

Hamilton Bancorp, Inc.  
Form 10-Q  
August 14, 2013  
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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended June 30, 2013

OR

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-35693

# Hamilton Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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<b>Maryland</b> (State or other jurisdiction of incorporation or organization)	<b>46-0543309</b> (I.R.S. Employer Identification Number)
<b>501 Fairmount Avenue, Suite 200, Towson, Maryland</b> (Address of Principal Executive Offices)	<b>21286</b> Zip Code
<b>(410) 823-4510</b> (Registrant's telephone number)	
<b>N/A</b> (Former name or former address, if changed since last report)	

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

3,703,000 shares of the Registrant's common stock, par value \$0.01 per share, were issued and outstanding as of August 14, 2013.

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**Hamilton Bancorp, Inc. and Subsidiary**

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**Table of Contents****Part I. Financial Information****Item 1. Financial Statements****HAMILTON BANCORP, INC AND SUBSIDIARY****Consolidated Statements of Financial Condition****June 30, 2013 and March 31, 2013**

	June 30, 2013 (Unaudited)	March 31, 2013 (Audited)
<b>Assets</b>		
<b>Assets</b>		
Cash and due from banks	\$ 4,885,257	\$ 3,468,481
Federal funds sold and Federal Home Loan Bank deposit	7,056,221	9,590,434
Interest-bearing deposits in other banks	15,348,052	20,909,829
Cash and cash equivalents	27,289,530	33,968,744
Investment securities available for sale	113,696,735	116,233,943
Federal Home Loan Bank stock, at cost	400,600	400,600
Loans held for sale	538,829	196,743
Loans, less allowance for loan losses of \$2,230,468 and \$2,071,224	160,876,329	159,120,418
Premises and equipment	2,397,750	2,460,832
Foreclosed real estate	755,659	755,659
Accrued interest receivable	886,458	861,412
Bank-owned life insurance	11,719,613	11,622,667
Deferred income taxes	1,917,787	854,922
Income taxes refundable	1,288,074	1,222,027
Goodwill and other intangible assets	2,865,765	2,876,765
Other assets	1,254,815	1,387,419
<b>Total Assets</b>	<b>\$ 325,887,944</b>	<b>\$ 331,962,151</b>
<b>Liabilities and Shareholders Equity</b>		
<b>Liabilities</b>		
Noninterest-bearing deposits	\$ 16,274,678	\$ 11,546,214
Interest-bearing deposits	241,272,724	248,570,661
Total deposits	257,547,402	260,116,875
Advances by borrowers for taxes and insurance	1,196,908	769,000
Other liabilities	1,435,256	3,640,665
Total liabilities	260,179,566	264,526,540
Commitments and contingencies		
<b>Shareholders Equity</b>		
Common stock, \$.01 par value, 100,000,000 shares authorized. Issued: 3,703,000 shares at June 30, 2013 and March 31, 2013	37,030	37,030
Additional paid in capital	35,554,350	35,554,350
Retained earnings	34,279,351	34,261,764

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Unearned ESOP shares	(2,814,280)	(2,814,280)
Accumulated other comprehensive income	(1,348,073)	396,747
<b>Total shareholders' equity</b>	<b>65,708,378</b>	<b>67,435,611</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 325,887,944</b>	<b>\$ 331,962,151</b>

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

**Table of Contents****HAMILTON BANCORP, INC AND SUBSIDIARY****Consolidated Statements of Operations (Unaudited)****Three Months Ended June 30, 2013 and 2012**

	<b>Three Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Interest revenue</b>		
Loans, including fees	<b>\$ 2,150,228</b>	\$ 2,361,454
U.S. government agency securities	<b>118,883</b>	76,315
Mortgage-backed securities	<b>394,336</b>	433,900
Federal funds sold and other bank deposits	<b>11,635</b>	15,391
Total interest revenue	<b>2,675,082</b>	2,887,060
<b>Interest expense</b>		
Deposits	<b>547,958</b>	785,940
<b>Net interest income</b>	<b>2,127,124</b>	2,101,120
Provision for loan losses	<b>304,000</b>	58,000
<b>Net interest income after provision for loan losses</b>	<b>1,823,124</b>	2,043,120
<b>Noninterest revenue</b>		
Service charges	<b>67,782</b>	52,282
Gain on sale of investment securities	<b>95,516</b>	51,212
Gain on sale of loans held for sale	<b>3,512</b>	6,468
Earnings on bank-owned life insurance	<b>96,946</b>	73,591
Other	<b>1,228</b>	1,252
Total noninterest revenue	<b>264,984</b>	184,805
<b>Noninterest expenses</b>		
Salaries	<b>817,826</b>	693,979
Employee benefits	<b>293,432</b>	272,070
Occupancy	<b>219,383</b>	211,824
Advertising	<b>73,901</b>	103,141
Furniture and equipment	<b>84,613</b>	75,625
Data processing	<b>151,901</b>	135,476
Professional services	<b>215,629</b>	55,953
Deposit insurance premiums	<b>59,990</b>	77,211
Foreclosed real estate expense and losses	<b>17,455</b>	32,451
Other operating	<b>202,438</b>	250,002
Total noninterest expenses	<b>2,136,568</b>	1,907,732
<b>Income (loss) before income taxes</b>	<b>(48,460)</b>	320,193
<b>Income tax expense (benefit)</b>	<b>(66,047)</b>	97,000

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<b>Net income</b>	<b>\$ 17,587</b>	<b>\$ 223,193</b>
<b>Basic earnings per common share</b>	<b>\$ 0.01</b>	<b>N/A</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.01</b>	<b>N/A</b>

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

**Table of Contents****HAMILTON BANCORP, INC AND SUBSIDIARY****Consolidated Statements of Comprehensive Income (Unaudited)****Three Months Ended June 30, 2013 and 2012**

	<b>Three Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Net income</b>	<b>\$ 17,587</b>	<b>\$ 223,193</b>
<b>Other comprehensive income:</b>		
Unrealized (loss) gain on investment securities available for sale	<b>(2,712,168)</b>	301,921
Reclassification adjustment for realized gain on investment securities available for sale included in net income	<b>(95,516)</b>	(51,212)
<b>Total unrealized (loss) gain on investment securities available for sale</b>	<b>(2,807,684)</b>	250,709
Income tax (benefit) expense relating to investment securities available for sale	<b>(1,062,864)</b>	98,892
<b>Other comprehensive (loss) income</b>	<b>(1,744,820)</b>	151,817
<b>Total comprehensive (loss) income</b>	<b>\$ (1,727,233)</b>	<b>\$ 375,010</b>

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



Table of Contents**HAMILTON BANCORP, INC AND SUBSIDIARY****Consolidated Statements of Changes in Shareholders' Equity (Unaudited)****Three Months Ended June 30, 2013 and 2012**

