Hamilton Bancorp, Inc.
Form 10-K
June 26, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2015

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number: 1-35693

HAMILTON BANCORP, INC.

(Exact name of registrant as specified in its charter)

MARYLAND	**46-0543309**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

501 Fairmount Avenue, Suite 200, Towson, Maryland	**21286**
(Address of principal executive offices)	**(Zip Code)**

(410) 823-4510

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	**Nasdaq Capital Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by nonaffiliates as of September 30, 2014 was $39,576,582.

The number of shares outstanding of the registrant s common stock as of June 26, 2015 was 3,417,713.

DOCUMENTS INCORPORATED BY REFERENCE:

Proxy Statement for the Registrant s Annual Meeting of Stockholders (Part III)

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

Management s ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could affect actual results include changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board, the credit quality and composition of the loan and investment portfolios, valuation of assets acquired through foreclosure, deposit flows, competition, demand for loan products and for financial services in Hamilton Bancorp, Inc. s market area, changes in real estate market values in Hamilton Bancorp, Inc. s market area, changes in relevant accounting principles and guidelines and the inability of third party service providers to perform as required. For further discussion of factors that may affect the results, see Item 1A. Risk Factors in this Annual Report on Form 10-K (Annual Report). 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 law, we disclaim any intention or obligation to update or revise any forward-looking statements after the date of this Annual Report, whether as a result of new information, future events or otherwise.

In this Annual Report , the terms we, our, and us refer to Hamilton Bancorp, Inc. and Hamilton Bank, unless the context indicates another meaning. In addition, we sometimes refer to Hamilton Bancorp, Inc. as Hamilton Bancorp, and to Hamilton Bank as the Bank.

PART I

Item 1. BUSINESS

General

Hamilton Bancorp, Inc. is a Maryland chartered corporation established in June 2012 to become the holding company for Hamilton Bank in connection with the Bank s mutual-to-stock conversion. On October 11, 2012 the mutual-to-stock conversion was completed and the Bank became the wholly owned subsidiary of the Company. On that date the Company sold and issued 3,703,000 shares of its common stock at a price of $10.00 per share, through which the Company received net offering proceeds of $35,580,000. Hamilton Bancorp s principal business activity is the ownership of the Bank s capital stock and the management of the offering proceeds it retained in connection with the Bank s conversion. Hamilton Bancorp does not own or lease any property but instead uses the premises, equipment and other property of the Bank with the payment of appropriate rental fees, as required by applicable law and regulations, under the terms of an expense allocation agreement. In the future, Hamilton Bancorp may acquire or organize other operating subsidiaries.

Hamilton Bank is a federally chartered savings bank that has served the banking needs of its customers since 1915. Hamilton Bank is headquartered in Towson, which is located in Baltimore County, Maryland. The Bank conducts business primarily from its four full-service banking offices located in Baltimore City, Maryland and the Maryland counties of Baltimore and Anne Arundel. Our business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations, in one- to four-family residential mortgage loans (including owner-occupied and investor loans), commercial real estate loans, commercial business loans, home equity loans and lines of credit, construction loans and, to a limited extent, consumer loans (consisting primarily of loans secured by deposits and automobile loans). At March 31, 2015, $66.8 million, or 41.6%, of our total loan portfolio was comprised of permanent residential mortgage loans.

We also invest in securities, which consist primarily of U.S. government agency, municipal and corporate bond obligations, mortgage-backed securities and collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises, and to a much lesser extent, equity securities of government-sponsored enterprises.

We offer a variety of deposit accounts, including certificate of deposit accounts, money market accounts, savings accounts, NOW accounts and individual retirement accounts. We historically have not used borrowings to

fund our operations, however, in the second half of fiscal 2015, we did borrow from the Federal Home Loan Bank. We are dedicated to offering alternative banking delivery systems, including ATMs, online banking and remote deposit capture.

On April 15, 2015, Hamilton Bancorp entered into an Agreement and Plan of Merger (the Merger Agreement) by and among Hamilton Bancorp, Hamilton Acquisition Corp., a wholly-owned subsidiary of Hamilton Bancorp and Fairmount Bancorp, Inc. (Fairmount), pursuant to which Fairmount will merge with and into Hamilton Bancorp, with Hamilton Bancorp as the surviving entity, and immediately thereafter, Fairmount Bank will be merged with and into Hamilton Bank with Hamilton Bank as the surviving bank (collectively, the Merger).

Under the terms of the Merger Agreement, stockholders of Fairmount will receive a cash payment equal to thirty dollars ($30.00) for each share of Fairmount common stock, subject to possible adjustment. The aggregate merger consideration, excluding any upward price adjustment, is approximately $15.4 million.

The transaction has been approved by the Board of Directors of each company and is expected to close during the quarter ending September 30, 2015. Completion of the Merger is subject to customary closing conditions, including the receipt of required regulatory approvals and the approval of Fairmount s stockholders.

Available Information

The Bank s website address is www.hamilton-bank.com. Information on the Bank s website should not be considered a part of this Annual Report.

Market Area

We conduct our operations from our four full-service banking offices in Maryland. Our primary deposit market includes the areas surrounding our banking offices in Cockeysville, Pasadena, Towson, and the Hamilton area of Baltimore City. In August 2013, we closed our branch office in the Overlea area of Baltimore City due to its close proximity to one of our four remaining branch locations. More recently, in May 2015 we closed our stand alone branch office in the Towson area of Baltimore County and relocated it within our administrative offices, also located in the area of Towson. This will reduce overhead costs without compromising our customers or our service in this area of Baltimore County.

The bank considers the greater Maryland, southern Pennsylvania, Washington D.C., and northern Virginia as its primary lending area for its various consumer, commercial and mortgage lending services. It is the policy of the Bank to focus on lending to customers within its primary lending area, and/or to collaterize secured loans with real property located within the primary lending area. However, we occasionally make loans secured by property located outside of our primary lending market, especially to borrowers with whom we have an existing relationship or who have a significant presence within our primary market. Our primary lending market contains a diverse cross section of employment sectors, with a mix of services, manufacturing, wholesale/retail trade, federal and local government, health care facilities and finance related employment. The city of Baltimore is now considered a major center for both the financial and health service industries.

Our branch network includes Baltimore City and the Maryland countries of Anne Arundel and Baltimore. In recent years Baltimore City and Baltimore County have experienced relatively slow growth, while Anne Arundel County has grown at a faster pace. The stronger population growth experienced in Anne Arundel County has been reflected in higher household income and lower unemployment. Baltimore City, Baltimore County and Anne Arundel County reported preliminary unemployment rates of 7.9%, 5.5% and 4.5%, respectively, for December 2014, compared to the statewide and national unemployment rates of 5.5% and 5.6%, respectively.

Competition

We face significant competition within our market both in making loans and attracting deposits. Our market area has a high concentration of financial institutions including large money center and regional banks, community banks and credit unions. Some of our competitors offer products and services that we currently do

not offer, such as trust services and private banking. Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms, consumer finance companies and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies. Our primary focus is to build and develop profitable customer relationships across all lines of business while maintaining our position as a community bank.

As of June 30, 2014 (the latest date for which information is available), our market share was 0.38% of total deposits in Baltimore City, making us the 13th largest out of 31 financial institutions in Baltimore City based upon deposit share as of that date. In addition, as of June 30, 2014, our deposit market share was 0.67% and 0.41% of total deposits in Baltimore County and Anne Arundel County, respectively, making us the 20th largest out of 38 financial institutions in Baltimore County and the 20th largest out of 30 financial institutions in Anne Arundel County.

Lending Activities

General. Historically, our principal lending activity was the origination, for retention in our portfolio, of mortgage loans collateralized by one- to four-family residential real estate located within our primary market area. However, in 2009 we changed our business strategy to become less reliant upon one- to four-family lending and to emphasize commercial business and commercial real estate lending. In connection with this strategy, we have hired several commercial real estate and commercial business loan officers with strong experience in these lending areas. In addition, new back office commercial loan personnel have also been hired over the past year to assist with the record keeping, underwriting, and monitoring of our commercial loan portfolio. Previously the Bank utilized the services of third parties to conduct the underwriting analysis of such loans based on our underwriting policies. However, in the past year we have transitioned the commercial loan underwriting analysis in-house. In the past we have purchased commercial business and commercial real estate loans and participated in commercial and commercial real estate loans originated by other institutions. We currently sell almost all of our one- to four-family mortgage loans with terms over 10 years into the secondary market. In addition to commercial business loans, commercial real estate loans and residential mortgage loans, we also make home equity loans and lines of credit, residential and commercial construction loans, and, to a much lesser extent, consumer loans. A portion of the loans that we make for one- to four-family properties are made to investors who reside in our community.

Loan Portfolio Composition. Set forth below is selected information concerning the composition of our loan portfolio in dollar amounts and in percentages as of the dates indicated. Amounts shown do not include loans held for sale equal to $581,000, $-0-, $197,000, $-0- and $-0- at March 31, 2015, 2014, 2013, 2012 and 2011, respectively.

	At March 31,					
	2015		2014		2013	
	Amount	Percent	Amount	Percent	Amount	Percent
			(Dollars in thousands)			
Real estate loans:						
Residential mortgage loans:						
One- to four-family residential	$ 49,865	31.1%	$ 57,674	39.8%	$ 63,912	39.6%
One- to four-family investor	12,971	8.1	14,000	9.7	15,826	9.8
Construction	6,362	4.0	3,268	2.3	3,508	2.2
Commercial real estate	59,273	36.9	41,406	28.6	36,239	22.5
Total real estate loans	128,471	80.1	116,348	80.4	119,485	74.1
Commercial business loans	18,490	11.5	15,657	10.8	26,937	16.7
Consumer:						
Home equity loans and lines of credit	12,261	7.6	11,660	8.0	13,727	8.5
Other consumer	1,166	0.8	1,154	0.8	1,123	0.7
Total consumer loans	13,427	8.4	12,814	8.8	14,850	9.2
Total loans receivable	160,388	100.0%	144,819	100.0%	161,272	100.0%
Premium on purchased loans					15	
Net deferred loan origination fees and costs	(103)		(119)		(96)	
Allowance for loan losses	(1,690)		(1,786)		(2,071)	
Total loans receivable, net	$ 158,595		$ 142,914		$ 159,120	

	At March 31,			
	2012		2011	
	Amount	Percent	Amount	Percent
		(Dollars in thousands)		
Real estate loans:				
Residential mortgage loans:				
One- to four-family residential	$ 76,687	44.2%	$ 92,144	51.5%
One- to four-family investor	17,265	9.9	19,568	10.9
Construction	3,865	2.2	6,514	3.6
Commercial real estate	31,018	17.9	21,034	11.7
Total real estate loans	128,835	74.2	139,260	77.7%
Commercial business loans	27,158	15.7	19,425	10.8
Consumer:				
Home equity loans and lines of credit	16,344	9.4	19,224	10.8
Other consumer	1,181	0.7	1,310	0.7
Total consumer loans	17,525	10.1	20,534	11.5
Total loans receivable	173,518	100.0%	179,219	100.0%
Premium on purchased loans	38		61	

Net deferred loan origination fees and costs	(100)	(206)
Allowance for loan losses	(3,552)	(1,183)
Total loans receivable, net	$ 169,904	$ 177,891

Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at March 31, 2015. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	One-to Four-Family Residential Real Estate		One-to Four-Family Investor Real Estate		Construction Real Estate		Commercial Real Estate	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due During the Years Ending March 31,								
2016	$ 624	5.25%	$ 178	6.23%	$ 5,330	3.29%	$ 5,870	5.69%
2017	572	5.67	6,804	7.17			4,359	5.55
2018	785	4.80	377	7.64			3,183	5.97
2019 to 2020	2,585	4.64	4,114	5.26			16,941	4.55
2021 to 2025	7,902	3.92	1,052	5.60	491	4.25	25,866	4.42
2026 to 2030	3,209	4.79			541	4.25	229	4.15
2031 and beyond	34,188	4.70	446	6.26			2,825	4.14
Total	$ 49,865	4.60%	$ 12,971	6.41%	$ 6,362	3.45%	$ 59,273	4.73%

	Commercial Business		Home Equity Loans and Lines of Credit		Other Consumer		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due During the Years Ending March 31,								
2016	$ 9,253	3.65%	$ 289	5.22%	$ 27	4.32%	$ 21,571	4.21%
2017	88	6.00	117	3.84			11,940	6.47
2018	486	5.30	122	4.17	26	3.14	4,979	5.79
2019 to 2020	5,063	5.18	403	4.43	9	2.75	29,115	4.77
2021 to 2025	2,106	5.57	2,079	4.40	21	3.00	39,517	4.41
2026 to 2030	1,300	5.32	5,067	4.16			10,346	4.51
2031 and beyond	194	6.50	4,184	3.53	1,083	3.53	42,920	4.54
Total	$ 18,490	4.49%	$ 12,261	4.02%	$ 1,166	3.52%	$ 160,388	4.68%

Fixed and Adjustable-Rate Loan Schedule. The following table sets forth at March 31, 2015, the dollar amount of all fixed-rate and adjustable-rate loans due after March 31, 2016.

	Due after March 31, 2016		
	Fixed	**Adjustable**	**Total**
		(In thousands)	
Real estate loans:			
One- to four-family residential	$ 48,194	$ 1,047	$ 49,241
One- to four-family investor	12,732	61	12,793
Construction	1,032		1,032
Commercial	48,738	4,665	53,403
Commercial business loans	8,612	625	9,237
Consumer loans:			
Home equity loans and lines of credit	5,651	6,321	11,972
Other consumer	1,139		1,139
Total loans	$ 126,098	$ 12,719	$ 138,817

Residential Mortgage Loans. Hamilton Bank originates mortgage loans secured by owner occupied one- to four-family residential properties. To a lesser extent, we have also made loans to investors for the purchase of one- to four-family residential properties that are not owner-occupied. As of March 31, 2015, we had a total of $66.8 million of residential mortgage loans secured by one- to four-family properties, of which $53.8 million, or 80.6%, were secured by properties serving as the primary residence of the owner. The remaining $13.0 million, or 19.4%, of such loans were secured by non owner-occupied properties. Almost all of our residential mortgage loans are secured by properties in the Greater Baltimore area.

