterest Expense. Noninterest expense increased $361,000 to $10.1 million for the nine months ended December 31, 2018 compared to $9.7 million the same period a year ago. The increase is attributable to $559,000 in merger related expenses incurred pertaining to the pending merger with Orrstown. The merger expenses to date include legal fees and services provided by the Company's investment bankers. The following table outlines the changes within noninterest expense for those periods.

	Nine months ended December 31,			
	2018	2017	$ Change	% Change
Salaries and benefits	**$5,768,826**	$5,531,033	$237,793	4.3
Occupancy	**768,502**	759,848	8,654	1.1
Advertising	**53,506**	63,685	(10,179)	(16.0)
Furniture and equipment	**272,671**	262,632	10,039	3.8
Data processing	**604,456**	522,469	81,987	15.7
Legal services	**138,314**	374,610	(236,296)	(63.1)
Other professional services	**298,045**	611,699	(313,654)	(51.3)
Merger related expenses	**558,598**	-	558,598	N/A
Deposit insurance premiums	**270,690**	222,359	48,331	21.7
Foreclosed real estate expense and losses	**13,749**	45,005	(31,256)	(69.5)
Other operating	**1,313,712**	1,306,791	6,921	0.5
Total noninterest expense	**$10,061,069**	$9,700,131	$360,938	3.7

Excluding merger related expenses, overall operating expenses have remained relatively unchanged, despite decreases in certain operating expenses related to specific expenses incurred in the prior year period, offset by increases in other operating expenses, particularly salaries and benefits and data processing. We have been able to manage a larger loan portfolio from an operational cost basis and continue to increase our interest revenue; however, this has been partially offset by the recent rise in interest rates and the impact to our cost of funds. This is reflected in the modest improvement of the Company's efficiency ratio which has decreased from 81.8% for the nine months ended December 31, 2017 to 80.1% for the nine months ended December 31, 2018. The efficiency ratio presented excludes the $559,000 in merger related expenses. Management remains committed to reducing operational expenses.

Salaries and benefit expense remain our highest operational cost and increased by $238,000, or 4.3%, period-over-period. This increase is due to annual evaluations and respective salary increases, along with bonus accruals that were not present in the prior year period due to our net loss position, partially offset by unfilled positions. Included in salaries and benefits for the nine months ended December 31, 2018 and 2017, is $273,000 and $241,000 in expense, respectively, relating to prior equity awards granted to officers under the Company's Equity Incentive Plan. The equity awards provide for management to have a vested interest in the performance of the company and share in the benefit of an increase in shareholder value. Similarly, other operating expenses for the same periods include $104,000 associated with equity awards granted to Directors.

The Company realized an increase in operating expenses relating to data processing and deposit insurance premiums for the nine-month periods ended December 31, 2018 and 2017. Data processing costs increased $82,000 for the comparable periods due to annual cost increases, along with the introduction of new technology that has made banking easier for our customers, including products such as mobile banking and our on-line consumer loan application. FDIC insurance premiums have also increased $48,000 to $271,000 for the nine months ended December 31, 2018 compared to $222,000 for the nine months ended December 31, 2017. This increase is attributable to the Company’s lower capital position that resulted from the establishment of a valuation allowance on our deferred tax asset at the end of March 2018. A financial institution’s FDIC insurance base is determined based upon an institution’s average consolidated assets less tangible equity.

The Company has been able to offset the increase in certain noninterest expenses through reduced operating expenses in other operational areas, including legal and other professional services. Legal fees are lower by $181,000 due to fewer problem assets and the exclusion of certain costs incurred in the prior year period, including our charter conversion and consultation with counsel to advise on agreements associated with loan purchases and certain branch issues and transactions. Other professional services also declined by $314,000 because of certain costs incurred in the prior year period, including the use of a financial consultant to assist with strategy and non-compete payments made to executives associated with the Fraternity Community Bancorp, Inc. acquisition. The terms and the payments under the consulting and non-compete agreements were fully satisfied in March and April 2018, respectively. Foreclosed real estate expense also decreased $31,000 due to a write-down of one property in the prior year period to its net realizable value determined through a newly obtained appraisal.

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Income Tax Expense. For the nine months ended December 31, 2018, the Company did not report any income tax expense on pre-tax income of $1.4 million compared to tax expense of $2.7 for the nine months ended December 31, 2017 on pre-tax income of $1.5 million. There was no tax expense during the first nine months of fiscal 2019 due to the release of a portion of the valuation allowance on our net deferred tax assets established in the prior fiscal year. In accordance with Accounting Standards Codification (ASC) 740, *Accounting for Income Taxes*, at December 31, 2018, the Company has assessed whether the deferred tax assets are more likely than not to be realized based on an evaluative process that considers all available positive and negative evidence. As part of this evaluative process, management considered the following sources of taxable income: 1.) taxable income in prior carryback years; 2.) the future reversals of taxable temporary differences; 3.) tax planning strategies; and 4.) future taxable income exclusive of reversing temporary differences and carryforwards. In making a conclusion, management evaluated all the available positive and negative evidence impacting these sources of taxable income. The first three options are more quantifiable and verifiable; however, management has concluded they are not viable sources of taxable income. As such, the positive evidence that has been most heavily relied upon, but the most subjective, is future taxable income exclusive of reversing temporary differences and carryforwards. Based upon the Company being in a three-year cumulative loss position, which creates negative evidence, and because this evidence is considered significant, management has concluded that there is more negative evidence than positive evidence and therefore, it is more likely than not that the Company will be unable to generate sufficient taxable income in the foreseeable future to fully utilize the net deferred tax assets.