	Common stock	Additional paid-in capital	Retained earnings	Unearned ESOP shares	Accumulated other comprehensive income	Total shareholders equity
<b>Balance March 31, 2012</b>	\$	\$	\$ 34,433,899	\$	\$ 630,854	\$ 35,064,753
Net income			223,193			223,193
Unrealized gain on available for sale securities, net of tax effect of \$98,892					151,817	151,817
<b>Balance June 30, 2012</b>	\$	\$	\$ 34,657,092	\$	\$ 782,671	\$ 35,439,763
<b>Balance March 31, 2013</b>	\$ 37,030	\$ 35,554,350	\$ 34,261,764	\$ (2,814,280)	\$ 396,747	\$ 67,435,611
Net income			17,587			17,587
Unrealized loss on available for sale securities, net of tax effect of \$(1,062,864)					(1,744,820)	(1,744,820)
Issuance of common stock						
Acquisition of unearned ESOP shares						
ESOP shares released for allocation						
<b>Balance June 30, 2013</b>	\$ 37,030	\$ 35,554,350	\$ 34,279,351	\$ (2,814,280)	\$ (1,348,073)	\$ 65,708,378

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

**Table of Contents****HAMILTON BANCORP, INC AND SUBSIDIARY****Consolidated Statements of Cash Flows (Unaudited)****Three Months Ended June 30, 2013 and 2012**

	Three Months Ended	
	June 30, 2013	2012
<b>Cash flows from operating activities</b>		
Interest received	\$ 2,833,556	\$ 3,161,798
Fees and commissions received	69,010	77,316
Interest paid	(553,449)	(807,509)
Cash paid to suppliers and employees	(2,064,860)	(1,909,494)
Cash paid for unsettled security	(2,047,537)	
Origination of loans held for sale	(694,000)	(879,000)
Proceeds from sale of loans held for sale	355,426	885,468
Income taxes paid		
Net cash (used) provided by operating activities	(2,101,854)	528,579
<b>Cash flows from investing activities</b>		
Proceeds from maturities of certificates of deposit		248,000
Proceeds from sale of securities available for sale	3,608,148	4,077,986
Proceeds from maturing and called securities available for sale, including principal pay downs	5,693,018	16,094,226
Purchase of investment securities available for sale	(9,677,847)	(15,754,973)
Purchase of Federal Home Loan Bank stock		12,500
Loans made, net of principal repayments	(2,041,710)	3,750,191
Purchase of premises and equipment	(23,404)	(79,658)
Net cash (used) provided by investing activities	(2,441,795)	8,348,272
<b>Cash flows from financing activities</b>		
Net increase (decrease) in		
Deposits	(2,563,473)	(3,720,226)
Advances by borrowers for taxes and insurance	427,908	556,783
Net cash used by financing activities	(2,135,565)	(3,163,443)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(6,679,214)</b>	<b>5,713,408</b>
Cash and cash equivalents at beginning of period	33,968,744	35,249,548
<b>Cash and cash equivalents at end of period</b>	<b>\$ 27,289,530</b>	<b>\$ 40,962,956</b>

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

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

(Continued)

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Reconciliation of net income to net cash provided (used) by operating activities</b>		
Net income	\$ 17,587	\$ 223,193
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Amortization of premiums on securities	201,721	228,631
Gain on sale of investment securities	(95,516)	(51,212)
Loan premium amortization	5,750	5,750
Deposit premium amortization	(6,000)	(16,000)
Core deposit intangible asset amortization	11,000	13,749
Premises and equipment depreciation and amortization	86,486	85,282
Provision for loan losses	304,000	58,000
Decrease (increase) in		
Accrued interest receivable	(25,046)	29,534
Loans held for sale	(342,086)	
Cash surrender value of life insurance	(96,946)	(73,590)
Income taxes refundable	(66,047)	
Other assets	132,603	(94,018)
Increase (decrease) in		
Accrued interest payable	509	(2,687)
Income taxes payable		97,000
Deferred loan origination fees	(23,951)	31,625
Other liabilities	(2,205,918)	(6,678)
Net cash provided by operating activities	\$ (2,101,854)	\$ 528,579
<b>Noncash investing activity</b>		
Real estate acquired through foreclosure	\$	\$ 427,988

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

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**Notes to Consolidated Financial Statements (Unaudited)**

**June 30, 2013**

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

**Basis of Presentation**

Hamilton Bancorp, Inc. (the Company) was incorporated on June 7, 2012 to serve as the stock holding company for Hamilton Bank (the Bank), a federally chartered savings bank. On October 10, 2012, in accordance with a Plan of Conversion adopted by its Board of Directors and approved by its members, the Bank converted from a mutual savings bank to a stock savings bank and became the wholly owned subsidiary of the Company. The conversion was accomplished through the sale and issuance of 3,703,000 shares of common stock at a price of \$10.00 per share, through which the Company received proceeds of approximately \$35,580,000, net of offering expenses of approximately \$1,450,000. In connection with the conversion, the Bank's Board of Directors adopted an employee stock ownership plan (the ESOP) which subscribed for 8.0% of shares sold in the offering, or 296,240 shares. Accordingly, the reported results for the three months ended June 30, 2013 relate to the consolidated holding company and the results for the three months ended June 30, 2012 relate solely to the operations of the Bank.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting and with instructions for Form 10-Q and Regulation S-X as promulgated by the Securities and Exchange Commission (the SEC). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the preceding unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. We derived the balances as of March 31, 2013 from audited financial statements. Operating results for the three months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2014, or any other period. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2013. Certain amounts from prior period financial statements have been reclassified to conform to the current period's presentation.

**Nature of Operations**

The Bank provides a full range of banking services to individuals and businesses through its main office and five branches in the Baltimore metropolitan area. Its primary deposit products are certificates of deposit and demand, savings, NOW, and money market accounts. Its primary lending products are real estate mortgages and commercial business loans

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

**Principles of Consolidation**

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

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events**

Management has evaluated events and transactions subsequent to June 30, 2013 through August 14, 2013, the date these financial statements were issued. The Bank closed its Belmar branch in Baltimore City on August 2, 2013. Management felt it made sense to close the Belmar branch due to its close proximity to one of the Bank's other four branch locations. The Bank owns both the land and building and has the property listed for sale. The property is expected to be sold at a small gain based upon the current book value of the property. There were no other significant subsequent events that would affect the presentation of the financial statements.

**Note 2: New Accounting Pronouncements  
Recent Accounting Pronouncements**

*ASU 2011-11, Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities.* ASU 2011-11 amends Topic 210, Balance Sheet, to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU 2011-11 is effective for annual and interim periods beginning on April 1, 2013, and is not expected to have a significant impact on our financial statements.

*ASU 2012-02, Intangibles - Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment.* ASU 2012-02 gives entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. If, under the quantitative impairment test, the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 became effective on January 1, 2013, and did not have a significant impact on our financial statements.