Historically, the terms of our one- to four-family mortgage loans retained in our portfolio ranged from 10 to 30 years. In order to lower our interest rate risk, beginning in 2009 we have sold to the secondary market almost all one- to four-family fixed rate loans that we originate with terms exceeding 10 years. During fiscal 2015 and 2014, we sold $2.8 million and $2.4 million of one- to four-family mortgage loans that we originated, respectively. Our residential mortgage portfolio is almost entirely comprised of fixed-rate loans, with 90.8% of residential mortgage loans due after March 31, 2016 having fixed rates at March 31, 2015. During the year ended March 31, 2015, we originated $578,000 in residential mortgage loans with adjustable-rates.

We generally do not make new one- to four-family mortgage loans on owner-occupied properties with loan-to-value ratios exceeding 95% at the time the loan is originated, and all loans with loan-to-value ratios in excess of 80% require private mortgage insurance. Loan to value ratios on refinances may not exceed 80%, and loan-to-value ratios for non-owner occupied properties may not exceed 85%. In addition, borrower debt may generally not exceed 43% of the borrower s monthly cash flow. With respect to borrower debt on loans secured by non-owner occupied properties, we look to the investor s aggregate debt and cash flows from all investment properties the investor operates. We require all properties securing residential mortgage loans to be appraised by a board-approved independent appraiser.

Loans secured by non-owner occupied properties typically have 5 to 10 year terms and amortize over a 25 to 30 year period. Because of the increased risk associated with non-owner occupied properties, interest rates on such loans are higher than for owner-occupied properties, and averaged 6.4% during the year ended March 31, 2015. We have generally only originated loans secured by non-owner occupied properties to investors that reside in our market area.

In an effort to provide financing for first-time home buyers, we offer 30-year fixed-rate one- to four-family mortgage loans with loan-to-value ratios up to 95%, which cannot be readily sold to the secondary market and are held in portfolio. In fiscal 2015 and 2014, we did not originate any such loans which we did not sell.

We also make jumbo loans (loans above $417,000, the current maximum conforming loan amount as established by the Federal Housing Finance Agency) that we typically sell into the secondary market. Jumbo loans that we originate and sell, typically have 30 year terms and maximum loan-to-value ratios of 80%. At March 31, 2015, our largest outstanding jumbo residential mortgage loan was for $1.6 million, with a book balance of $1.4 million. This loan is performing in accordance with its original terms.

Beginning in 2009, applications for loans that we intend to sell are processed through Mortgage Department Services, LLC (MDS), a company in which we have a minority interest. Prior to delivering applications to MDS, we review each application to ensure that the loan meets MDS standards for sale to the secondary market. However, we have outsourced the loan processing and loan underwriting to MDS as a cost savings measure. See Loan Originations, Participations, Purchases and Sales. We receive an origination fee for each loan processed and sold to the secondary market through MDS. All such loans are sold with servicing released and in most cases, with recourse that we provide due to (i) delinquency within the first 90 days of sale, or (ii) breaches of customary representations and warranties to the buyers.

All residential mortgage loans that we originate include due-on-sale clauses, which give us the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid. All borrowers are required to obtain title insurance for the benefit of Hamilton Bank. We also require homeowner s insurance and fire and casualty insurance and, where circumstances warrant, flood insurance on properties securing real estate loans.

Commercial Real Estate Loans. We originate commercial real estate loans in the Greater Baltimore area that are secured by properties used for business purposes such as small office buildings or retail facilities. We have increased our origination of commercial real estate loans over the last several years, and intend to continue to grow this portion of our loan portfolio in the future. At March 31, 2015, commercial real estate loans totaled $59.3 million, which amounted to 37.0% of total loans, compared to approximately $21.0 million, or 11.7% of total loans, at March 31, 2011.

Our commercial real estate loans are underwritten based on our loan underwriting polices. Our policies provide that such loans may be made in amounts of up to 80% of the appraised value of the property, provided that the property is more than 50% owner-occupied, or 75% of the appraised value of the property if it is not owner-occupied. Our commercial real estate loans typically have terms of 5 to 10 years and amortize for a period of up to 25 years. In the past year we have originated commercial real estate loans with terms of 7 to 10 years based upon the competitiveness of the market. Interest rates may be fixed or adjustable. If adjustable, then they are generally based on the Prime rate of interest or LIBOR.

The regulatory loan-to-one borrower limit is 15% of a bank s unimpaired capital plus unimpaired surplus. As a result of the additional capital received in the stock offering, Hamilton Bank s loans-to-one borrower limit is approximately $6.9 million. We have adopted an internal limit of $5.2 million. We generally target commercial real estate loans with balances of $250,000 to $4.0 million. At March 31, 2015, our commercial real estate loans had an average balance of $1.0 million. At that same date, our largest commercial real estate relationship included several loans totaling $4.8 million. These loans were secured by several restaurants, and were performing in accordance with their original terms at March 31, 2015.

Commercial real estate lending involves additional risks compared to one- to four-family residential lending because payments on loans secured by commercial real estate properties are often dependent on the successful operation or management of the properties, and/or the collateral value of the commercial real estate securing the loan. Repayment of such loans may be subject, to a greater extent than residential loans, to adverse conditions in the real estate market or the economy. Also, commercial real estate loans typically involve large loan balances to single borrowers or groups of related borrowers. Commercial real estate loans generally have a higher rate of interest and shorter term than

residential mortgage loans because of increased risks associated with commercial real estate lending. We seek to minimize these risks through our underwriting standards. Recently we have experienced a decrease in delinquencies and non-performing loans in our commercial real estate loan portfolio. See Risk Factors Our entry into commercial real estate and commercial business lending has resulted in higher losses on our loans.

Commercial Business Loans. We originate commercial business loans and lines of credit secured by non-real estate business assets. These loans are generally originated to small and middle market businesses in our primary market area. Our commercial business loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture, and are primarily secured by business assets other than real estate, such as business equipment, inventory and accounts receivable. We have increased our origination of commercial business loans over the last few years and intend to continue to grow this portfolio at a moderate pace. At March 31, 2015, commercial business loans and lines of credit outstanding totaled $18.5 million, which amounted to 11.5% of total loans, compared to approximately $19.4 million, or 10.8% of total loans, at March 31, 2011. At March 31, 2015, we also had $8.3 million of unfunded commitments on such loans.

Our commercial business loans have terms up to 5 years at both fixed and adjustable rates of interest, although, adjustable rates of interest are preferred and obtained when possible. Our commercial business loans are underwritten based on our commercial business loan underwriting policies. We typically avoid making commercial business loans to purchase highly specialized, custom made equipment which may be difficult to dispose of in the event of default. When making commercial business loans, we consider the financial statements, lending history and debt service capabilities of the borrower (generally requiring a minimum debt service coverage ratio of 1.20:1.00), the projected cash flows of the business, and the value of the collateral, if any. Virtually all commercial business loans are guaranteed by the principals of the borrower.

Hamilton Bank is also qualified to make Small Business Administration (SBA) loans. The SBA program is an economic development program which finances the expansion of small businesses. Under the SBA program, we originate and fund loans under the SBA 7(a) Loan Program which qualify for guarantees up to 85% for loans less than or equal to $150,000 and 75% for loans greater than $150,000. We also originate loans under the SBA s CDC/504 Loan Program in which we generally provide 50% of the financing, taking a first lien on the real property as collateral. We do not treat the SBA guarantee as a substitute for a borrower meeting our credit standards, and, except for minimum capital levels or maximum loan terms, the borrower must meet our other credit standards as applicable to loans outside the SBA process. During fiscal 2015, we did not originate any loans under the SBA programs, compared to $75,000 and $1.1 million of such loans originated in fiscal 2014 and 2013, respectively.

We focus on the origination of commercial business loans in amounts between $250,000 and $4.0 million. At March 31, 2015, our commercial business loans had an average balance of $299,000. At that same date, our largest commercial business loan was commercial line of credit with a commitment balance of $3.8 million, of which $2.0 million was advanced. The loan is secured by the business assets of the company and is performing in accordance with its original terms at March 31, 2015.

Commercial business loans generally have a greater credit risk than one- to four-family residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower s ability to make repayment from his or her employment and other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower s ability to make repayment from the cash flow of the borrower s business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. We seek to minimize these risks through our underwriting standards. During fiscal 2014 and 2013 we experienced increased delinquencies and non-performing loans within our commercial business loan portfolio, but have since restructured our commercial lending platform and improved our asset quality. See Risk Factors - Our entry into commercial real estate and commercial business lending has resulted in higher losses on our loans.

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Home Equity Loans and Lines of Credit. In addition to traditional one- to four-family residential mortgage loans, we offer home equity loans and lines of credit that are secured by the borrower s primary or secondary residence. At March 31, 2015, we had $12.3 million, or 7.6% of our total loan portfolio in home equity loans and lines of credit. At that date we also had $15.9 million of undisbursed funds related to home equity lines of credit.

Home equity loans and lines of credit are generally underwritten using the same criteria that we use to underwrite one- to four-family residential mortgage loans. Home equity loans and lines of credit may be underwritten with a loan-to-value ratio of up to 80% when combined with the principal balance of the existing first mortgage loan. Our home equity loans are primarily originated with fixed rates of interest with terms of up to 20 years. Our home equity lines of credit are originated with adjustable-rates based on the prime rate of interest minus an applicable margin and require interest paid monthly. Home equity loans and lines of credit are available in amounts of between $10,000 and $1.0 million.

Home equity loans and lines of credit secured by second mortgages have greater risk than one- to four-family residential mortgage loans secured by first mortgages. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure. When customers default on their loans, we attempt to foreclose on the property and resell the property as soon as possible to minimize foreclosure and carrying costs. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from those customers. Particularly with respect to our home equity loans and lines of credit, decreases in real estate values could adversely affect the value of property securing the loan.

Construction Loans. We originate construction loans for both commercial and residential real estate. Construction loans we originate generally provide for the payment of interest only during the construction phase. At the end of the construction phase, the loan converts to a permanent mortgage loan at the same or a different rate of interest. The construction period on the residential homes is typically nine to twelve months, at which time Hamilton Bank is repaid through permanent financing by a third party with servicing released.

Before making a commitment to fund a construction loan, Hamilton Bank requires detailed cost estimates to complete the project and an appraisal of the property by an independent licensed appraiser. Hamilton Bank also reviews and inspects each property before disbursement of funds during the term of the construction loan. Loan proceeds are disbursed after inspection based on the percentage of completion method. Construction loans for one- to four-family residential real estate may be underwritten with a loan-to-value ratio of up to 80% or 95% with private mortgage insurance. Commercial construction loans generally may not exceed a loan-to-value ratio of 75% to 85%.

Construction lending generally involves a greater degree of risk than other one- to four-family mortgage lending. The repayment of the construction loan is, to a great degree, dependent upon the successful and timely completion of construction. Various potential factors including construction delays or the financial viability of the builder may further impair the borrower s ability to repay the loan.

At March 31, 2015, total construction loans represented $6.4 million, or 4.0%, of Hamilton Bank s total loans, of which $4.0 million consisted of residential construction loans and $2.4 million was commercial construction. At March 31, 2015, the unadvanced portion of total construction loans totaled $6.5 million. At March 31, 2015, our largest construction loan had a contractual principal balance of $2.5 million and a recorded investment balance of $1.4 million. Although the borrower is current on payments, the Bank has placed the loan on nonaccrual and charged off $1.0 million due to lack of additional required funding and the inability to complete the project in a timely manner.

Other Consumer Loans. We make loans secured by deposit accounts up to 90% of the amount of the depositor s deposit account balance. On a more limited basis, we also originate automobile loans to our customers. Other consumer loans totaled $1.2 million, or 0.8% of our total loan portfolio, at March 31, 2015.

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Loan Originations, Participations, Purchases and Sales. Most of our loan originations are generated by our loan personnel operating at our corporate headquarters and banking office locations. All loans we originate are underwritten pursuant to our policies and procedures. While we originate both fixed-rate and adjustable-rate loans, our ability to generate each type of loan depends upon relative borrower demand and the pricing levels as set in the local marketplace by competing banks, thrifts, credit unions, and mortgage banking companies. Our volume of real estate loan originations is influenced significantly by market interest rates, and, accordingly, the volume of our real estate loan originations can vary from period to period.

Consistent with our interest rate risk strategy, in the low interest rate environment that has existed in recent years, we have sold on a servicing-released basis almost all of the one- to four-family residential mortgage loans with maturities over 10 years that we have originated. All loan applications that we have the intention of selling are processed through MDS. We have outsourced the loan processing and loan underwriting for one- to four-family residential mortgage loans to MDS as a cost savings measure. We pay a flat fee to MDS for each loan settled and we receive a fee per loan in return for delivery of the loan to the secondary market. All loans sold through MDS are sold with servicing released and in most cases, with recourse that we provide due to (i) delinquency within the first 90 days of sale,or (ii) breaches of customary representations and warranties to the buyers.

From time to time, we have purchased loan participations in commercial loans in which we are not the lead lender that are secured by real estate or other assets within the state of Maryland. With regard to all loan participations, we follow our customary loan underwriting and approval policies, and although we may be only approving and servicing a portion of the loan, we underwrite the loan request as if we had originated the loan to ensure cash flow and collateral are sufficient. At March 31, 2015, our loan participations totaled $20.8 million, or 13.0% of our total loan portfolio, the majority of which were in our primary market area. Of these $20.8 million in participations, $1.5 million were on nonaccrual at March 31, 2015, a decrease of $200,000 from March 31, 2014. We do not specifically look to loan participations as a means to increase loan volume, however, we do look at opportunities for participations, if presented, on a case by case basis.

During fiscal 2010, in connection with the acquisition of our Pasadena, Maryland office from K Bank, we purchased approximately $25.6 million of K Bank s loans. As of March 31, 2015, the remaining balance of loans purchased from K Bank totaled $10.2 million, or 6.3% of total gross loans, including three loans equaling $2.4 million that are classified as Troubled Debt Restructures that are performing as agreed under the restructure agreement. The remaining loans are performing as agreed under their current contract at March 31, 2015.

The following table shows our loan origination, repayment and sale activities for the fiscal years indicated.