If, in the future, the Company generates taxable income on a sustained basis sufficient to support the deferred tax assets, the need for a deferred tax valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation at that time. The establishment of a valuation allowance on our deferred tax assets for financial reporting purposes does not affect how the net operating loss carryforwards may be utilized on our subsequent income tax returns. The valuation allowance on the Company’s net deferred tax assets decreased $455,000 to $5.3 million at December 31, 2018, from $5.8 million at March 30, 2018 due to $559,000 in non-deductible merger expenses, book income of $1.4 million and adjustments for permanent and temporary differences between book and tax expenses. Income tax expense for the periods reported is based upon year-to-date results and is not reflective of annual earnings.

The large tax expense for the prior year period ended December 31, 2017 is directly related to the passage of the *Jobs Act*. The Act amended the Internal Revenue Code to reduce income tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Act reduces the federal corporate income tax rate from a maximum 35 percent to a flat 21 percent tax rate. As a result, our net deferred tax assets at that time, which were based upon a 34 percent corporate tax rate, had to be re-evaluated to reflect the new tax rate of 21 percent. This one-time non-cash adjustment was estimated to be $2.2 million and was recorded through income tax expense.

Liquidity and Capital Resources

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

We also have the ability to borrow from the FHLB to meet our funding and liquidity needs. At December 31, 2018, we had $51.1 million in borrowings from the FHLB and the capacity to borrow approximately $73.6 million more, subject to our pledging sufficient assets.

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

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

Our most liquid assets are cash and cash equivalents and interest-earning deposits. The level of these assets depends on our operating, financing, lending, and investing activities during any given period. At December 31, 2018, cash and cash equivalents totaled $26.5 million and securities classified as available-for-sale amounted to $65.6 million.

Total deposits decreased $21.0 million over the nine months ended December 31, 2018, while total deposits decreased $20.2 million over the same period a year ago; however, then increasing $12.5 million from December 31, 2017 to March 31, 2018. Deposit flows are affected by the level of interest rates, the interest rates and products offered by competitors and other factors. In the first three quarters of fiscal 2019, we continued our focus in growing our lower costing core deposits (considered to be all deposits other than certificates of deposit) to assist in funding organic loan growth. However, as interest rates have risen over this same period, the market competition for deposits, in particular time deposits and money market accounts, has become more competitive with respect to pricing. We have strategically decided not to price at the top of the market, unless through a promotional deposit product, or match competitor pricing in certain circumstances as a means to manage interest expense. Certificates of deposit due allow us to lock in those funds for an extended period of time based upon current interest rates. At December 31, 2018, certificates of deposit scheduled to mature within one year totaled $118.3 million, or 49.6% of certificates of deposit. We believe the large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for longer periods due to the current rising interest rate environment and local competitive pressures. Whether we retain these deposits will be determined in part by the interest rates we are willing to pay on such deposits. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on certificates of deposit due on or before December 31, 2019.

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, unused lines of credit and letters of credit. At December 31, 2018, we had $50.5 million in unused lines of credit and commitments to extend credit outstanding.

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

At December 31, 2018, we exceeded all of the applicable regulatory capital requirements for the Bank (See capital tables in Note 10 of the Notes to Consolidated Financial Statements). Our regulatory risk weighted capital ratios increased during the first three quarters of fiscal 2019 as a result of an increase in our capital levels due to the net income recorded over this period.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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Item 4. Controls and Procedures

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

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

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

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Part II – Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

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

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

Prior to completion of the Merger, we will incur or have incurred substantial expenses in connection with the completion of the transactions contemplated by the Merger Agreement. If the Merger is not completed, we would have to recognize these expenses without receiving the Merger consideration. In addition, if the Merger is not completed, we may experience negative reactions from the financial markets and from our customers and employees. The market price of our common stock may decline significantly, particularly to the extent that the current market price reflects a market assumption that the Merger will be consummated. We also could be subject to litigation related to any failure to complete the Merger or to proceedings commenced by Orrstown against us seeking damages or to compel us to perform our obligations under the Merger Agreement. These factors and similar risks could have an adverse effect on the results of operations, business and stock prices of the Company.

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

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

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

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

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

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

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

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

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

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

SIGNATURES

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

HAMILTON BANCORP, INC.

Date: February 13, 2019	/s/ Robert A. DeAlmeida Robert A. DeAlmeida President and Chief Executive Officer
Date: February 13, 2019	/s/ John P. Marzullo John P. Marzullo Senior Vice President, Chief Financial Officer and Treasurer