*ASU 2012-06, Business Combinations (Topic 805) Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (a consensus of the FASB Emerging Issues Task Force).* ASU 2012-06 clarifies the applicable guidance for subsequently measuring an indemnification asset recognized as a result of a government-assisted acquisition of a financial institution. Under ASU 2012-06, when a reporting entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and, subsequently, a change in the cash flows expected to be collected on the indemnification asset occurs (as a result of a change in cash flows expected to be collected on the assets subject to indemnification), the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the



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## HAMILTON BANCORP, INC AND SUBSIDIARY

## Notes to Consolidated Financial Statements (Continued)

contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). ASU 2012-06 became effective on January 1, 2013, and did not have a significant impact on our financial statements.

*ASU 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* ASU 2013-02 amends recent guidance related to the reporting of comprehensive income to enhance the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-02 became effective on January 1, 2013, and did not have a significant impact on our financial statements.

**Note 3: Earnings per Share**

When presented, basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Because the mutual to stock conversion was not completed until October 10, 2012, per share earnings data is not meaningful for prior comparative periods and therefore is not presented.

Both the basic and diluted earnings per share for the three months ended June 30, 2013 are summarized below:

	<b>Three Months ended June 30, 2013</b>	
Net income	\$	<b>17,587</b>
Average common shares outstanding		<b>3,421,572</b>
Income per common share - basic and diluted	\$	<b>0.01</b>

**Note 4: Goodwill and Other Intangible Assets**

On December 4, 2009, the Bank acquired a branch office in Pasadena, Maryland from K Bank. The Bank paid premiums of \$653,000 and \$92,000 for the certificates of deposit and loans that were acquired, respectively. The premiums are being amortized over four years, which is the estimated lives of the certificates and loans. The Bank also purchased \$757,432 of premises and equipment, which includes the building, land, and equipment. In addition, the Bank recorded goodwill totaling \$2,664,432 and identifiable intangibles (core deposit intangible) totaling \$434,000. The goodwill is deductible for tax purposes. We evaluate goodwill and other intangible assets for impairment on an annual basis.

The activity in goodwill and acquired intangible assets related to the branch purchase is as follows:

	Goodwill	Core deposit intangible
<b>Balance March 31, 2012</b>	\$ 2,664,432	\$ 263,666
Acquired during the period ended		
Amortization		(13,749)
<b>Balance June 30, 2012</b>	\$ 2,664,432	\$ 249,917

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	Goodwill	Core deposit intangible
<b>Balance March 31, 2013</b>	<b>\$ 2,664,432</b>	<b>\$ 212,333</b>
Acquired during the period ended		
Amortization		<b>(11,000)</b>
<b>Balance June 30, 2013</b>	<b>\$ 2,664,432</b>	<b>\$ 201,333</b>



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## HAMILTON BANCORP, INC AND SUBSIDIARY

## Notes to Consolidated Financial Statements (Continued)

**Note 5: Investment Securities Available for Sale**

The amortized cost and fair value of securities at June 30, 2013 and March 31, 2013, are summarized as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
<b>June 30, 2013</b>				
U.S. government agency	\$ 26,565,433	\$ 45,091	\$ 1,045,958	\$ 25,564,566
Mortgage-backed	89,276,460	465,803	1,619,544	88,122,719
	115,841,893	510,894	2,665,502	113,687,285
FHLMC stock	6,681	2,769		9,450
	\$ 115,848,574	\$ 513,663	\$ 2,665,502	\$ 113,696,735
<b>March 31, 2013</b>				
U.S. government agency	\$ 27,075,038	\$ 66,149	\$ 111,939	\$ 27,029,248
Mortgage-backed	88,496,379	1,015,105	311,549	89,199,935
	115,571,417	1,081,254	423,488	116,229,183
FHLMC stock	6,681		1,921	4,760
	\$ 115,578,098	\$ 1,081,254	\$ 425,409	\$ 116,233,943

Proceeds from sales of investment securities were \$3,608,148 and \$4,077,986 during the three months ended June 30, 2013 and 2012, respectively, with gains of \$95,516 and no losses for the three months ended June 30, 2013 and gains of \$51,212 and no losses for the three months ended June 30, 2012.

As of June 30, 2013, the Company had no pledged securities.

As of June 30, 2013 and March 31, 2013, all mortgage-backed securities are backed by U.S. Government- Sponsored Enterprises (GSE s).

The amortized cost and estimated fair value of debt securities by contractual maturity at June 30, 2013 and March 31, 2013 follow. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	Available for Sale			
	June 30, 2013		March 31, 2013	
	Amortized cost	Fair value	Amortized cost	Fair value
<b>Maturing</b>				
Within one year	\$ 1,002,569	\$ 1,012,378	\$ 1,505,451	\$ 1,520,815
Over one to five years	8,566,776	8,533,318	6,575,873	6,620,671

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Over five to ten years	<b>11,999,756</b>	<b>11,350,310</b>	11,999,256	11,938,889
Over ten years	<b>4,996,332</b>	<b>4,668,560</b>	6,994,458	6,948,873
Mortgage-backed, in monthly installments	<b>89,276,460</b>	<b>88,122,719</b>	88,496,379	89,199,935
	<b>\$ 115,841,893</b>	<b>\$ 113,687,285</b>	\$ 115,571,417	\$ 116,229,183

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## HAMILTON BANCORP, INC AND SUBSIDIARY

## Notes to Consolidated Financial Statements (Continued)

The following table presents the Company's investments' gross unrealized losses and the corresponding fair values by investment category and length of time that the securities have been in a continuous unrealized loss position at June 30, 2013 and March 31, 2013.

	Less than 12 months		12 months or longer		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
<b>June 30, 2013</b>						
U.S. government agency obligations	\$ 1,045,958	\$ 22,950,131	\$	\$	\$ 1,045,958	\$ 22,950,131
Mortgage-backed	1,511,309	58,805,352	108,235	4,868,462	1,619,544	63,673,814
FHLMC stock						
	\$ 2,557,267	\$ 81,755,483	\$ 108,235	\$ 4,868,462	\$ 2,665,502	\$ 86,623,945
<b>March 31, 2013</b>						
U.S. government agency obligations	\$ 111,939	\$ 18,881,775	\$	\$	\$ 111,939	\$ 18,881,775
Mortgage-backed	298,271	35,541,939	13,278	3,373,491	311,549	38,915,430
FHLMC stock			1,921	4,760	1,921	4,760
	\$ 410,210	\$ 54,423,714	\$ 15,199	\$ 3,378,251	\$ 425,409	\$ 57,801,965

The unrealized losses on debt securities are considered temporary because the impairment in value is caused by fluctuation in the current interest rate market. These securities are expected to be redeemed at par at maturity.