	Year Ended March 31,	
	2015	2014
	(In thousands)	
Total loans at beginning of year	$ 144,819	$ 161,272
Loans originated:		
Real estate loans:		
Residential mortgage loans:		
One- to four-family residential	1,921	3,799
One- to four-family investor		
Construction	9,519	2,381
Commercial real estate	22,816	10,091
Total real estate loans	34,256	16,271
Commercial business loans	14,378	990
Consumer:		
Home equity loans and lines of credit	3,899	1,765
Other consumer	117	54
Total consumer loans	4,016	1,819
Total loans originated	52,650	19,080
Deduct:		
Principal repayments	27,379	33,110
Transferred to foreclosed real estate	12	1,003
Unused lines of credit	9,690	1,420
Net loan activity	15,569	(16,453)
Total loans at end of year	$ 160,388	$ 144,819

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures developed by management and approved by our board of directors. The loan approval process is intended to assess the borrower s ability to repay the loan and the value of the collateral that will secure the loan. To assess the borrower s ability to repay, our policies provide for the review of the borrower s employment and credit history and information on the historical and projected income and expenses of the borrower. We will also evaluate a guarantor when a guarantee is provided as part of the loan. As a cost saving measure, we have outsourced most of the processing and underwriting of our one-to four-family residential loan applications to a third party. The third party provides Hamilton Bank with a report on each loan application, which our lending officers then present for approval.

Hamilton Bank s policies and loan approval limits are established by our board of directors. Designated Bank officers and loan committee are assigned levels of loan authority. Having loan authority gives the individuals or committee the ability to authorize the extension of credit. Every extension of credit requires two signatures, one of which must have sufficient authority given the risk rating and aggregate exposure. The second approver cannot be an individual assigned less loan authority than the sponsor of the loan. Loan authority is recommended by the Chief Credit Risk

Officer and approved by the Loan Committee of the Board of Directors. All loan authorities are reviewed and confirmed annually by the Loan Committee. The Chief Credit Risk Officer, and or the President may recommend interim changes to establish loan limits or assign loan authority for new officers. These interim changes shall be presented to the Loan Committee for approval at its next regularly scheduled meeting. The Chief Credit Risk Officer and/or the President also have the authority to reduce or remove loan authority. Such changes are to be reported to Loan Committee after the fact.

Securities Activities

General. Our investment policy is developed by management and approved by the board of directors. The objectives of the policy are to: (i) ensure adequate liquidity for loan demand and deposit fluctuations, and to allow us to alter our liquidity position to meet both day-to-day and long-term changes in assets and liabilities; (ii) manage interest rate risk in accordance with our interest rate risk policy; (iii) provide collateral for pledging requirements; (iv) maximize return on our investments; and (v) maintain a balance of high quality diversified investments to minimize risk.

Our Investment Committee, consisting of our President and Chief Executive Officer, our Chief Financial Officer, and Controller is responsible for implementing our investment policy, including approval of investment strategies and monitoring investment performance. The President and Chief Financial Officer are authorized to execute purchases or sales of securities. The board of directors regularly reviews our investment strategies and the market value of our investment portfolio.

We account for investment and mortgage-backed securities in accordance with Accounting Standards Codification Topic 320, Investments Debt and Equity Securities. Accounting Standards Codification 320 requires that investments be categorized as held-to maturity, trading, or available for sale. Our securities are generally categorized as available-for-sale based on our need to meet daily liquidity needs and to take advantage of profits that may occur from time to time. At March 31, 2015, all of our securities were classified as available for sale.

Federally chartered savings institutions have authority to invest in various types of assets, including government-sponsored enterprise obligations, securities of various federal agencies, residential mortgage-backed securities, certain certificates of deposit of insured financial institutions, overnight and short-term loans to other banks, corporate debt instruments, debt instruments of municipalities and Fannie Mae and Freddie Mac equity securities. At March 31, 2015, our investment portfolio consisted entirely of securities and mortgage-backed securities issued by U.S. Government agencies, municipalities or U.S. Government-sponsored enterprises, as well as a small percentage of corporate bonds. The principal and interest on our mortgage-backed securities are guaranteed by the issuing entity.

At March 31, 2015, we owned $523,000 in Federal Home Loan Bank of Atlanta stock. As a member of Federal Home Loan Bank of Atlanta, we are required to purchase stock in the Federal Home Loan Bank of Atlanta. At March 31, 2015, we had no investments in a single company or entity (other than an agency of the U.S. Government, a municipality or a U.S. Government-sponsored enterprise) that had an aggregate book value in excess of 10% of our equity.

Amortized Cost and Estimated Fair Value of Securities. The following table sets forth certain information regarding the amortized cost and estimated fair values of our securities as of the dates indicated.

	At March 31,					
	2015		2014		2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Mortgage-backed securities:						
Fannie Mae	$ 44,083	$ 43,831	$ 47,189	$ 46,356	$ 49,657	$ 49,845
Ginnie Mae	2,415	2,456	4,753	4,802	11,536	11,975
Freddie Mac	25,281	25,070	26,426	25,617	27,303	27,380
Total mortgage-backed securities	71,779	71,357	78,368	76,775	88,496	89,200
U.S. Government agencies	17,509	17,312	24,539	23,413	27,075	27,029
Municipal bonds	2,149	2,317	3,242	3,338		
Corporate bonds	2,000	1,953				
Freddie Mac stock			7	27	7	5
Total	$ 93,437	$ 92,939	$ 106,156	$ 103,553	$ 115,578	$ 116,234

Portfolio Maturities and Yields. The composition and maturities of the debt investment securities portfolio at March 31, 2015 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur.

	At March 31, 2015											
	One Year or Less		More Than One Year Through Five Years		More Than Five Years Through Ten Years		More Than Ten Years		Total Securities			
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Estimated Fair Value	Weighted Average Yield
	(Dollars in thousands)										
Mortgage-backed securities:											
Fannie Mae	$	0.00%	$	0.00%	$ 14,354	2.71%	$ 29,729	2.33	$ 44,083	$ 43,832	2.45%
Ginnie Mae					18	6.50	2,397	2.90	2,415	2,456	2.90
Freddie Mac	1	6.02	7	6.01	2,042	1.96	23,231	2.21	25,281	25,070	2.19
Total mortgage-backed securities	1	6.02	7	6	16,414	2.62	55,357	2.30	71,779	71,358	2.37
U.S. Government agencies	509	3.80			17,000	2.11			17,509	17,312	2.16
Municipal bonds							2,149	4.65	2,149	2,317	4.65

Corporate bonds					2,000	3.00			2,000	1,953	3.00
Total	$ 510	3.80%	$ 7	6.01%	$ 35,414	2.40%	$ 57,506	2.39%	$ 93,437	$ 92,940	2.40%

Sources of Funds

General. Deposits, scheduled amortization and prepayments of loan principal, maturities and calls of securities and funds provided by operations are our primary sources of funds for use in lending, investing and for other any general purposes. We historically have not used Federal Home Loan Bank of Atlanta (FHLB) advances to fund our operations and did not have any advances as of March 31, 2014. In the second half of fiscal 2015, we did borrow from the FHLB and now have outstanding $6.0 million in advances as of March 31, 2015.

Deposits. We offer deposit products having a range of interest rates and terms. We currently offer statement savings accounts, NOW accounts, noninterest-bearing demand accounts, money market accounts and certificates of deposit. We also offer the Certificate of Deposit Account Registry Service (CDARS) program to our customers. Our strategic plan includes a greater emphasis on developing commercial business activities, both deposit and lending customer relationships.

Deposit flows are significantly influenced by general and local economic conditions, changes in prevailing interest rates, internal pricing decisions and competition. Our deposits are primarily obtained from areas surrounding our branch offices. In order to attract and retain deposits we rely on paying competitive interest rates and providing quality service.

Based on experience, we believe that our deposits are relatively stable. However, the ability to attract and maintain deposits and the rates paid on these deposits, has been and will continue to be significantly affected by market conditions. At March 31, 2015, $149.7 million, or 67.3% of our total deposit accounts were certificates of deposit, of which $86.1 million had maturities of one year or less.

The following tables set forth the distribution of our average deposit accounts, by account type, for the years indicated.

	For the Years Ended March 31,								
	2015			2014			2013		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)								
Deposit type:									
Certificates of deposit	$ 160,764	69.3%	1.00%	$ 179,191	72.3%	1.04%	$ 208,204	75.8%	1.30
Money market	29,168	12.6	0.12	28,761	11.6	0.12	27,694	10.1	0.24
Statement savings	15,343	6.6	0.05	15,394	6.2	0.05	15,210	5.5	0.14
Noninterest bearing demand	16,765	7.2		14,869	6.0		15,967	5.8	
NOW accounts	9,967	4.3	0.03	9,558	3.9	0.05	7,684	2.8	0.05
Total deposits	$ 232,007	100.0%	0.71%	$ 247,773	100.0%	0.77%	$ 274,759	100.0%	1.02

The following table sets forth certificates of deposit classified by interest rate as of the dates indicated.

	At March 31,		
	2015	2014	2013
	(In thousands)		
Interest Rate:			
Less than 2.00%	$ 134,569	$ 148,282	$ 164,194
2.00% to 2.99%	15,127	21,522	22,876
3.00% to 3.99%		270	4,487
4.00% to 4.99%		17	4,411
5.00% and above			50
Total	$ 149,696	$ 170,091	$ 196,018

Maturities of Certificates of Deposit Accounts. The following table sets forth the amount and maturities of certificates of deposit accounts at the dates indicated.

	At March 31, 2015 Period to Maturity					
	Less Than or Equal to One Year	More Than One to Two Years	More Than Two to Three Years	More Than Three Years	Total	Percent of Total
	(Dollars in thousands)					
Interest Rate Range:						
Less than 2.00%	$ 78,746	$ 24,766	$ 13,140	$ 17,917	$ 134,569	89.9%
2.00% to 2.99%	7,396	7,731			15,127	10.1
3.00% to 3.99%						
4.00% to 4.99%						
5.00% to 5.99%						
Total	$ 86,142	$ 32,497	$ 13,140	$ 17,917	$ 149,696	100.0%

As of March 31, 2015, the aggregate amount of outstanding certificates of deposit at Hamilton Bank in amounts greater than or equal to $100,000 was approximately $60.6 million. The following table presents the maturity of these certificates of deposit at such date.

Period to Maturity	At March 31, 2015 (In thousands)
Three months or less	$ 11,474
Over three through six months	7,036
Over six months through one year	13,287
Over one year to three years	20,012
Over three years	8,805
Total	$ 60,614

Borrowed Funds. As a member of the FHLB, Hamilton Bank is eligible to obtain advances upon the security of the Federal Home Loan Bank common stock owned and certain loan products, provided certain standards related to credit-worthiness have been met. Federal Home Loan Bank advances are available pursuant to several credit programs, each of which has its own interest rate and range of maturities. At March 31, 2015, based on available collateral, we had the ability to borrow approximately $50.1 million from the Federal Home Loan Bank of Atlanta. Historically we have not used Federal Home Loan Bank advances to fund our operations, and had no such advances as of March 31, 2014. In the second half of fiscal 2015 we did borrow from the FHLB and now have outstanding $6.0 million in advances as of March 31, 2015.

March 31, 2015

	Amount	Rate	Maturity Date
FHLB advance	$ 2,000,000	0.21%	6/3/2015
FHLB advance	2,000,000	0.28%	9/3/2015
FHLB advance	2,000,000	0.43%	3/3/2016
At period end	$ 6,000,000		

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.

Employees

As of March 31, 2015, we had 55 full-time equivalent employees. Our employees are not represented by any collective bargaining group. Management believes that we have a good working relationship with our employees.

Subsidiary Activities

Hamilton Bancorp has one subsidiary, Hamilton Bank. Hamilton Bank has one wholly owned subsidiary, 3110 FC, LLC, a Maryland limited liability company that was formed to hold other real estate owned acquired through foreclosure or deed-in-lieu of foreclosure.

REGULATION AND SUPERVISION

General

As a federal savings bank, Hamilton Bank is subject to examination and regulation by the Office of the Comptroller of the Currency (the OCC), and is also subject to examination by the Federal Deposit Insurance Corporation (the FDIC). The federal system of regulation and supervision establishes a comprehensive framework of activities in which Hamilton Bank may engage and is intended primarily for the protection of depositors and the FDIC s Deposit Insurance Fund, and not for the protection of stockholders. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. Hamilton Bank is also regulated to a lesser extent by the Board of Governors of the Federal Reserve System (the Federal Reserve Board), which governs the reserves to be maintained against deposits and other matters. Hamilton Bank must comply with the consumer protection regulations issued by the Consumer Financial Protections Bureau. Hamilton Bank also is a member of and owns stock in the Federal Home Loan Bank of Atlanta, which is one of the twelve regional banks in the Federal Home Loan Bank System. The OCC examines Hamilton Bank and prepares reports for the consideration of its board of directors on any operating deficiencies. Hamilton Bank s relationship with its depositors and borrowers is also regulated to a great extent by federal law and, to a much lesser extent, state law, especially in matters concerning the ownership of deposit accounts, the form and content of Hamilton Bank s loan documents and certain consumer protection matters.

As a savings and loan holding company, Hamilton Bancorp is subject to examination and supervision by, and is required to file certain reports with, the Federal Reserve Board. Hamilton Bancorp is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Set forth below are certain material regulatory requirements that are applicable to Hamilton Bank and Hamilton Bancorp. This description of statutes and regulations is not intended to be a complete description of such statutes and regulations and their effects on Hamilton Bank and Hamilton Bancorp. Any change in these laws or regulations, whether by Congress or the applicable regulatory agencies, could have a material adverse impact on Hamilton Bancorp, Hamilton Bank and their operations.

Dodd-Frank Act

The Dodd-Frank Act made significant changes to the regulatory structure for depository institutions and their holding companies, as well as changes that affect the lending, investments and other operations of all depository institutions. The Dodd-Frank Act required the Federal Reserve Board to set minimum capital levels for both bank holding companies and savings and loan holding companies that are as stringent as those required for the insured depository subsidiaries, and the components of Tier 1 capital for holding companies were restricted to capital instruments that were then currently considered to be Tier 1 capital for insured depository institutions. The legislation also established a floor for capital of insured depository institutions that cannot be lower than the standards in effect upon passage, and directed the federal banking regulators to implement new leverage and capital requirements that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as Hamilton Bank, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets are still examined for compliance by their applicable bank regulators. The new legislation also weakened the federal preemption available for national banks and

federal savings associations, and gave state attorneys general the ability to enforce applicable federal consumer protection laws.

The Dodd-Frank Act broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution, rather than on total deposits. The legislation also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor. The Dodd-Frank Act increased stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not. Further, the legislation requires that originators of securitized loans retain a percentage of the risk for transferred loans, directs the Federal Reserve Board to regulate pricing of certain debit card interchange fees and contains a number of reforms related to mortgage originations.

Many provisions of the Dodd-Frank Act involve delayed effective dates and/or require implementing regulations or have not been issued in final form. The full impact on our operations cannot yet fully be assessed. However, the Dodd-Frank Act has increased regulatory burden and compliance, operating and interest expense for Hamilton Bank and Hamilton Bancorp, and is likely to continue to do so.

Federal Banking Regulation

Business Activities. A federal savings bank derives its lending and investment powers from the Home Owners Loan Act, as amended, and applicable federal regulations. Under these laws and regulations, Hamilton Bank may invest in mortgage loans secured by residential and nonresidential real estate, commercial business loans and consumer loans, certain types of debt securities and certain other assets, subject to applicable limits. The Dodd-Frank Act authorized, for the first time, the payment of interest on commercial checking accounts. Hamilton Bank may also establish subsidiaries that may engage in certain activities not otherwise permissible for Hamilton Bank, including real estate investment and securities and insurance brokerage.

Capital Requirements. In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule to revise their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a uniform leverage ratio requirement of 4% of total assets, provides for a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain available-for-sale securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-out is exercised. The rule limits a banking organization s capital distributions and certain discretionary bonus payments to executive officers if the banking organization does not hold a capital conservation buffer consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule also implements the Dodd-Frank Act s directive to apply to bank and savings and loan holding companies consolidated capital requirements that are not less stringent than those applicable to their subsidiary institutions. The final rule became effective January 1, 2015. The capital conservation buffer will be phased in from January 1, 2016 to January 1, 2019, when the full capital conservation buffer will be effective.

At March 31, 2015, Hamilton Bank s capital exceeded all applicable regulatory requirements.

Loans to One Borrower. Generally, a federal savings bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of March 31, 2015, Hamilton Bank was in compliance with the loans-to-one-borrower

limitations.

Qualified Thrift Lender Test. As a federal savings bank, Hamilton Bank must satisfy the qualified thrift lender, or QTL, test. Under the QTL test, Hamilton Bank must maintain at least 65% of its portfolio assets in qualified thrift investments in at least nine months of the most recent 12 months. Portfolio assets generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings institution s business. A federal savings bank that fails the qualified thrift lender test must operate under specified restrictions specified in the Home Owners Loan Act. The Dodd-Frank Act made noncompliance with the QTL Test subject to enforcement action for a violation of law. At March 31, 2015, Hamilton Bank held 80.8% of its portfolio assets in qualified thrift investments, and satisfied the QTL Test.

Capital Distributions. Federal regulations govern capital distributions by a federal savings bank, which include cash dividends, stock repurchases and other transactions charged to the capital account. A federal savings bank must file an application for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings bank s net income for that year to date plus the savings bank s retained net income for the preceding two years;
- the savings bank would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or regulatory condition; or
- the savings bank is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings bank that is a subsidiary of a savings and loan holding company, such as Hamilton Bank, must still file a notice with the Federal Reserve Board at least 30 days before the board of directors declares a dividend or approves a capital distribution.

A notice or application related to a capital distribution may be disapproved if:

- the federal savings bank would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation, agreement.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution may not make any capital distribution if, after making such distribution, the institution would fail to satisfy any applicable regulatory capital requirement. A federal savings bank also may not make a capital distribution that would reduce its regulatory capital below the amount required for the liquidation account established in connection with its conversion to stock form. In addition, beginning in 2016, Hamilton Bank s ability to pay dividends will be limited if Hamilton Bank does not have the capital conservation buffer required by the new capital rules, which may limit the ability of Hamilton Bancorp to pay dividends to its stockholders. See Capital Requirements.

Community Reinvestment Act and Fair Lending Laws. All federal savings banks have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income borrowers. In connection with its examination of a federal savings bank, the OCC is required to assess the federal savings bank s record of compliance with the Community Reinvestment Act. A savings bank s failure to comply with the provisions to the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branch mergers, or in restrictions on its activities. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. The failure to comply with the Equal

Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the Department of Justice. Hamilton Bank received an outstanding Community Reinvestment Act rating in its last federal examination in fiscal 2008 and has recently had another examination completed in which a final determination has not been issued.

Transactions with Related Parties. A federal savings bank s authority to engage in transactions with its affiliates is limited by Sections 23A and 23B of the Federal Reserve Act and federal regulation. An affiliate is generally a company that controls, or is under common control with an insured depository institution, such as Hamilton Bank. Hamilton Bancorp is an affiliate of Hamilton Bank because of its control of Hamilton Bank. In general, transactions between an insured depository institution and its affiliates are subject to certain quantitative limits and collateral requirements. In addition, federal regulations prohibit a savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve the purchase of low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates. Federal regulations require savings banks to maintain detailed records of all transactions with affiliates.

Hamilton Bank s authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions generally require that extensions of credit to insiders:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and

- not to exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Hamilton Bank s capital.

In addition, extensions of credit in excess of certain limits must be approved by Hamilton Bank s loan committee or board of directors. Extensions of credit to executive officers are subject to additional limits based on the type of extension involved.

Enforcement. The OCC has primary enforcement responsibility over federal savings banks and has the authority to bring enforcement action against all institution-affiliated parties, including stockholders, and attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action by the OCC may range from the issuance of a capital directive or cease and desist order, to removal of officers and/or directors of the institution and the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1 million per day. The FDIC also has the authority to terminate deposit insurance or to recommend to the OCC that enforcement action be taken with respect to a particular savings bank. If action is not taken by the OCC, the FDIC has authority to take action under specified circumstances.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest-rate risk exposure, asset growth, compensation and other operational and managerial standards as the agency deems appropriate. Interagency guidelines

set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to implement an acceptable compliance plan. Failure to implement such a plan can result in further enforcement action, including the issuance of a cease and desist order or the imposition of civil money penalties.

Prompt Corrective Regulatory Action. Federal law requires, among other things, that federal bank regulatory authorities take prompt corrective action with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

The Federal Deposit Insurance Corporation has adopted regulations to implement the prompt corrective action legislation. For this purpose, a savings bank is placed in one of the five categories based on the savings bank s capital:

Well Capitalized - a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater.

Adequately Capitalized a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater.

Undercapitalized - a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%.

Significantly Undercapitalized - a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%.

Critically Undercapitalized - a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

As of March 31, 2015, Hamilton Bank was classified as a well capitalized institution.

Insurance of Deposit Accounts. The Deposit Insurance Fund of the FDIC insures deposits at FDIC-insured financial institutions such as Hamilton Bank. Deposit accounts in Hamilton Bank are insured by the FDIC generally up to a maximum of $250,000 per separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts. The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund.

Under the FDIC s risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other risk factors. Rates are based on each institution s risk category and certain specified risk adjustments. Stronger institutions pay lower rates while riskier institutions pay higher rates.

The FDIC issued a final rule that redefined the assessment base used for calculating deposit insurance assessments effective April 1, 2011. Under the rule, assessments are based on an institution s average consolidated total assets minus average tangible equity instead of total deposits. The final rule revised the assessment rate schedule to establish assessments ranging from 2.5 to 45 basis points.

In addition to the FDIC assessments, the Financing Corporation (FICO) is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended March 31, 2015, the annualized FICO assessment was equal to 0.60 of a basis point of total assets less tangible capital.

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of Hamilton Bank. Management cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

Prohibitions Against Tying Arrangements**.** Federal savings banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Federal Home Loan Bank System. Hamilton Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the Federal Home Loan Bank of Atlanta, Hamilton Bank is required to acquire and hold shares of capital stock in the Federal Home Loan Bank. As of March 31, 2015, Hamilton Bank was in compliance with this requirement.

Federal Reserve System

Federal Reserve Board regulations require savings banks to maintain noninterest-earning reserves against their transaction accounts, such as negotiable order of withdrawal and regular checking accounts. At March 31, 2015, Hamilton Bank was in compliance with these reserve requirements.

Other Regulations

Interest and other charges collected or contracted for by Hamilton Bank are subject to state usury laws and federal laws concerning interest rates. Hamilton Bank s operations are also subject to federal laws applicable to credit transactions, such as the:

Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;

Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one- to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;

Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;

fair lending laws;

Unfair or Deceptive Acts or Practices laws and regulations;

- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;

- Truth in Savings Act; and

- Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

In addition, the Consumer Financial Protection Bureau issues regulations and standards under these federal consumer protection laws that affect our consumer businesses. These include regulations setting ability to repay and qualified mortgage standards for residential mortgage loans and mortgage loan servicing and originator compensation standards. Hamilton Bank is evaluating recent regulations and proposals, and devotes significant compliance, legal and operational resources to compliance with consumer protection regulations and standards.

The operations of Hamilton Bank also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers rights and liabilities arising from the use of automated teller machines and other electronic banking services;

- Check Clearing for the 21st Century Act (also known as Check 21), which gives substitute checks, such as digital check images and copies made from that image, the same legal standing as the original paper check;

- The USA PATRIOT Act, which requires savings banks to, among other things, establish broadened anti-money laundering compliance programs, and due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements that also apply to financial institutions under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and

- The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution s privacy policy and provide such customers the opportunity to opt out of the sharing of certain personal financial information with unaffiliated third parties.

Holding Company Regulation

General. Hamilton Bancorp is a savings and loan holding company within the meaning of Home Owners Loan Act. As such, Hamilton Bancorp is registered with the Federal Reserve Board and is subject to regulations, examinations, supervision and reporting requirements applicable to savings and loan holding companies. In addition, the Federal Reserve Board has enforcement authority over Hamilton Bancorp and any future non-savings institution subsidiaries.

Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution.

Permissible Activities. Under present law, the business activities of Hamilton Bancorp are generally limited to those activities permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act of 1956, as amended, provided certain conditions are met (including electing such status), or for

multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance as well as activities that are incidental to financial activities or complementary to a financial activity. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to regulatory approval, and certain additional activities authorized by federal regulations. As of March 31, 2015, Hamilton Bancorp, Inc. has not elected financial holding company status.

Federal law prohibits a savings and loan holding company, including Hamilton Bancorp, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or holding company thereof, without prior regulatory approval. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a non-subsidiary company engaged in activities that are not closely related to banking or financial in nature, or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

The Federal Reserve Board is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions:

- the approval of interstate supervisory acquisitions by savings and loan holding companies; and

- the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisition.

The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Capital. Savings and loan holding companies historically have not been subject to consolidated regulatory capital requirements. The Dodd-Frank Act, however, required the Federal Reserve Board to establish for all depository institution holding companies minimum consolidated capital requirements that are as stringent as those required for the insured depository subsidiaries. Legislation was enacted in December 2014 which requires the Federal Reserve Board to amend its Small Bank Holding Company Policy Statement to extend the applicability to bank and savings and loan holding companies of up to $1 billion in assets. That will exempt such holding companies from the consolidated holding company capital requirements.

Source of Strength. The Dodd-Frank Act extended the source of strength doctrine to savings and loan holding companies. The Federal Reserve Board has issued regulations requiring that all savings and loan holding companies serve as a source of managerial and financial strength to their subsidiary savings and loan associations by providing capital, liquidity and other support in times of financial stress.

Dividends. The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies and savings and loan holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization s capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the company s net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company s overall rate or earnings retention is inconsistent with the company s capital needs and overall financial condition. The ability of a savings and loan holding company to pay dividends may be restricted if a subsidiary savings and loan association

becomes undercapitalized. The policy statement also states that a savings and loan holding company should inform the Federal Reserve Board supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the savings and loan holding company is experiencing financial

weaknesses or if the repurchase or redemption would result in a net reduction, as of the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies may affect the ability of Hamilton Bancorp to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Acquisition. Under the Federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect control of a savings and loan holding company. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of the company s outstanding voting stock, unless the Federal Reserve Board has found that the acquisition will not result in control of the company. A change in control definitively occurs upon the acquisition of 25% or more of the company s outstanding voting stock. Under the Change in Bank Control Act, the Federal Reserve Board generally has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition.

Federal Securities Laws

Hamilton Bancorp s common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Hamilton Bancorp is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of shares of common stock issued in the stock offering does not cover the resale of those shares. Shares of common stock purchased by persons who are not our affiliates may be resold without registration. Shares purchased by our affiliates are subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If we meet the current public information requirements of Rule 144 under the Securities Act of 1933, each affiliate of ours that complies with the other conditions of Rule 144, including those that require the affiliate s sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of our outstanding shares, or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, we may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

Emerging Growth Company Status

The JOBS Act which was enacted in April 2012 has made numerous changes to the federal securities laws to facilitate access to capital markets. Under the JOBS Act, a company with total annual gross revenues of less than $1.0 billion during its most recently completed fiscal year qualifies as an emerging growth company. Hamilton Bancorp qualifies as an emerging growth company under the JOBS Act.

An emerging growth company may choose not to hold stockholder votes to approve annual executive compensation (more frequently referred to as say-on-pay votes) or executive compensation payable in connection with a merger (more frequently referred to as say-on-golden parachute votes). An emerging growth company also is not subject to the requirement that its auditors attest to the effectiveness of the company s internal control over financial reporting, and can provide scaled disclosure regarding executive compensation; however, Hamilton Bancorp will also not be subject to the auditor attestation requirement or additional executive compensation disclosure so long as it remains a smaller reporting company under Securities and Exchange Commission regulations (generally less than $75 million of voting and non-voting equity held by non-affiliates). Finally, an emerging growth company may elect to comply with new or amended accounting pronouncements in the same manner as a private company, but must make such election when the company is first required to file a registration statement. Such an election is irrevocable during the period a company is an emerging growth company. Hamilton Bancorp has elected to comply with new or amended accounting pronouncements in the same manner as a private company.

A company loses emerging growth company status on the earlier of: (i) the last day of the fiscal year of the company during which it had total annual gross revenues of $1.0 billion or more; (ii) the last day of the fiscal year of the issuer following the fifth anniversary of the date of the first sale of common equity securities of the company pursuant to an effective registration statement under the Securities Act of 1933; (iii) the date on which such company has, during the previous three-year period, issued more than $1.0 billion in non-convertible debt; or (iv) the date on which such company is deemed to be a large accelerated filer under Securities and Exchange Commission regulations (generally, at least $700 million of voting and non-voting equity held by non-affiliates).