**Note 6: Loans Receivable and Allowance for Loan Losses**

Loans receivable consist of the following at June 30, 2013 and March 31, 2013:

	June 30, 2013	March 31, 2013
Real estate loans		
One-to four-family		
Residential	\$ 62,057,206	\$ 63,912,507
Investor (1)	15,494,299	15,825,857
Commercial	40,739,963	36,238,661
Construction	4,866,401	3,508,125
	123,157,869	119,485,150
Commercial	25,809,297	26,936,644
Home equity loans	13,068,752	13,727,266
Consumer	1,132,866	1,122,770
Total Loans	163,168,784	161,271,830

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Premium on loans purchased	<b>9,584</b>	15,334
Net deferred loan origination fees and costs	<b>(71,571)</b>	(95,522)
Allowance for loan losses	<b>(2,230,468)</b>	(2,071,224)
	<b>\$ 160,876,329</b>	\$ 159,120,418

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

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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Residential lending is generally considered to involve less risk than other forms of lending, although payment experience on these loans is dependent on economic and market conditions in the Bank's lending area. Construction loan repayments are generally dependent on the related properties or the financial condition of its borrower or guarantor.

Accordingly, repayment of such loans can be more susceptible to adverse conditions in the real estate market and the regional economy.

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

The following tables set forth for the three months ended June 30, 2013 and 2012 and for the year ended March 31, 2013, the balance of the allowance for loan losses by portfolio segment, disaggregated by impairment methodology. The loan portfolio is segregated by amounts evaluated for impairment collectively and individually. The allowance for loan losses allocated to each portfolio segment is not necessarily indicative of future losses in any particular portfolio segment and does not restrict the use of the allowance to absorb losses in other portfolio segments. There were no recoveries during the year ended March 31, 2013.

Three months ended: June 30, 2013	Allowance 3/31/2013	Provision for loan losses	Charge offs	Recoveries	Allowance 6/30/2013	Allowance		Loan Balance	
						Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate loans									
One-to four-family	\$ 372,390	\$ 30,205	\$ 29,538	\$ 24,280	\$ 397,337	\$ 64,186	\$ 333,151	\$ 1,632,587	\$ 75,918,918
Commercial	613,047	(87,990)			525,057		525,057	4,777,142	35,962,821
Construction	417,311	44,672			461,983	413,087	48,896	3,544,902	1,321,499
Commercial	635,840	318,896	139,498		815,238	114,036	701,202	2,815,899	22,993,398
Home equity loans	31,484	(3,464)			28,020		28,020	21,280	13,047,472
Consumer	1,152	1,681			2,833		2,833		1,132,866
Unallocated									
	\$ 2,071,224	\$ 304,000	\$ 169,036	\$ 24,280	\$ 2,230,468	\$ 591,309	\$ 1,639,159	\$ 12,791,810	\$ 150,376,974

Three months ended: June 30, 2012	Allowance 3/31/2012	Provision for loan losses	Charge offs	Recoveries	Allowance 6/30/2012	Allowance		Loan Balance	
						Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate loans									
One-to four-family	\$ 342,905	\$ 29,408	\$ 73,431	\$	\$ 298,882	\$ 71,034	\$ 227,848	\$ 1,313,221	\$ 90,349,628
Commercial	879,698	152,169	488,772		543,095		543,095	1,641,343	29,017,144
Construction	1,047,658	(293,586)	337,076		416,996	416,996		3,287,610	
Commercial	1,231,723	170,237	592,963		808,997	200,000	608,997	1,361,501	23,989,821
Home equity loans	41,829	2,085	5,330		38,584		38,584		15,732,244

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Consumer	270	5,968	6,038		200		200		1,144,350
Unallocated	8,281	(8,281)							
	\$ 3,552,364	\$ 58,000	\$ 1,503,610	\$	\$ 2,106,754	\$ 688,030	\$ 1,418,724	\$ 7,603,675	\$ 160,233,187

Year ended March 31, 2013	Allowance 3/31/2012	Provision for loan losses	Charge offs	Recoveries	Allowance 3/31/2013	Allowance		Loan Balance	
						Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
<b>Real estate loans</b>									
One-to four-family	\$ 342,905	\$ 284,263	\$ 254,778	\$	\$ 372,390	\$ 66,504	\$ 305,886	\$ 1,795,014	\$ 77,943,350
Commercial	879,698	434,621	701,272		613,047		613,047	4,806,293	31,432,368
Construction	1,047,658	(293,270)	337,077		417,311	417,311		3,508,125	
Commercial	1,231,723	1,308,430	1,904,313		635,840	24,770	611,070	2,993,490	23,943,154
Home equity loans	41,829	(5,015)	5,330		31,484		31,484	21,874	13,705,392
Consumer	270	9,227	8,345		1,152		1,152		1,122,770
Unallocated	8,281	(8,281)							
	\$ 3,552,364	\$ 1,729,975	\$ 3,211,115	\$	\$ 2,071,224	\$ 508,585	\$ 1,562,639	\$ 13,124,796	\$ 148,147,034

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## HAMILTON BANCORP, INC AND SUBSIDIARY

## Notes to Consolidated Financial Statements (Continued)

Past due loans, segregated by age and class of loans, as of June 30, 2013 and March 31, 2013, were as follows. There were no loans ninety days or more past due and accruing interest at June 30, 2013, and March 31, 2013.

	Loans 30-59 days past due	Loans 60-89 days past due	Loans 90 or more days past due	Total past due loans	Current loans	Totals loans	Accruing loans 90 or more days past due	Nonaccrual loans	Nonaccrual interest not accrued
<b>June 30, 2013</b>									
Real estate loans									
One-to four-family	\$ 215,283	\$ 75,602	\$ 602,033	\$ 892,918	\$ 76,658,587	\$ 77,551,505	\$ 602,033	\$ 58,939	
Commercial			1,385,566	1,385,566	39,354,397	40,739,963	1,385,566	181,146	
Construction			1,003,314	1,003,314	3,863,087	4,866,401	1,003,314	134,966	
Commercial	2,466,261	89,675	397,167	2,953,103	22,856,194	25,809,297	1,137,390	17,484	
Home equity loans	80,661		36,891	117,552	12,951,200	13,068,752	36,891	1,853	
Consumer					1,132,866	1,132,866			
	\$ 2,762,205	\$ 165,277	\$ 3,424,971	\$ 6,352,453	\$ 156,816,331	\$ 163,168,784	\$ 4,165,194	\$ 394,388	

**March 31, 2013**

Real estate loans									
One-to four-family	\$ 756,123	\$ 179,316	\$ 1,371,429	\$ 2,306,868	\$ 77,431,496	\$ 79,738,364	\$ 1,377,827	\$ 159,594	
Commercial			1,406,421	1,406,421	34,832,240	36,238,661	1,406,421	167,519	
Construction			1,003,314	1,003,314	2,504,811	3,508,125	1,003,314	111,950	
Commercial	1,865,563		319,167	2,184,730	24,751,914	26,936,644	1,307,290	21,643	
Home equity loans	63,106		36,891	99,997	13,627,269	13,727,266	36,891	1,302	
Consumer					1,122,770	1,122,770			
	\$ 2,684,792	\$ 179,316	\$ 4,137,222	\$ 7,001,330	\$ 154,270,500	\$ 161,271,830	\$ 5,131,743	\$ 462,008	