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: (i) they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; (ii) they have made certain disclosures to our auditors and the audit committee of the board of directors about our internal control over financial reporting; and (iii) they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

ITEM 1A. RISK FACTORS

Our recent emphasis on commercial real estate and commercial business loans has increased our credit risk.

We have significantly increased our origination of commercial real estate and commercial business loans during the last five years, and we intend to continue to grow our portfolios of such loans in the near term, subject to market conditions. At March 31, 2015, commercial real estate loans totaled $59.3 million, or 37.0% of total loans, compared to $21.0 million, or 11.7% of total loans, at March 31, 2011. At March 31, 2015, commercial business loans and lines of credit outstanding totaled $18.5 million, or 11.5% of total loans, compared to $19.4 million, or 10.8% of total loans, at March 31, 2011. We have increased our origination of commercial business loans over the last few years to replace the commercial business loans we have charged-off due to poor asset quality or lost to other financial institutions based upon market terms.

Commercial real estate and commercial business loans generally have more risk than the one- to four-family residential real estate loans that we originate. Because the repayment of commercial real estate and commercial business loans depends on the successful management and operation of the borrower s properties or businesses, repayment of such loans can be affected by adverse conditions in the local real estate market or economy. Commercial real estate and commercial business loans may also involve relatively large loan balances to individual borrowers or groups of related borrowers. In addition, a downturn in the real estate market or the local economy could adversely affect the value of properties securing the loan or the revenues from the borrower s business, thereby increasing the risk of nonperforming loans. See Our entry into commercial real estate and commercial business lending has resulted in higher losses on our loans, below.

Our entry into commercial real estate and commercial business lending has resulted in higher losses on our loans.

Beginning in 2009, we changed our business strategy to become less reliant upon one- to four-family lending and emphasize commercial business and commercial real estate lending. To support this strategy, we have hired additional commercial real estate and commercial loan officers with commercial lending experience, as well as enhanced our back office monitoring and loan administration with additional personnel. We are now performing the underwriting analysis of such loans in-house versus contracting with an outside third party in past years. We have also purchased whole commercial business and commercial real estate loans from other institutions and participated in commercial business and commercial real estate loans originated by other institutions in the past. Although we do not actively seek to participate in or purchase such loans from other financial institutions, we do look at opportunities on a case by case basis if they present themselves.

Beginning in 2011, the level of our delinquent and non-performing commercial and commercial real estate (including commercial construction) loans began to increase, particularly in our portfolio of loan participations and purchased loans. During fiscal 2012, nonperforming loans increased $5.8 million, or 354%, to $7.4 million at March 31, 2012. Of the $7.4 million in nonperforming loans, $6.3 million were related to commercial real estate and commercial business loans. As a result of this large increase, we experienced charge-offs of $3.2 million and $2.3 million in fiscal 2013 and 2014, respectively. Commercial real estate and commercial business loans accounted for over 90% of the charge-offs in both those fiscal years. Through workout and charge-offs, as well as a thorough review of the commercial loan portfolio, we were able to reduce our nonperforming loans from $7.4 million at March 31, 2012 to $2.3 million at March 31, 2015. Commercial real estate loans comprised $1.4 million of the $2.3 million in nonperforming loans at March 31, 2015, while commercial business loans accounted for $226,000 of that total. We were able to reduce the number of charge-offs on loans to $323,000 during fiscal 2015, including $83,000 in charge-offs associated with commercial loans.

Given our recent emphasis on commercial business and commercial real estate lending, and that our portfolio of commercial business loans and commercial real estate loans is not seasoned, we have a limited loss history with which

to measure the level of risk in our commercial real estate and commercial business loan portfolios. In addition, with our in-house underwriting function for commercial business and commercial real

estate loans being relatively new, we have a limited history on which to assess the effectiveness of our commercial business and commercial real estate loan underwriting processes and personnel. Delinquencies and loan losses related to our commercial real estate loans and commercial business loans could increase more than we have provided for in our allowance for loan losses as we continue to emphasize this type of lending activity.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable incurred losses in our loan portfolio, resulting in additions to our allowance for loan losses. Additions to the allowance for loan losses are established through the provision for losses on loans which is charged against income.

The unseasoned nature of much of our commercial real estate loans and commercial business loans increases the risk that our allowance may be insufficient to absorb losses without significant additional provisions. See Our recent emphasis on commercial real estate and commercial business loans has increased our credit risk, and Our entry into commercial real estate and commercial business lending has resulted in higher losses on our loans, above. At March 31, 2015, our allowance for loan losses was $1.7 million, or 74.9% of non-performing loans.

Material additions to our allowance could materially decrease our net income. In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

Historically low interest rates may adversely affect our net interest income and profitability.

During the past six years it has been the policy of the Board of Governors of the Federal Reserve System (the Federal Reserve Board) to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of mortgage-backed securities. As a result, yields on securities we have purchased, and to a lesser extent, market rates on the loans we have originated, have been at levels lower than were available prior to 2008. Consequently, the average yield on our interest earning assets has decreased during the recent low interest rate environment. As a general matter, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets, which has resulted in increases in net interest income (the difference between interest income earned on assets and interest expense paid on liabilities) in the short term. However, our ability to lower our interest expense is limited at these interest rate levels, while the average yield on our interest-earning assets may continue to decrease.

The Federal Reserve Board has indicated its intention to maintain low interest rates until it believes appropriate progress has been made toward its objectives of maximum employment and price stability. Accordingly, our net interest income may be adversely affected and may even decrease, which may have an adverse effect on our profitability. For information with respect to changes in interest rates, see Changes in interest rates could adversely affect our results of operations and financial condition below.

Changes in interest rates could adversely affect our results of operations and financial condition.

Our profitability depends substantially on our net interest income, which is the difference between the interest income earned on our interest-earning assets and the interest expense paid on our interest-bearing liabilities. Increases in interest rates may decrease loan demand (which would also decrease our ability to generate noninterest income

through the sale of loans into the secondary market and related fees for continuing to service those sold

loans, particularly SBA loans sold) and make it more difficult for borrowers to repay adjustable-rate loans. In addition, as market interest rates rise, we will have competitive pressures to increase the rates we pay on deposits. Because interest rates we pay on our deposits would be expected to increase more quickly than the increase in the yields we earn on our interest-earning assets, our net interest income would be adversely affected.

We also are subject to reinvestment risk associated with changes in interest rates. Changes in interest rates may affect the average life of loans and mortgage-related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments at rates that are comparable to the interest rates on existing loans and securities.

We could potentially recognize goodwill impairment charges.

As of March 31, 2015, we had $2.7 million of goodwill related to the acquisition of our Pasadena, Maryland branch office in 2009. 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. Impairment testing requires that the fair value of Hamilton Bank be compared to the carrying amount of the Bank s net assets, including goodwill. If the fair value of the Bank is less than book value, an expense may be required to write-down the related goodwill to the proper carrying value. We test for impairment of goodwill during February of each year. As a result of impairment testing performed during February 2015, no impairment charge was recorded. However, future declines in our banking franchise value could result in goodwill impairment expense that is material to our earnings.

Strong competition within our market areas may limit our growth and profitability.

Competition in the banking and financial services industry within our market area is intense. In our market area we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors have substantially greater resources and lending limits than we have and offer certain services that we do not or cannot provide. Our profitability depends upon our continued ability to successfully compete in our market area. The greater resources and broader range of deposit and loan products offered by our competition may limit our ability to increase our interest-earning assets and profitability. We expect competition to remain intense in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered barriers to entry, allowed banks to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Competition for deposits and the origination of loans could limit our ability to successfully implement our business plan, and could adversely affect our results of operations in the future.

A worsening of economic conditions could result in increases in our level of non-performing loans and/or reduce demand for our products and services, which could have an adverse effect on our results of operations.

Our markets have been adversely impacted by the severe national economic recession of 2008 and 2009. Recovery by many businesses has been impaired by lower consumer spending. If the Federal Reserve Board increases the federal funds rate, higher interest rates would likely result, which may reduce our loan originations, and housing markets and U.S. economic activity would be negatively affected.

Unlike larger financial institutions that are more geographically diversified, our profitability depends on the general economic conditions in the Baltimore, Maryland metropolitan area. Local economic conditions have a significant impact on our commercial real estate and construction and consumer loans, the ability of the borrowers to repay these loans and the value of the collateral securing these loans. Almost all of our loans are to borrowers located in the

greater Baltimore, Maryland metropolitan area or secured by collateral located in the greater Baltimore, Maryland metropolitan area.

A further deterioration in economic conditions or a prolonged delay in economic recovery in the market areas we serve, in particular the greater Baltimore, Maryland metropolitan area, could result in the following consequences, any of which could have a material adverse effect on our business, financial condition, liquidity and results of operations:

- demand for our products and services may decline;
- loan delinquencies, problem assets and foreclosures may increase;
- collateral for loans, especially real estate, may decline further in value, in turn reducing customers borrowing power, reducing the value of assets and collateral associated with existing loans;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; and
- the amount of our low-cost or non-interest-bearing deposits may decrease.

Moreover, a significant decline in general economic conditions could further impact these local economic conditions and could further negatively affect the financial results of our banking operations.

We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision and examination by the Federal Reserve Board and the Office of the Comptroller of the Currency, our primary federal regulators, and the Federal Deposit Insurance Corporation, as insurer of our deposits. Such regulation and supervision governs the activities in which an institution and its holding company may engage, and are intended primarily for the protection of the insurance fund and the depositors and borrowers of Hamilton Bank rather than for holders of our common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

Income from secondary mortgage market operations is volatile, and we may incur losses or charges with respect to our secondary mortgage market operations which would negatively affect our earnings.

We generally sell in the secondary market all residential mortgage loans that we originate with terms over 10 years on a servicing released basis, earning noninterest income in the form of gains on sale. When interest rates rise, the demand for mortgage loans tends to fall and may reduce the number of loans available for sale. In addition to interest rate levels, weak or deteriorating economic conditions also tend to reduce loan demand. We do sell loans in the secondary market with recourse based upon delinquency or break of customary representations and warranties we provide to the buyers. If we breach those representations and warranties, the buyers can require us to repurchase the loans and we may incur a loss on the repurchase. Since 2009, we have outsourced the loan processing and underwriting functions with respect to loans that we intend to sell in the secondary market to a third-party company. While we review each application to ensure compliance with secondary market standards, there may be some additional risk in outsourcing these functions to a third party rather than utilizing our own employees. If our

relationship with this third-party loan processor/underwriter were to terminate, we would incur additional costs to undertake such functions using our own employees. In addition, if our current third-party arrangement were to be terminated, we may not be able to process and underwrite the same volume of loans for the secondary market using our own employees, which could result in reduced income.

Legislative and regulatory initiatives may affect our business activities and increase operating costs.

The potential exists for additional federal or state laws and regulations regarding lending, funding practices, capital, and liquidity standards. Bank regulatory agencies are expected to be more active in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders. In addition, new laws, regulations, and other regulatory changes may also increase our compliance costs and affect our business and operations. Moreover, the FDIC sets the cost of our FDIC insurance premiums, which can affect our profitability.

The Dodd-Frank Act made extensive changes in the regulation of insured depository institutions. The Dodd-Frank Act, among other things, directs changes in the way that institutions are assessed for deposit insurance, mandates the imposition of consolidated capital requirements on savings and loan holding companies, requires originators of certain securitized loans to retain a percentage of the risk for the transferred loans, stipulates regulatory rate-setting for certain debit card interchange fees, repeals restrictions on the payment of interest on commercial demand deposits and contains a number of reforms related to mortgage originations. The impact of many of the provisions of the Dodd-Frank Act cannot yet be fully assessed. However, there is a significant possibility that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden, compliance costs and interest expense.

New laws, regulations, and other regulatory changes, along with negative developments in the financial industry and the domestic and international credit markets, may significantly affect the markets in which we do business, the markets for and value of our loans and investments, and our ongoing operations, costs and profitability. For more information, see Regulation and Supervision in Item 1 of this Annual Report.

Risks associated with system failures, interruptions, or breaches of security could negatively affect our earnings.

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, securities, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches, but such events may still occur and may not be adequately addressed if they do occur. In addition any compromise of our systems could deter customers from using our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security.

In addition, we outsource a majority of our data processing to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any system failures, interruption, or breach of security could damage our reputation and result in a loss of customers and business, subject us to additional regulatory scrutiny or expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We conduct our business through our main banking office located in Baltimore City, Maryland, four other full-service branch offices located in Baltimore City and the Maryland counties of Baltimore and Anne Arundel, and our executive and administrative office located in Towson, Maryland, which also serves as a limited service banking office. The aggregate net book value of our premises was $1.6 million at March 31, 2015. Our facilities are adequate and suitable for our operations as conducted by us. The following table sets forth certain information with respect to our offices at March 31, 2015, including lease expiration dates for leased properties.

Location	Leased or Owned	Year Opened/ Acquired	Lease Expiration Date
Main Office:			
5600 Harford Road			
Baltimore, Maryland 21214	Owned	1937	
Branches:			
19 W. Pennsylvania Ave.			
Towson, Maryland 21204 (1)	Owned	1975	
9 Cranbrook Road			
Cockeysville, Maryland 21030 (2)	Leased	2000	May 1, 2020
8108 Jumpers Hole Road			
Pasadena, Maryland 21122	Owned	2009	
Executive and Administrative Office (3):			
501 Fairmount Ave. Suite 200			
Towson, Maryland 21286	Leased	2011	November 29, 2016

(1) 19 W. Pennsylvania Avenue branch was subsequently closed on May 1, 2015 and sold on June 23, 2015.
(2) Lease was renewed under a 5 year option on May 1, 2015.
(3) Our executive and administrative office was a limited service banking office prior to May 4, 2015, at which time this location became a full service banking office.

ITEM 3. LEGAL PROCEEDINGS

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market and Dividend Information.

The Company s common stock is listed on the Nasdaq Capital Market (NASDAQ) under the trading symbol HBK. The Company completed its initial public offering on October 10, 2012, and its stock commenced trading on the same day.