Impaired Loans as of and for the three months ended June 30, 2013 and the year ended March 31, 2013 were as follows:

	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
<b>June 30, 2013</b>							
Real estate loans							
One-to four-family	\$ 1,711,311	\$ 736,189	\$ 896,398	\$ 1,632,587	\$ 64,186	\$ 1,637,761	\$ 15,321
Commercial	5,490,245	4,777,142		4,777,142		4,793,824	85,980
Construction	3,890,504	1,003,314	2,541,588	3,544,902	413,087	3,544,902	43,440
Commercial	3,226,605	2,105,827	710,072	2,815,899	114,036	2,953,168	35,604
Home equity loans	21,941	21,280		21,280		21,369	104

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Consumer

	\$ 14,340,606	\$ 8,643,752	\$ 4,148,058	\$ 12,791,810	\$ 591,309	\$ 12,951,024	\$ 180,449
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March 31, 2013

Real estate loans							
One-to four-family	\$ 2,766,726	\$ 1,373,947	\$ 900,717	\$ 2,274,664	\$ 66,504	\$ 2,476,899	\$ 78,717
Commercial	5,498,540	4,806,293		4,806,293		5,045,501	237,838
Construction	3,853,728	1,003,314	2,504,811	3,508,125	417,311	3,462,305	168,173
Commercial	3,586,694	2,783,250	210,240	2,993,490	24,770	3,231,026	124,040
Home equity loans	22,554	21,874		21,874		24,166	425
Consumer							
	\$ 15,728,242	\$ 9,988,678	\$ 3,615,768	\$ 13,604,446	\$ 508,585	\$ 14,239,897	\$ 609,193



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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

***Credit quality indicators***

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

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

***Special Mention***

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

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

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

***Substandard***

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

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

Foreclosed real estate will be treated as a classifiable asset. Generally, foreclosed real estate will be classified as substandard, except if the property is subject to an agreement of sale or if the asset is generating sufficient income. An appraisal may be performed on the asset to estimate its value. When the property is transferred to foreclosed real estate, a sufficient amount will be charged off against the allowance for loan losses in order to account for the property at its fair value.

***Doubtful***

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

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## HAMILTON BANCORP, INC AND SUBSIDIARY

## Notes to Consolidated Financial Statements (Continued)

The following tables present the June 30, 2013 and March 31, 2013, balances of classified loans based on the risk grade. Classified loans include Special Mention, Substandard, and Doubtful loans.

	Special mention	Substandard	Doubtful	Total
<b>June 30, 2013</b>				
Real estate loans				
One-to four-family	\$ 1,643,731	\$ 677,635	\$	\$ 2,321,366
Commercial		4,777,142		4,777,142
Construction		3,544,901		3,544,901
Commercial	1,208,704	2,815,899		4,024,603
Home equity loans	21,280	36,891		58,171
Consumer				
	\$ 2,873,715	\$ 11,852,468	\$	\$ 14,726,183

**March 31, 2013**

Real estate loans				
One-to four-family	\$ 1,767,930	\$ 1,371,429	\$	\$ 3,139,359
Commercial		4,806,293		4,806,293
Construction		3,508,125		3,508,125
Commercial	1,220,111	2,993,490		4,213,601
Home equity loans	51,659	36,891		88,550
Consumer				
	\$ 3,039,700	\$ 12,716,228	\$	\$ 15,755,928

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

A summary of TDRs at June 30, 2013 and March 31, 2013 follows:

	Number of contracts	Performing	Nonperforming	Total
<b>June 30, 2013</b>				
Real estate loans				
One-to four-family	5	\$ 1,428,448	\$ 77,062	\$ 1,505,510
Commercial				
Construction				
Commercial	3		1,149,065	1,149,065

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Home equity loans	1	21,280		21,280
Consumer				
	9	\$ 1,449,728	\$ 1,226,127	\$ 2,675,855

March 31, 2013

Real estate loans				
One-to four-family	4	\$ 1,436,343	\$ 6,630	\$ 1,442,973
Commercial				
Construction				
Commercial	3		1,177,788	1,177,788
Home equity loans	1	21,874		21,874
Consumer				
	8	\$ 1,458,217	\$ 1,184,418	\$ 2,642,635

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## HAMILTON BANCORP, INC AND SUBSIDIARY

## Notes to Consolidated Financial Statements (Continued)

The following table presents the number of contracts and the dollar amount of TDR s that were added during the three month period ended June 30, 2013. The amount shown reflects the outstanding loan balance at the time of the modification.

Three months ended June 30, 2013	Number of contracts	Outstanding recorded investment
Real estate loans		
One-to four-family	1	\$ 72,104
Commercial	0	
Construction	0	
Commercial	0	
Home equity loans	0	
Consumer	0	
	1	\$ 72,104

The following table presents loans that were modified as TDRs within the previous 12 months and have subsequently defaulted in the three months ended June 30, 2013 and 2012. Payment default under a TDR is defined as any TDR that is 90 or more days past due since the loan was modified.

TDR Loan Classification	Three months ended June 30,			
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial	1	\$ 319,167	0	\$

The recorded investment of the commercial TDR loan is of June 30, 2013 reflects a partial charge-off of \$47,060 recorded during the quarter ended March 31, 2013.

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

The Bank s maximum exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the credit commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. Management is not aware of any accounting loss to be incurred by funding these loan commitments.

The Bank had the following outstanding commitments and unused lines of credit as of June 30, 2013 and March 31, 2013:

	June 30, 2013	March 31, 2013
Unused commercial lines of credit	\$ 6,733,851	\$ 8,161,901

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Unused home equity lines of credit	<b>17,158,215</b>	17,346,101
Mortgage loan commitments	<b>355,000</b>	837,000
Home equity loan commitments		132,500
Construction loan commitments	<b>775,226</b>	240,875
Commercial loan commitments	<b>4,092,000</b>	7,710,000

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## HAMILTON BANCORP, INC AND SUBSIDIARY

## Notes to Consolidated Financial Statements (Continued)

**Note 7: Regulatory Capital Ratios**

The Office of the Comptroller of the Currency has adopted risk-based capital standards for banking organizations. These standards require ratios of capital to assets for minimum capital adequacy and to be classified as well capitalized under prompt corrective action provisions. The capital ratios and minimum capital requirements of the Bank at June 30, 2013 and March 31, 2013 were as follows:

	Actual		Minimum capital requirement		To be well capitalized (1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>June 30, 2013</b>						
Total risk-based capital (to risk-weighted assets)	\$ 47,115	26.54%	\$ 14,204	8.00%	\$ 17,754	10.00%
Tier 1 capital (to risk-weighted assets)	44,895	25.29%	7,102	4.00%	10,653	6.00%
Tier 1 capital (to adjusted total assets)	44,895	14.33%	12,535	4.00%	15,669	5.00%
<b>March 31, 2013</b>						
Total risk-based capital (to risk-weighted assets)	\$ 46,956	26.70%	\$ 14,068	8.00%	\$ 17,586	10.00%
Tier 1 capital (to risk-weighted assets)	44,885	25.52%	7,034	4.00%	10,551	6.00%
Tier 1 capital (to adjusted total assets)	44,885	14.13%	12,707	4.00%	15,884	5.00%

(1) Under prompt corrective action provisions

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

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

In its regulatory report filed as of June 30, 2013, the Bank exceeded all regulatory capital requirements and was considered well capitalized under regulatory guidelines. Management is not aware of any events that would have caused this classification to change. Management has no plans that should change the classification of the capital adequacy.

**Note 8: Fair Value Measurements**

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

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

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

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

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

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## HAMILTON BANCORP, INC AND SUBSIDIARY

## Notes to Consolidated Financial Statements (Continued)

***Fair value measurements on a recurring basis***

Securities available for sale If quoted prices are available in an active market for identical assets, securities are classified within Level 1 of the hierarchy. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. As of June 30, 2013 and March 31, 2013, the Bank has categorized its investment securities available for sale as follows:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
<b><u>June 30, 2013</u></b>				
U.S. government agency	\$	\$ 25,564,566	\$	\$ 25,564,566
Mortgage-backed		88,122,719		88,122,719
FHLMC stock	9,450			9,450
Total investment securities available for sale	\$ 9,450	\$ 113,687,285	\$	\$ 113,696,735
<b><u>March 31, 2013</u></b>				
U.S. government agency	\$	\$ 27,029,248	\$	\$ 27,029,248
Mortgage-backed		89,199,935		89,199,935
FHLMC stock	4,760			4,760
Total investment securities available for sale	\$ 4,760	\$ 116,229,183	\$	\$ 116,233,943

***Fair value measurements on a nonrecurring basis***

Impaired Loans The Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values. As of June 30, 2013 and March 31, 2013, the fair values consist of loan balances of \$12,791,810 and \$13,604,446 that have been written down by \$591,309 and \$508,585, respectively, as a result of specific loan loss allowances.

Foreclosed real estate The Bank's foreclosed real estate is measured at fair value less estimated cost to sell. As of June 30, 2013 and March 31, 2013, the fair value of foreclosed real estate was estimated to be \$755,659. Fair value was determined based on offers and/or appraisals. Cost to sell the assets was based on standard market factors. The Company has categorized its foreclosed assets as Level 3.

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
<b><u>June 30, 2013</u></b>				
Impaired loans	\$	\$	\$ 12,200,501	\$ 12,200,501
Foreclosed real estate			755,659	755,659
Total impaired loans and foreclosed real estate	\$	\$	\$ 12,956,160	\$ 12,956,160



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March 31, 2013

Impaired loans	\$	\$	\$ 13,095,861	\$ 13,095,861
Foreclosed real estate			755,659	755,659
Total impaired loans and foreclosed real estate	\$	\$	\$ 13,851,520	\$ 13,851,520

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## HAMILTON BANCORP, INC AND SUBSIDIARY

## Notes to Consolidated Financial Statements (Continued)

The following table reconciles the beginning and ending balance of foreclosed real estate, which is measured on a nonrecurring basis using significant unobservable, level 3, inputs:

Balance, March 31, 2013	<b>\$ 755,659</b>
Transfer to foreclosed real estate	
Proceeds from sale of foreclosed real estate	
Loss on sale of foreclosed real estate	
<b>Balance, June 30, 2013</b>	<b>\$ 755,659</b>

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

	June 30, 2013		March 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Level 1 inputs:				
Cash and cash equivalents	\$ 27,289,530	\$ 27,289,530	\$ 33,968,744	\$ 33,968,744
Level 2 inputs:				
Loans held for sale	538,829	554,756	196,743	203,416
Federal Home Loan Bank stock	400,600	400,600	400,600	400,600
Bank-owned life insurance	11,719,613	11,719,613	11,622,667	11,622,667
Level 3 inputs:				
Loans receivable, net	160,876,329	163,688,923	159,120,418	162,443,898
<b>Financial liabilities</b>				
Level 1 inputs:				
Advance payments by borrowers for taxes and insurance	1,196,908	1,196,908	769,000	769,000
Level 3 inputs:				
Deposits	257,547,402	258,812,260	260,116,875	261,490,896

The fair values of cash and cash equivalents and advance payment by borrowers for taxes and insurance are estimated to equal the carrying amount. These are Level 1 inputs.

The fair values of Federal Home Loan Bank stock and bank-owned life insurance are estimated to equal carrying amounts, which are based on repurchase prices of the FHLB stock and the insurance company. These are Level 2 inputs.

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



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HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

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

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation Safe Harbor Statement for Forward-Looking Statements**

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

Forward-looking statements are not guarantees of future performance. Numerous risks and uncertainties could cause or contribute to the Company's actual results, performance, and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government, legislative and regulatory changes, the quality and composition of the loan and investment securities portfolio, loan demand, deposit flows, competition, and changes in accounting principles and guidelines. Additional factors that may affect our results are discussed in item 1A of Hamilton Bancorp, Inc.'s Annual Report on Form 10-K filed June 28, 2013 with the Securities and Exchange Commission under the section titled *Risk Factors*. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

### **General**

Hamilton Bancorp, Inc. (the *Company*) is a Maryland corporation incorporated on June 7, 2012 by Hamilton Bank (the *Bank*) to be its holding company following the Bank's conversion from the mutual to the stock form of organization (the *Conversion*). The Conversion was completed on October 10, 2012. On that same date, the Company completed its public stock offering and issued 3,703,000 shares of its common stock for aggregate proceeds of \$37,030,000, and net proceeds of \$35,640,000. The Company's business is the ownership of the outstanding capital stock of the Bank. The Company does not own or lease any property but instead uses the premises, equipment and other property of the Bank.

Founded in 1915, the Bank is a community-oriented financial institution, dedicated to serving the financial service needs of customers and businesses within its geographic area, which consists of Baltimore City, Baltimore County, and Anne Arundel County in Maryland. We offer a variety of deposit products and provide loans secured by real estate located in our market area. Our real estate loans consist primarily of one-to-four-family mortgage loans, as well as commercial real estate loans, and home equity loans and lines of credit. We also offer commercial term and line of credit loans and, to a limited extent, consumer loans. We currently operate out of our corporate headquarters in Towson, Maryland and full-service branch offices located in Baltimore City, Cockeysville, Towson and Pasadena, Maryland. The Bank is subject to extensive regulation, examination and supervision by the Office of the Comptroller of the Currency, its primary federal regulator, and the Federal Deposit Insurance Corporation, its deposit insurer. The Company is subject to regulation and supervision by the Board of Governors of the Federal Reserve System.