The following table sets forth the high and low sales prices of the Company s common stock as reported by NASDAQ for the periods indicated. The Company has not paid any dividends to its stockholders to date. See Dividends below.

	Price Range Per Share	
Fiscal 2015:	**High**	**Low**
Fourth Quarter	$ 13.88	$ 12.60
Third Quarter	13.40	11.50
Second Quarter	13.93	12.95
First Quarter	14.47	12.95

	Price Range Per Share	
Fiscal 2014:	**High**	**Low**
Fourth Quarter	$ 14.40	$ 13.29
Third Quarter	15.10	13.55
Second Quarter	15.45	13.30
First Quarter	14.22	12.55

Holders.

As of June 26, 2015, there were approximately147 holders of record of the Company s common stock.

Dividends.

The Company has not paid any dividends to its stockholders to date. The payment of dividends in the future will depend upon a number of factors, including capital requirements, the Company s financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. In addition, the Company s ability to pay dividends is dependent on dividends received from Hamilton Bank. For more information regarding restrictions on the payment of cash dividends by the Company and by Hamilton Bank, see Business Regulation and Supervision Holding Company Regulation Capital Distributions , Business Regulation and Supervision Federal Savings Institution Regulation Capital Distributions and Note 13 to the Consolidated Financial Statements included in this Annual Report. No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in the future.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities.

None.

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Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

There were no shares repurchased by the Company in the fourth quarter of fiscal 2015. On May 28, 2014, the Company announced the adoption of a stock repurchase program under which the Company could repurchase up to 179,755 shares of its common stock, or approximately 5% of the shares then outstanding. The program provides for repurchases through open market or private transactions, through block trades, and pursuant to any trading plan adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected historical financial and other data of Hamilton Bancorp, Inc. for the periods and at the dates indicated. The following is only a summary and you should read it in conjunction with the consolidated financial statements of Hamilton Bancorp, Inc. and notes beginning on page F-1 of this Annual Report. The information at March 31, 2015 and 2014 and for the years then ended is derived in part from the audited consolidated financial statements that appear in this Annual Report. The information at March 31, 2013, 2012 and 2011 and for the years then ended is derived in part from audited financial statements that do not appear in this Annual Report.

	At March 31, (In thousands)				
	2015	**2014**	**2013**	**2012**	**2011**
Selected Financial Condition Data:					
Total assets	$ 291,040	$ 302,769	$ 331,962	$ 318,468	$ 335,443
Cash and cash equivalents	16,644	33,073	33,969	35,250	39,473
Investment securities (1)	21,582	26,778	27,034	18,823	37,668
Mortgage-backed securities	71,357	76,776	89,200	76,008	63,483
Loans, net (2)	159,176	142,914	159,317	169,904	177,891
Federal Home Loan Bank of Atlanta stock at cost	523	266	401	502	504
Bank-owned life insurance	12,360	12,002	11,623	8,307	7,997
Deposits	222,319	238,820	260,117	281,015	298,613
Borrowings	6,000				
Total equity	60,800	61,770	67,436	35,065	34,091

(1) Includes U.S. agency securities, municipal and corporate bonds, and to a much lesser extent, FHLMC debt securities and Federal Home Loan Bank equity securities.

(2) Includes loans held for sale of $581,000, $-0-, $197,000, $-0- and $-0- at March 31, 2015, 2014, 2013, 2012 and 2011, respectively.

	For the Years Ended March 31, (In thousands, except per share data)				
	2015	**2014**	**2013**	**2012**	**2011**
Selected Operating Data:					
Interest revenue	$ 9,389	$ 10,236	$ 10,885	$ 12,463	$ 12,762
Interest expense	1,662	1,916	2,802	3,863	5,288
Net interest income	7,727	8,320	8,083	8,600	7,474
Provision for loan losses	170	1,874	1,730	2,718	616
Net interest income after provision for loan losses	7,557	6,446	6,353	5,882	6,858
Noninterest revenue	1,086	1,056	941	947	994
Noninterest expense	9,294	9,689	7,773	6,815	6,228
Income (loss) before income taxes (benefit)	(651)	(2,187)	(479)	14	1,624
Income taxes (benefit)	(337)	(992)	(307)	(117)	511

Net income (loss)	$ (314)	$ (1,195)	$ (172)	$ 131	$ 1,113
Basic loss per common share	$ (0.10)	$ (0.35)	$ (0.05)	N/A	N/A
Diluted loss per common share	$ (0.10)	$ (0.35)	$ (0.05)	N/A	N/A

	At or For the Years Ended March 31,				
	2015	2014	2013	2012	2011
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on average assets (ratio of net income to average total assets)	(0.11)%	(0.38)%	(0.05)%	0.04%	0.34%
Return on average equity (ratio of net income to average equity)	(0.54)%	(1.84)%	(0.33)%	0.36%	3.22%
Interest rate spread (1)	2.70%	2.68%	2.44%	2.62%	2.20%
Net interest margin (2)	2.85%	2.85%	2.62%	2.77%	2.37%
Efficiency ratio expressed as a percentage (3)	106.27%	99.90%	86.14%	71.38%	73.54%
Noninterest expense to average total assets	3.17%	3.08%	2.37%	2.09%	1.88%
Noninterest revenue to average total assets	0.37%	0.33%	0.29%	0.29%	0.30%
Average interest-earning assets to average interest-bearing liabilities	125.10%	125.30%	119.36%	111.65%	109.79%
Average equity to average total assets	19.84%	20.58%	15.72%	11.04%	10.44%
Asset Quality Ratios:					
Non-performing assets to total assets	0.93%	1.88%	1.77%	2.55%	0.48%
Non-performing loans to total loans	1.41%	3.48%	3.18%	4.25%	0.91%
Allowance for loan losses to non-performing loans	74.97%	35.44%	40.36%	48.20%	72.84%
Allowance for loan losses to gross loans	1.05%	1.23%	1.28%	2.05%	0.66%
Net charge-offs to average loans	0.18%	1.41%	1.96%	0.20%	0.00%
Capital Ratios:					
Common equity tier 1 capital (to risk-weighted assets) (4)	24.37%				
Total capital (to risk-weighted assets) (4)	25.32%	28.38%	26.70%	20.66%	17.72%
Tier 1 capital (to risk-weighted assets) (4)	24.37%	27.28%	25.52%	19.40%	17.07%
Tier 1 capital (to total adjusted assets) (4)	15.82%	15.10%	14.13%	9.91%	9.41%
Equity to total assets	20.89%	20.40%	20.31%	11.01%	10.16%
Tangible equity to tangible assets	20.12%	19.65%	19.62%	10.18%	9.35%
Number of:					
Full service offices	4	4	5	5	5
Full time equivalent employees	55	58	56	51	47

(1) The interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the period.
(2) The net interest margin represents net interest income as a percent of average interest-earning assets for the period.
(3) The efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income, excluding investment gains and write-downs and losses on foreclosed real estate.
(4) Capital ratios are for Bank only.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

This discussion and analysis reflects our consolidated financial statements and other relevant statistical data, and is intended to enhance your understanding of our financial condition and results of operations. The information in this section has been derived from the audited consolidated financial statements, which appear beginning on page F-1 of this Annual Report. You should read the information in this section in conjunction with the business and financial information regarding Hamilton Bancorp, Inc. provided in this Annual Report.

Overview

The Company and its wholly owned subsidiary, Hamilton Bank, continue to show improvement in earnings and earnings per share, as well as loan growth and asset quality for the year ending March 31, 2015 compared to the year ending March 31, 2014. We have been able to reduce the amount of the provision for loan loss in fiscal 2015 to $170,000 compared to $1.9 million in fiscal 2014 as a result of fewer charge-offs and improving asset quality. The Company has incurred more expenses in salaries and benefits as a result of restructuring our commercial loan platform and incurring the cost associated with the granting of equity awards over a full year period. The equity awards provide for management to have a vested interest in the performance of the Company and benefit from the increase in shareholder value. Management has diligently worked at monitoring and improving efficiencies to reduce our overall operating expenses going forward. The following highlights contain additional financial data and events that have occurred during the fiscal year ended March 31, 2015:

Net loss attributable to common shareholders decreased 74% to $314,000 for the fiscal year ending March 31, 2015, compared to a net loss of $1.2 million for fiscal 2014, an improvement of $881,000. Net loss per common share improved to $0.10 over that period compared to $0.35 in the prior fiscal year. This improvement was associated with a $1.7 million decrease in the provision for loan loss; a reflection of the decrease in charge-offs and problem loans.

Total gross loans, including loans held for sale, increased $16.2 million, or 11.2% in fiscal 2015 from $144.8 million at March 31, 2014 to $161.0 million at March 31, 2015. Roughly $11.7 million, or 73% of the growth occurred in the second half of fiscal 2015.

Asset quality has shown significant improvement during fiscal 2015. Nonperforming assets to total assets decreased 51% from 1.88% at March 31, 2014 to 0.93% at March 31, 2015, while nonperforming loans to gross loans decreased 60% from 3.48% at March 31, 2014 to 1.41% at March 31, 2015.

Net charge-offs declined $1.9 million, or 88%, for fiscal 2015 to $266,000, or 0.18% of average loans, from $2.2 million, or 1.41% of average loans, for fiscal 2014. This decrease resulted in a reduced provision for loan losses of $170,000 for fiscal 2015 compared to $1.9 million for fiscal 2014.

Overall deposits decreased $16.5 million, or 6.9% to $222.3 million at March 31, 2015 compared to $238.8 million at March 31, 2014. The decrease was related to run-off associated with higher costing certificates of deposit, partially offset by an increase in core deposits. Core deposits increased $3.9 million to $72.6 million at March 31, 2015 compared to $68.7 million at March 31, 2014.

We ended fiscal 2015 with a book value of $17.79 per common share and a tangible book value of $16.97 per common share compared to $17.18 and $16.39, respectively, at March 31, 2014.

We maintained strong liquidity and at March 31, 2015 the Bank was deemed well capitalized under federal regulations.

We focused on branch strategy and decided to close our Towson branch office in May 2015 as a means to reduce costs and improve efficiencies and profitability. As a result, we opened a full service branch at our Administrative office upon closing of our Towson branch to accommodate our current customer base in this area.

As part of our growth strategy, the Company performed due diligence on potential merger candidates, incurring approximately $165,000 in one-time expenses associated with this process. During the fourth quarter of fiscal 2015, the Company was in discussions with, and performed due diligence on, Fairmount Bancorp, Inc. (Fairmount) and subsequent to the fiscal year end, in April 2015 announced the signing of a definitive agreement with Fairmount. Approximately $74,000 of the $165,000 in one-time expenses incurred in fiscal 2015, was to perform the due diligence and draft a definitive agreement outlining the merger with Fairmount.

Strategic Plan

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

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

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

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

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

Although the current economic climate continues to present significant challenges for the financial industry, management 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.

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On April 5, 2012, the Jumpstart Our Business Startups Act of 2012 (the JOBS Act) was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an emerging growth company we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We have chosen to take advantage of the benefits of this extended transition period. Accordingly, our consolidated financial statements may not be comparable to companies that comply with such new or revised accounting standards.

For a discussion of significant accounting policies, *see Note 1 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:

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

Management performs 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. Actual loan losses may be significantly more than the allowances we have established which could result in a material negative effect on our financial results.

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

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

collateral. At March 31, 2015, all of our securities were either issued by U.S. government agencies, U.S. government-sponsored enterprises, municipalities, or corporations and the principal and interest on 95.4% of our securities were guaranteed by the issuing entity.

Goodwill Impairment. Goodwill represents the excess purchase price paid for our Pasadena branch over the fair value of the net assets acquired. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company is considered the Reporting Unit for purposes of impairment testing. Impairment testing requires that the fair value of the Company be compared to the carrying amount of the Company s net assets, including goodwill. If the fair value of the Company exceeds the book value, no write-down of recorded goodwill is required. If the fair value of the Company is less than book value, an expense may be required to write-down the related goodwill to the proper carrying value. We test for impairment of goodwill during February of each year. 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.

Based on our impairment testing during February 2015, there was no evidence of impairment of the Company s goodwill or intangible assets.

Income Taxes. We account for income taxes under the asset/liability method. We recognize deferred tax assets 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. We recognize the effect on deferred tax assets and liabilities of a change in tax rates 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. It is at least reasonably possible that management s judgment about the need for a valuation allowance for deferred tax assets could change in the near term.

Comparison of Financial Condition at March 31, 2015 and March 31, 2014

Assets. Total assets decreased $11.7 million, or 3.9%, to $291.0 million at March 31, 2015 from $302.8 million at March 31, 2014. The decrease in assets is primarily attributable to a $16.4 million decrease in cash and cash equivalents and a $10.6 million decrease in investment securities, partially offset by a $15.7 million increase in net loans during the fiscal year ended March 31, 2015.

Cash and Cash Equivalents. During the year ended March 31, 2015, cash and cash equivalents decreased by $16.4 million, or 49.7%, to $16.6 million compared to $33.1 million at March 31, 2014. These funds were used to fund both a growing loan portfolio and a shrinking deposit base during fiscal 2015.

Securities. Investment securities decreased $10.6 million, or 10.2%, to $92.9 million at March 31, 2015, from $103.6 million at March 31, 2014. The decrease in securities during fiscal 2015 was primarily due to the need to fund a $15.7 million increase in net loans and a $16.5 million decrease in deposits as part of our business strategy to allow higher costing certificates of deposit to run off at maturity, and gradually replace them with lower-cost core deposits. Partially offsetting the decrease in investments was a $2.1 million increase in the fair value of the investment portfolio from an unrealized loss position of $2.6 million at March 31, 2014 to an unrealized loss position of $498,000 at March 31, 2015. The increase in fair value of the investment portfolio is a result of both interest rates decreasing over the past twelve months and a large portion of the investment portfolio moving closer to maturity.

We evaluated securities with unrealized losses for an extended period of time and determined that these losses were temporary because, at March 31, 2015, we had 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. We have not identified any portion of the unrealized loss that is a result of credit deterioration in the issuer of the security. As the maturity date moves closer and/or interest rates decline, any unrealized losses in the portfolio will decline or dissipate.