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

### **Critical Accounting Policies**

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

***Allowance for Loan Losses.*** The allowance for loan losses is the amount estimated by management as necessary to cover losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for

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loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default, the amount and timing of future cash flows on impacted loans, value of collateral, and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance monthly and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions, and other factors related to the collectability of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic or other conditions differ substantially from the assumptions used in making the evaluation. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, periodically reviews our allowance for loan losses and may require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would adversely affect earnings.

**Fair Value of Investments.** Securities are characterized as available for sale or held to maturity based on management's ability and intent regarding such investment at acquisition. On an ongoing basis, management must estimate the fair value of its investment securities based on information and assumptions it deems reliable and reasonable, which may be quoted market prices or if quoted market prices are not available, fair values extrapolated from the quoted prices of similar instruments. Based on this information, an assessment must be made as to whether any decline in the fair value of an investment security should be considered an other-than-temporary impairment and recorded in noninterest revenue as a loss on investments. The determination of such impairment is subject to a variety of factors, including management's judgment and experience.

**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 Bank is considered the Reporting Unit for purposes of impairment testing. Impairment testing requires that the fair value of the Bank be compared to the carrying amount of the Bank's net assets, including goodwill. If the fair value of the Bank exceeds the book value, no write-down of recorded goodwill is required. 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. We estimate the fair value of the Bank utilizing three valuation methods including the Comparable Transactions Approach, the Public Market Peers Approach, and the Discounted Cash Flow Approach.

Based on our impairment testing during February 2013, there was no evidence of impairment of the Bank's goodwill or intangible assets.

**Comparison of Financial Condition at June 30, 2013 and March 31, 2013**

**Assets.** Total assets decreased \$6.1 million, or 1.8%, to \$325.9 million at June 30, 2013 from \$332.0 million at March 31, 2013. The decrease was primarily the result of a \$6.7 million decrease in cash and cash equivalents and a \$2.5 million decrease in total securities, partially offset by a \$1.8 million increase in net loans receivable and a \$1.1 million increase in deferred income taxes due to the recent increase in interest rates and its impact on unrealized gains and losses within the investment portfolio.

**Cash and Cash Equivalents.** Cash and cash equivalents decreased by \$6.7 million, or 19.7%, to \$27.3 million at June 30, 2013 from \$34.0 at March 31, 2013. The decrease in cash and cash equivalents is largely due to a \$2.6 million decrease in overall deposit balances, as well as a \$1.8 million increase in net loans receivable.

**Securities.** Total securities decreased \$2.5 million, or 2.2%, to \$113.7 million at June 30, 2013, as U.S. government agency securities decreased \$1.5 million and mortgage-backed securities decreased \$1.1 million. The decrease in securities is due to the sale of two mortgage backed securities with proceeds of \$3.5 million and \$96,000 in gains with no losses on the sales. The remaining decrease was caused by \$500,000 of securities having matured, \$5.2 million in principal repayments and a \$2.8 million decrease in the fair value of securities resulting from the recent increase in interest rates. The decreases were partially offset by the purchase of \$11.6 million in mortgage backed securities and collateralized mortgage obligations during the quarter ended June 30, 2013.

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**Loans.** Net loans receivable increased by \$1.8 million, or 1.1%, to \$160.9 million at June 30, 2013 from \$159.1 million at March 31, 2013. The increase in loans receivable for the three month period ended June 30, 2013 was primarily due to an increase of \$4.5 million, or 12.4%, in commercial real estate loans and a \$1.4 million increase, or 38.7%, in construction loans. These increases were offset by a \$2.2 million, or 2.7%, decrease in total residential mortgage loans, a \$1.1 million, or 4.2%, decrease in commercial business loan and a \$659,000, or 4.8%, decrease in home equity loans and lines of credit. The increase in commercial real estate and construction loans reflects the settlement of several large loans and the Company's continued focus on originating these types of loans. The decrease in residential mortgage loans was primarily due to normal principal reductions, prepayments, pay offs and the sale of newly originated residential mortgages in the secondary market.

**Deposits.** Total deposits decreased \$2.6 million, or 1.0%, to \$257.5 million at June 30, 2013 from \$260.1 million at March 31, 2013. The decrease is attributable to our on-going efforts to reduce the Bank's reliance on certificates of deposit as a funding source. We continued to allow higher costing certificates of deposit to run off at maturity during the first three months of fiscal 2014, as we focused on increasing the level of core deposits. During the three month period ended June 30, 2013, certificates of deposit decreased \$9.0 million, or 4.6%, to \$187.0 million, while money market accounts increased \$310,000 or 1.1%, to \$28.5 million. NOW accounts increased \$1.2 million or 13.7%, to \$10.1 million, while non-interest bearing deposits increased \$4.7 million, or 41.0%, to \$16.3 million and statement savings accounts increased \$709,000, or 4.7%, to \$15.7 million at June 30, 2013 from \$15.0 million at March 31, 2013.

**Borrowings.** We had no borrowings outstanding at June 30, 2013 or March 31, 2013.

**Equity.** Total equity decreased \$1.7 million, or 2.6%, to \$65.7 million at June 30, 2013 from \$67.4 million at March 31, 2013. The decrease is primarily attributable to a \$1.7 million decrease in accumulated other comprehensive income resulting from decreased market value in the investment portfolio due to higher market interest rates. The decrease was slightly offset by net income of \$18,000 for the three months ended June 30, 2013.

**Comparison of Asset Quality at June 30, 2013 and March 31, 2013**

Our non-performing assets decreased \$967,000 to \$4.9 million at June 30, 2013 from \$5.9 million at March 31, 2013. Our non-performing loans decreased from \$5.1 million at March 31, 2013, to \$4.2 million at June 30, 2013. The decline in non-performing loans for the quarter ended June 30, 2013 was a result of \$704,000 in nonperforming loans paid in full, \$91,000 in non-performing loans that were brought current by customer payments and the charge off of \$169,000 in nonperforming loans. The charge-offs consisted of \$139,000 associated with two commercial equipment loans to the same borrower and \$30,000 for one residential mortgage loan sold through a short sale.

The provision for loan losses totaled \$304,000 for the quarter ended June 30, 2013 compared to a provision for loan losses of \$58,000 for the first quarter of fiscal 2013. The increased provision was primarily related to charge offs totaling \$169,000 and \$115,000 in specific reserves established for one commercial business loan.

The allowance for loan and lease losses at June 30, 2013 totaled \$2.2 million, or 1.37% of total loans, compared to \$2.1 million at March 31, 2013, or 1.28% of total loans. The \$159,000 increase in the allowance for loan losses was primarily the result of the \$304,000 provision for loan losses, partially offset by the \$145,000 in net charge-off of loans for the three months ending June 30, 2013.