Loans. Gross loans receivable, excluding loans held for sale, increased by $15.6 million, or 10.8%, to $160.4 million at March 31, 2015 from $144.8 million at March 31, 2014. The following table details the composition of loans and the related percentage mix and growth of total loans:

	March 31, 2015		**March 31, 2014**		**Year-To-Date Growth**	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**%**
Real estate loans:						
One-to four-family:						
Residential	$ 49,864,923	31%	$ 57,673,450	40%	$ (7,808,527)	-14%
Residential construction	3,955,702	2%	473,271	0%	3,482,431	736%
Investor	12,971,519	8%	14,000,119	10%	(1,028,600)	-7%
Commercial	59,273,398	37%	41,406,424	28%	17,866,974	43%
Commercial construction	2,405,849	1%	2,794,793	2%	(388,944)	-14%
	128,471,391	79%	116,348,057	80%	12,123,334	10%
Commercial	18,489,603	12%	15,656,599	11%	2,833,004	18%
Home equity loans	12,261,292	8%	11,660,531	8%	600,761	5%
Consumer	1,166,155	1%	1,154,007	1%	12,148	1%
Total Loans	$ 160,388,441		$ 144,819,194		$ 15,569,247	11%

The Bank continues to focus on growing both commercial real estate and commercial business loans as these loans offer higher rates of return and shorter maturity periods than typical retail lending. The largest increase in loans during the year is a $17.9 million, or 43.2%, increase in commercial real estate loans from $41.4 million at March 31, 2014 to $59.3 million at March 31, 2015. In addition, commercial business loans continued to grow, increasing $2.8 million, or 18.1%, to $18.5 million at March 31, 2015 from $15.7 million at March 31, 2014. The Bank is starting to see the benefits of our new commercial lending platform that has been restructured with new personnel and improved underwriting and monitoring procedures.

Partially offsetting the increases in the commercial loan portfolio is a $5.3 million decrease in one- to four-family residential loans (including investor loans) from $72.1 million at March 31, 2014 to $66.8 million at March 31, 2015 as these loans either paid down, prepaid or refinanced. The Bank continues to originate traditional one- to four-family residential loans and sell them in the secondary market at a premium in order to manage interest rate risk in a rising rate environment. During fiscal 2015, the Bank began to promote its one- to four-family residential construction lending program. During fiscal 2014, the Bank had originated roughly $1.5 million in residential construction loans, of which $473,000 in funds had been advanced. During fiscal 2015, $7.4 million in residential construction loans were originated and $5.6 million was advanced. During fiscal 2015, $1.7 million in residential construction projects were completed and paid-off. The construction period on the residential homes is typically nine to twelve months, at which time Hamilton Bank is repaid through permanent financing by a third party.

Bank-Owned Life Insurance. We invest in bank-owned life insurance to provide us with a funding source for our benefit plan obligations. Bank-owned life insurance also generally provides us noninterest income that is tax-exempt. Federal regulations generally limit our investment in bank-owned life insurance to 25% of our Tier 1 capital plus our allowance for loan losses. At March 31, 2015, our investment in bank-owned life insurance was $12.4 million, an

increase of $358,000 from $12.0 million at March 31, 2014. The increase is primarily attributable to the increase in the cash surrender value of the insurance policies.

Deposits. Total deposits decreased $16.5 million, or 6.9%, to $222.3 million at March 31, 2015 from $238.8 million at March 31, 2014. The Company continues to focus on changing its deposit mix to rely less on time deposits as a primary funding source and attract lower costing core deposits (which we consider to be all deposits other than certificates of deposit), including money market accounts. As a result, core deposits increased $3.9 million to $72.6 million at March 31, 2015 compared to $68.7 million at March 31, 2014. The increase in core deposits over this period consisted of a $3.3 million, or 13.4% increase in checking accounts to $27.7 million and a $981,000, or 6.2%, increase in savings accounts to $16.9 million, partially offset by a $349,000 decrease in money market accounts to $28.0 million.

The increase in core deposits was offset by a $20.4 million, or 12.0%, decrease in certificates of deposit which declined from $170.1 million at March 31, 2014 to $149.7 million at March 31, 2015. Through the first half of fiscal 2015, the Company has intentionally been allowing higher costing certificates of deposit to run-off and attempting to replace them with lower costing core deposits. As loan demand has increased, our strategy has changed with respect to deposit balances and we are trying to maintain our current certificate of deposit base as we focus on growing our core deposits at a faster pace.

Borrowings. Borrowings consist of short-term credit borrowings from the Federal Home Loan Bank (FHLB) with a maturity of less than a year. At March 31, 2015 the Company had $6.0 million in FHLB borrowings outstanding compared to no borrowings at the beginning of the fiscal year or any period prior to December of fiscal 2015. The short-term borrowings provided a less expensive means to support the cash outflow needed to fund new loan originations and the decline in time deposits experienced over the most recent two quarters versus selling higher yielding investment securities. These obligations are secured by our home equity loan portfolio. At March 31, 2015, we had the ability to borrow approximately $50.1 million from the FHLB, subject to our pledging sufficient assets. These obligations will be repaid as our cash position strengthens.

Equity. Total equity decreased $970,000, or 1.6%, to $60.8 million at March 31, 2015 from $61.8 million at March 31, 2014. The decrease was primarily attributable to the net loss of $314,000 for fiscal year 2015 and the 5.0% stock buyback program completed in May 2014 for $2.5 million that resulted in the purchase of 179,755 common shares. The decrease was partially offset by a $1.3 million increase in accumulated other comprehensive income associated with an increase in the fair value of the investment portfolio due to declining interest rates over fiscal 2015. The stock buyback program assisted in increasing the Company s book value per common share from $17.18 at March 31, 2014 to $17.79 at March 31, 2015.

Comparison of Results of Operations for the Years Ended March 31, 2015 and March 31, 2014

General. Net loss attributable to common shareholders was $314,000 or $0.10 per basic and diluted common share for the fiscal year ended March 31, 2015 compared to a net loss available to common shareholders of $1.2 million or $0.35 per basic and diluted common share for fiscal 2014, an improvement of $881,000. The improvement in net income resulted primarily from a $1.7 million decrease in the provision for loan losses, a $30,000 increase in noninterest revenue and a $395,000 decrease in noninterest expenses, partially offset by a $593,000 decrease in net interest income and a $654,000 decrease in income tax benefit reported due to a net loss. The net loss before income taxes improved $1.5 million to $652,000 for the twelve months ended March 31, 2015 compared to a pre-tax net loss of $2.2 million for the same twelve months a year ago.

Net Interest Income. Net interest income before provision for loan losses decreased $593,000, or 7.1%, to $7.7 million for the year ended March 31, 2015 compared to $8.3 million for the year ended March 31, 2014. The decrease in net interest income was due to an $848,000 decrease in interest revenue, partially offset by a $254,000 decrease in interest expense.

The decrease in interest revenue was a result of a decrease in the average balance of interest-earning assets, as well as a decrease in the average yield of those assets. The average balance of interest-earning assets decreased $20.7 million, or 7.1%, for the twelve months ended March 31, 2015 compared to the same period in fiscal 2014, while the average yield decreased 5 basis points from 3.51% to 3.46% over that same period. During the past fiscal

year, the Bank had several large commercial credit relationships carrying higher than average rates of interest pay-off and allowed one-to four-family residential loans to decrease while opting to sell any new originations in the secondary market. A competitive, low rate environment also resulted in decreases in both the yield on interest-earning assets and the rate paid on interest-bearing liabilities during the twelve months ended March 31, 2015, however, the lower market yields on interest bearing assets, particularly yields on loans, had a bigger impact on, and continue to negatively impact, net interest income.

The decline in the average balance and yield on interest-earning assets for fiscal 2015 compared to fiscal 2014 was partially offset by a $16.2 million, or 6.9% decline in the average balance of interest-bearing liabilities for the same period, as well as a 5 basis point decrease in the average yield on interest-bearing liabilities from 0.82% to 0.77%. As a result, the net interest margin remained flat at 2.85% for fiscal 2015 compared to fiscal 2014.

Interest Revenue. Interest revenue decreased $848,000 to $9.4 million for the year ended March 31, 2015 from $10.2 million for the year ended March 31, 2014 as a result of the decrease in interest and fees on loans and investment securities.

Interest and fees on loans decreased $742,000, or 9.2%, to $7.3 million for fiscal 2015, compared to $8.1 million for fiscal 2014. The decrease in interest and fees on loans is a result of the extended low interest rate environment, which resulted in a decrease in the average yield on loans from 5.28% during the twelve months ended March 31, 2014 to 5.00% during the twelve months ended March 31, 2015. The average balance of loans also decreased $6.3 million from $153.0 million for the year ended March 31, 2014 to $146.7 million for the year ended March 31, 2015. The decrease in average loan balances over this period was due in part to the payoff of several larger commercial credit customers that yielded higher than average market rates of interest and a reduction in one-to four-family residential loans as a means to reduce interest rate risk. These items were also a contributing factor to the decline in the average yield on loans along with the low rate environment.

Interest revenue on investment securities decreased slightly from $2.1 million for fiscal 2014 to $2.0 million for fiscal 2015. The average balance of investment securities decreased by $9.2 million, or 8.1%, to $104.3 million during the twelve months ended March 31, 2015 compared to $113.5 million during the same period last year, while the average yield increased to 1.94% during the twelve months ended March 31, 2015 from 1.87% during the same period last year. Over the past year the Bank has purchased several municipal bonds and one corporate bond that have yielded higher rates of interest compared to other investments within our portfolio and contributed to the overall increase in the average yield on investment securities. The largest decrease in the average balance of investment securities was in mortgage-backed securities, which declined $8.0 million to $79.1 million during the twelve months ended March 31, 2015 from $87.1 million during the same period last year. The proceeds from the mortgage-backed securities have been used to fund the decrease in the average time deposits over the same period

Interest Expense. Total interest expense decreased $254,000, or 13.3%, to $1.7 million during the twelve months ended March 31, 2015 from $1.9 million for the same period in fiscal 2014, as a result of the decrease in the average balance of interest bearing liabilities, primarily interest bearing time deposits, and a decrease in the average yield on interest bearing liabilities. Average interest bearing deposits decreased $17.7 million, or 7.6%, to $215.2 million for the twelve months ended March 31, 2015 from $232.9 million for the twelve months ended March 31, 2014. Over this same period, the average rate on interest bearing deposits declined from 0.82% for the twelve months ended March 31, 2014 to 0.77% for the twelve months ended March 31, 2015. A significant portion of our time deposits have already repriced in today s low interest rate environment, as a result, the decrease in interest expense is more attributable to a decrease in average balances, particularly balances in time deposits, compared to interest rates.

During fiscal 2015, we were able to work towards changing the mix of our deposit portfolio compared to the same period last year by allowing higher costing time deposits to run off and partially replace them with lower costing core deposits, including savings, interest and noninterest-bearing checking, and money market accounts. The average

balance of time deposits decreased $18.4 million to $160.8 million for the twelve months ended

March 31, 2015 compared to $179.2 million for the twelve months ended March 31, 2014. Over this same period, average core interest bearing deposits increased $765,000 to $54.5 million at March 31, 2015. The growth in core deposits is primarily a result of the continued efforts by our cash management and financial service teams.

Non-interest bearing deposits allow us to fund growth in interest earning assets at minimal cost. As a result of the growth generated primarily from the efforts of our cash management personnel and commercial loan officers in working with commercial loan clients to move their commercial loan deposits to Hamilton Bank, average non-interest bearing deposits increased $1.9 million, or 12.8%, to $16.8 million for the twelve months ended March 31, 2015, compared to $14.9 million for the twelve months ended March 31, 2014.

Since December 2014, the Bank has borrowed $6.0 million in short-term (maturity of less than a year) funds from the Federal Home Loan Bank (FHLB) at an average rate of 0.31% compared to no outstanding borrowings in fiscal 2014 or prior to December 2014. Additional funding was needed in the third fiscal quarter of 2015 to support new loan originations, as well as fund the decrease in deposits over that period. Short-term borrowing from the FHLB in today s low interest rate environment is a more cost effective means to obtain funds compared to selling investment securities that are earning a higher yield.

Average Balances 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 total 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 revenue or expense by the average balances of assets or liabilities, respectively, for the periods presented. For purposes of this table, average balances have been calculated using daily average balances, nonaccrual loans are included in average balances carrying a zero yield, and loan fees are included in interest income on loans.

	Years Ended March 31,					
	2015			2014		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in thousands)					
Interest-earning assets:						
Cash and cash equivalents	$ 20,077	$ 26	0.13%	$ 25,294	$ 37	0.15%
Investment securities (1)	25,228	566	2.24	26,399	505	1.91
Mortgage-backed securities	79,113	1,459	1.84	87,110	1,614	1.85
Loans (2)	146,720	7,338	5.00	153,019	8,080	5.28
Total interest-earning assets	271,138	9,389	3.46	291,822	10,236	3.51
Noninterest-earning assets	22,492			22,966		
Total assets	$ 293,630			$ 314,788		
Interest-bearing liabilities:						
Certificates of deposit	$ 160,764	$ 1,611	1.00%	$ 179,191	$ 1,868	1.04%
Money market	29,168	36	0.12	28,761	35	0.12
Statement savings	15,343	8	0.05	15,394	8	0.05
NOW accounts	9,967	3	0.03	9,558	5	0.05
Total interest-bearing deposits	215,242	1,658	0.77	232,904	1,916	0.82
Borrowings	1,489	4	0.27			
Total interest-bearing liabilities	216,731	1,662	0.77	232,904	1,916	0.82
Noninterest-bearing liabilities:						
Noninterest bearing deposits	16,765			14,869		
Other noninterest-bearing liabilities	1,879			2,236		
Total liabilities	235,375			250,009		
Total equity	58,255			64,779		
Total liabilities and equity	$ 293,630			$ 314,788		
Net interest income		$ 7,727			$ 8,320	
Net interest rate spread (3)			2.69%			2.68%

Net interest-earning assets (4)	$ 54,407			$ 58,918		
Net interest margin (5)			2.85%			2.85%
Average interest-earning assets to average average interest-bearing liabilities	125.10%			125.30%		

(1) Includes U.S agency and treasury securities, municipal and corporate bonds and to a much lesser extent, FHLMC and 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.

***Rate/Volume Analysis*.** The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

	2015 Compared to 2014 Increase (Decrease) Due to		
	Volume	**Rate**	**Net**
		(In thousands)	
Interest-earning assets:			
Cash and cash equivalents	$ (7)	$ (4)	$ (11)
Investment securities	(22)	83	61
Mortgage-backed securities	(148)	(7)	(155)
Loans receivable	(333)	(409)	(742)
Total interest-earning assets	(510)	(337)	(847)
Interest-bearing liabilities:			
Certificates of Deposit	(192)	(65)	(257)
Money Market		1	1
Statement savings			
NOW accounts		(2)	(2)
Borrowings		4	4
Total interest-bearing liabilities	(192)	(62)	(254)
Change in net interest income	$ (318)	$ (275)	$ (593)

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. The provision for loan loss losses for the year ended March 31, 2015 was $170,000, a decrease of $1.7 million compared to a provision for loan losses of $1.9 million for the year ended March 31, 2014. We were able to record less of a provision during fiscal 2015 compared to fiscal 2014 due to fewer charge-offs and improved asset quality. Management identified probable losses in the loan portfolio and recorded net charge-offs of $266,000 for the twelve months ended March 31, 2015, compared to $2.2 million for the twelve months ended March 31, 2014.

The allowance for loan losses was $1.7 million, or 75.0% of non-performing loans at March 31, 2015 compared to $1.8 million, or 35.4% of non-performing loans at March 31, 2014. During the twelve months ended March 31, 2015, loan charge offs totaled $323,000 with recoveries of $58,000, compared to $2.3 million in charge offs and $117,000 in recoveries during the twelve months ended March 31, 2014. The allowance for loan loss to gross loans was 1.05% at March 31, 2015 compared to 1.23% at March 31, 2014. During fiscal year 2015 and into fiscal 2016, we expect that we will continue our emphasis in growing commercial real estate and commercial business loans, which are generally considered to bear higher risk than one-to four-family mortgage loans and could contribute to higher provisions going forward.

Noninterest Revenue. Noninterest revenue increased $30,000, or 2.9%, to $1.1 million for the twelve months ended March 31, 2015 compared to fiscal 2014. The following table outlines the changes in noninterest revenue for the twelve month periods.

	Years Ended March 31, 2015	2014	$Change	% Change
Service charges	$ 383,261	$ 365,900	$ 17,361	4.7
Gain on sale of investment securities	271,551	171,890	99,661	58.0
Gain on sale of loans held for sale	35,066	28,858	6,208	21.5
Gain on sale of property and equipment	1,832	82,518	(80,686)	(97.8)
Earnings on bank-owned life insurance	357,891	379,410	(21,519)	(5.7)
Other fees and commissions	36,234	26,806	9,428	35.2
Total noninterest revenue	$ 1,085,835	$ 1,055,382	$ 30,453	2.9

Noninterest revenue primarily increased as a result of increases in service charges and gain on sale of investment securities. The increase in service charges primarily pertain to fees associated with deposit products. We have continued to focus on growing our core deposits, particularly checking accounts, which generate more service fee income, as well as cross sell deposit products and services through our cash management team. In addition, we continually monitor our fee structure on transactional accounts to be competitive with our market.

The increase in gain on sale of investments is a result of a lower interest rate environment compared to the same time last year. This provided the opportunity for us to sell several securities at a gain that previously contained some extension risk and provide additional funding needs for a declining deposit base.

The gain on sale of loans held for sale is attributable to the revenues earned on loans sold in the secondary market and the premiums associated with such sales. We sell our newly originated one-to four-family residential mortgage loans with a maturity greater than 10 years to the secondary market with service released to assist in managing our interest rate risk in anticipation of rising interest rates.

Offsetting the increases in noninterest revenue were decreases in gain on sale of property and equipment and earnings on bank-owned life insurance (BOLI). The decrease in gain on sale of property and equipment pertains to the closure and sale of our Belmar branch location in December 2013. Earnings on BOLI decreased as a result of lower earning rates received on this investment during the twelve months ended March 31, 2015 compared to the same period last year.

Noninterest Expense. Noninterest expense decreased $395,000, or 4.1%, to $9.3 million for the twelve months ended March 31, 2015 compared to $9.7 million for the twelve months ended March 31, 2014. The following table outlines the changes in noninterest expense for the twelve month periods.

	Years Ended March 31, 2015	2014	$Change	% Change
Salaries and benefits	$ 5,058,906	$ 4,634,525	$ 424,381	9.2
Occupancy	746,762	877,458	(130,696)	(14.9)
Advertising	141,288	250,340	(109,052)	(43.6)
Furniture and equipment	314,282	338,003	(23,721)	(7.0)
Data processing	547,227	605,446	(58,219)	(9.6)
Legal services	279,520	484,689	(205,169)	(42.3)
Other professional services	374,520	511,524	(137,004)	(26.8)
Merger related expenses	73,505		73,505	N/A
Deposit insurance premiums	231,442	251,535	(20,093)	(8.0)
Foreclosed real estate expense and losses	222,041	575,640	(353,599)	(61.4)

Other operating	1,304,657	1,159,836	144,821	12.5
Total noninterest expense	$ 9,294,150	$ 9,688,996	$ (394,846)	(4.1)

The $395,000 decrease in noninterest expense during the twelve months ended March 31, 2015, as compared to the same period of 2014, was attributable to a decrease in all expense categories except salaries and benefits, merger related expenses, and other operating expenses.

Salaries and benefits increased $424,000 in fiscal 2015 compared to fiscal 2014 due to the cost associated with equity awards granted to officers in February 2014 under the 2013 Equity Incentive Plan and the hiring of new commercial lending personnel. The equity awards provide for management to have a vested interest in the performance of the Company and share in the benefit from the increase in shareholder value. The awards to officers are expensed through salaries while awards to directors are expensed through other operating expense. The cost of these awards to officers for the twelve months ending March 31, 2015 was $303,000 compared to $51,000 during the prior year. In addition, we hired new personnel in the beginning of fiscal 2015 with the experience and background to assist in restructuring our commercial loan platform and enhance our analysis and monitoring processes. We were able to bring the commercial loan underwriting process in-house versus utilizing an outside third party in the past. This has contributed to the improvement in our asset quality, as well the reduction in charged-off loans.

During the second half of fiscal 2015, the Company incurred approximately $165,000 in expenses associated with potential merger related activities, of which $74,000 includes costs relating to the due diligence performed on Fairmount Bancorp, Inc. (Fairmount) and the drafting of a definitive agreement to merge Fairmount into Hamilton Bancorp, Inc., pending regulatory approval. These costs are considered non-recurring expenses of the Company.

Other operating expenses include daily operating expenses such as telephone, stationary and printing, dues and subscriptions, fees associated with correspondent banks, director compensation, and other smaller operating expenses. During the twelve months ending March 31, 2015 these expenses increased $145,000 to $1.3 million, or 12.5% compared to the same period a year ago. The increase is due to $117,000 in expense associated with equity awards granted to directors compared to $20,000 in the prior year and the natural increase in costs associated with doing business on a year-to-year basis.

The largest decreases in noninterest expenses included decreases in foreclosed real estate expense and losses, legal services, other professional services, advertising, and occupancy expense.

The decrease in foreclosed real estate expense and losses pertains to a $154,000 loss recognized in the prior year on the sale of an REO property, along with a $339,000 write-down in the fair value of another REO property at the end of fiscal 2014. This same REO property is still held by the Bank and was again written down by $221,000 to its fair value at the end of fiscal 2015 based upon a new appraisal that is performed annually. This property is still being marketed.

The combined reduction of $342,000 in legal services and other professional services during the twelve months ending March 31, 2015 compared to the same period a year ago is attributable to the reduction in problem assets and the cost associated with collecting on those credits. In addition, we looked to reduce or perform more functions internally versus outsourcing to a third party vendor.

Lastly, the decrease in advertising and occupancy expense, along with other expenses during fiscal 2015 compared to fiscal 2014 is a result of management diligently looking for ways to cut or reduce costs and improve efficiency going forward. We are more focused in our marketing plan, along with monitoring more closely the costs associated with daily operations and their overall impact. Management and staff are reviewing existing vendor contracts and discussing cost reductions and/or alternative means.

Income Tax Expense. We recorded a $337,000 tax benefit for the year ended March 31, 2015 after a net loss before income taxes of $652,000, compared to a $992,000 tax benefit for the year ended March 31, 2014 after a net loss before income taxes of $2.2 million. The effective income tax rate was a negative 51.8% for the twelve months ended

March 31, 2015 and 45.3% for the twelve months ended March 31, 2014. The reason the effective tax rate in both periods was negative is a result of the net loss before income taxes, as well as the impact from tax-exempt revenue.

Risk Management

Managing risk is an essential part of successfully operating a financial institution. Our most significant types of risk are economic risk and regulatory and compliance risk.

Our three most prominent forms of economic risk are credit risk, interest rate risk and market risk. Our primary credit risk is the risk of defaults in our loan portfolio that result from the inability or unwillingness of borrowers to make contractually required payments. To a lesser extent, we also have credit risk related to the risk of defaults in our investment securities portfolio. Interest rate risk is the potential reduction of interest income as a result of changes in interest rates. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available-for-sale securities that are accounted for on a mark-to-market basis.

Regulatory and compliance risk involves our ability to effectively adapt to, and comply with, changes in the regulatory environment for financial institutions. We are subject to the regulations of various government agencies. These regulations may change significantly from period to period. We also undergo periodic examinations by regulatory agencies that may subject us to further changes with respect to asset valuations and classifications, amounts required for the allowance for loan losses and operating restrictions resulting from the regulators judgment based on information available to them at the time of their examination.

Other risks that we face are operational risks, liquidity risk and reputation risk. Operational risks include risks related to fraud, processing errors, technology and disaster recovery. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers due to unforeseen circumstances. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in our customer base or revenue.

Credit Risk Management

Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans. Our loan approval process is described in Item 1. Business , under the heading Lending Activities Loan Approval Procedures and Authority .

Although we experienced a significant increase in delinquent and non-performing commercial real estate and commercial business loans during fiscal 2012, the substantial majority (approximately 78%) of such loans experiencing issues at March 31, 2012 were related to loan participations and loan purchases that we entered into prior to fiscal 2010 and prior to hiring experienced commercial lending staff and fully establishing our own commercial lending program. During 2010, we decided that we would not purchase or participate in commercial business or commercial real estate loans in the near future, although we may look at opportunities for participations and purchases on a case by case basis. As a result of our new policies and procedures in fiscal 2015, along with in-house commercial underwriting, we once again have entered into loan participations and purchases with other financial institutions. Participations and loan purchases provide another opportunity, if underwritten and monitored properly, to increase our lending in a competitive market.

In fiscal 2015, we have revised our commercial loan underwriting policies, implemented a new loan monitoring system and hired additional staff dedicated to ensuring that all required loan information and documentation is obtained at the time a loan is originated and that such information is updated as required by our underwriting policies. This loan monitoring system, which tracks loans originated by the Bank, as well as loan participations and purchased loans, is also integrated with our general ledger, which allows management to monitor loan payment history and changes in loan status on a real time basis. In addition, we have established a formal loan delinquency committee to address delinquent and non-performing loans. We believe that the improvements that we have made to our commercial lending capabilities during the last two years have allowed us to successfully implement our strategy of increasing our commercial lending operations.

Collection Procedures. When a residential mortgage borrower fails to make required payments on a loan, we take a number of steps to induce the borrower to cure the delinquency and restore the loan to current status. With respect to residential real estate loans, we generally send a written notice of non-payment to the borrower 15 days after a loan is first past due. When a loan becomes 90 days past due, the loan is turned over to our attorneys to ensure that further collection activities are conducted in accordance with applicable laws and regulations. All residential mortgage loans past due 90 days are put on non-accrual and reported to the board of directors monthly. If our attorneys do not receive a response from the borrower, or if the terms of any payment plan established are not followed, then foreclosure proceedings will be implemented. Management submits an Asset Classification Report detailing risk ratings and changes to risk ratings to the board of directors on a monthly basis.

With respect to home equity loans and lines of credit, a complete listing of all delinquent accounts is given to senior management for evaluation on a monthly basis. The data center produces and sends late charge notifications to customers that alert customers of their payment status. If the account remains past due when the next late charge notice is produced, a collection letter is sent requiring delinquent accounts to be brought current within 10 days. Failure to comply or respond to collection efforts will result in the loan being turned over to our attorneys for collection.

Commercial loan officers are responsible for the prompt follow up with borrowers who become delinquent on commercial loans. Officers determine the cause of the delinquency and work with the borrower to institute a short-term plan to eliminate the delinquency. Commercial loans that become over 30 days delinquent are reported to the Chief Lending Officer for collection. If no reasonable plan to cure a delinquency over 60 days is reached, the Bank will initiate legal action, repossession, foreclosure, non-accrual or charge-off. When a commercial loan becomes 75 days delinquent, the Chief Lending Officer is required to re-verify all documentation, including adequate insurance coverage. Commercial loans 90 days delinquent are generally placed on non-accrual and evaluated for impairment to determine if charge-off is necessary. All loans over 90 days delinquent are reported to the board of directors monthly. All charged-off loans and subsequent recoveries are reported in aggregate on a monthly basis to the appropriate members of senior management and the Board of Directors. Prior to the extension of non-accrual status beyond six months, a request for extension must be properly executed with appropriate approval signed by the President. At the time the loan is placed in non-accrual, the accrued, but unpaid interest is reversed against the loan account in accordance with the Bank s non-accrual policy. A loan may not be removed from non-accrual status until the loan is paid current or, under a modification agreement, an adequate period of time has passed in which the borrower has demonstrated the ability to make payments and their cashflow supports the payment going forward. At this point, management will determine whether or not to return the loan to accrual status.

Analysis of Nonperforming, Delinquent and Classified Assets. Loans are generally placed on nonaccrual status when they are 90 days past due based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual status at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status is 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 future payments are reasonably assured. For certain nonaccrual loans, interest payments received are applied to the principal balance of the loan.

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated.

	At March 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(Dollars in thousands)				
Non-accrual loans:					
Real estate loans:					
One- to four-family residential	$ 628	$ 284	$ 1,006	$ 706	$ 757
One- to four-family investor	11	159	372	305	
Construction	1,375	1,552	1,003	1,337	
Commercial			1,407	2,598	695
Commercial business loans	226	2,041	1,307	2,375	
Consumer loans:					
Home equity loans and lines of credit	15	204			