**Results of Operations for the Three Months Ended June 30, 2013 and 2012 (unaudited)**

**General.** Net income decreased \$206,000, or 92.1%, to \$18,000 for the three months ended June 30, 2013 compared to \$223,000 for the three months ended June 30, 2012. The decrease resulted primarily from a \$246,000 increase in the provision for loan losses and a \$229,000 increase in noninterest expense, partially offset by a \$26,000 increase in net interest income, an \$80,000 increase in noninterest revenue and a \$163,000 decrease in income taxes.

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**Net Interest Income.** Net interest income increased \$26,000, or 1.2%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. The increase in net interest income primarily resulted from a decrease of \$238,000 in interest expense, partially offset by a decrease of \$212,000 in interest and dividend income. The decrease in interest income was primarily driven by declining market interest rates and the accelerated amortization of premiums on mortgage-backed securities during the three months ended June 30, 2013. During fiscal 2014, the average cost of deposits (the Bank's only interest-bearing liabilities), in particular certificates of deposit, declined slower than the average yield earned on our interest-earning assets. As a result, our interest rate spread for the three months ended June 30, 2013 declined 11 basis points to 2.59% when compared to the three month period ended June 30, 2012. Although our interest-earning assets increased by \$9.2 million, or 3.1%, our interest income did not increase because more of these assets were in lower yielding interest-earning assets when compared to the period ended June 30, 2012. The decrease in interest income was offset by lower interest expense associated with lower interest bearing deposits and lower cost of funds, which had a positive impact on net interest income.

**Interest and Dividend Income.** Interest and dividend income decreased \$212,000 to \$2.7 million for the three months ended June 30, 2013 from \$2.9 million for the three months ended June 30, 2012. The decrease resulted primarily from a \$211,000 decrease in interest income on loans and a \$4,000 decrease in interest income on federal funds sold and other bank deposits, partially offset by an increase of \$3,000 in interest income on U.S. government agency and mortgage-backed securities.

Interest income on loans decreased \$211,000, or 8.9%, to \$2.2 million for the three months ended June 30, 2013 from \$2.4 million for the three months ended June 30, 2012. The decrease resulted from a 23 basis point decrease in the average yield to 5.39% for the three months ended June 30, 2013 from 5.62% for the three months ended June 30, 2012, reflecting decreases in market interest rates for loan products. The decrease was also due in part to an \$8.3 million, or 4.9%, decrease in the average balance of loans, net, to \$159.7 million for the three months ended June 30, 2013 from \$168.0 million for the three months ended June 30, 2012.

Interest and dividend income on total securities increased \$3,000 to \$513,000 for the three months ended June 30, 2013 from \$510,000 for the three months ended June 30, 2012. The increase resulted from a \$43,000 increase in interest income on U.S. government agency securities and a \$40,000 decrease in interest income on mortgage-backed securities. The increase in interest income on U.S. government agency securities was primarily due to a \$9.0 million increase in the average balance of U.S. government agency securities to \$27.1 million and an 8 basis point increase in the average yield to 1.76% for the period ended June 30, 2013 compared to the same period last year. The decrease in interest income from mortgage-backed securities was primarily due to a 54 basis point decrease in the average yield on mortgage-backed securities to 1.71%, partially offset by a \$14.8 million increase in the average balance of mortgage-backed securities to \$92.0 million.

Interest income associated with federal funds sold and other bank deposits decreased \$4,000, or 24.4%, to \$12,000 for the three months ended June 30, 2013 from \$15,000 for the three months ended June 30, 2012. The decrease is primarily attributable to the average balance of federal funds sold and other bank deposits decreasing \$6.3 million, or 18.3%, to \$28.2 million for the three months ended June 30, 2013 from \$34.6 million for the three months ended June 30, 2012.

**Interest Expense.** Interest expense, consisting entirely of the cost of interest-bearing deposits, decreased \$238,000, or 30.2%, to \$548,000 for the three months ended June 30, 2013 from \$785,000 for the three months ended June 30, 2012. The decrease in the cost of interest-bearing deposits was due to a decrease of 28 basis points in the average rate paid on interest-bearing deposits to 0.90% for the three months ended June 30, 2013 from 1.18% for the three months ended June 30, 2012. The decrease in interest expense was also due to a \$20.9 million, or 7.9%, decrease in the average balance of interest-bearing deposits to \$244.7 million for the three months ended June 30, 2013 from \$265.7 million for the three months ended June 30, 2012. The decline in the average balance of interest-bearing deposits was primarily due to our strategy to allow higher costing certificates of deposit to runoff at maturity and gradually replace them with lower-cost core deposits. The balance of certificates of deposit decreased \$27.0 million to \$187.0 million at June 30, 2013 from \$214.0 million at June 30, 2012.



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**Average Balances, Interest and Yields.** The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Average balances have been calculated using monthly balances. Amortization of net deferred loan fees are included in interest income on loans and are insignificant. No tax-equivalent adjustments were made.

	Three Months Ended June 30, (dollars in thousands)					
	Average Balance	2013 Interest	Yield/ Cost	Average Balance	2012 Interest	Yield/ Cost
<b>Assets:</b>						
Cash and cash equivalents	\$ 28,231	\$ 12	0.17%	\$ 34,572	\$ 15	0.17%
Investment securities (2)	27,081	119	1.76%	18,095	76	1.68%
Mortgage-backed securities	91,965	394	1.71%	77,136	434	2.25%
Loans receivable, net (1)	159,699	2,150	5.39%	167,995	2,362	5.62%
Total interest-earning assets	306,976	2,675	3.49%	297,798	2,887	3.88%
Noninterest-earning assets	22,556			18,181		
Total assets	\$ 329,532			\$ 315,979		
<b>Liabilities and Shareholders Equity:</b>						
Certificates of deposit	\$ 191,415	\$ 537	1.12%	\$ 216,553	\$ 749	1.38%
Money Market	28,404	8	0.11%	26,425	28	0.42%
Statement savings	15,209	2	0.05%	15,204	8	0.21%
NOW accounts	9,704	1	0.04%	7,484	1	0.05%
Total interest-bearing deposits	244,732	548	0.90%	265,666	786	1.18%
Other interest-bearing liabilities			0.00%			0.00%
Total interest-bearing liabilities	244,732	548	0.90%	265,666	786	1.18%
Noninterest-bearing deposits	14,177			11,948		
Other noninterest-bearing liabilities	3,116			2,820		
Total liabilities	262,025			280,434		
Total shareholders equity	67,507			35,545		
Total liabilities and shareholders equity	\$ 329,532			\$ 315,979		
Net interest income		\$ 2,127			\$ 2,101	
Net interest rate spread (3)			2.59%			2.70%
Net interest-earning assets (4)	\$ 62,244			\$ 32,132		
Net interest margin (5)			2.77%			2.82%
Average interest-earning assets to average interest-bearing liabilities	125.43%			112.09%		

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

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**Provision for Loan Losses.** We establish provisions for loan losses that are charged to operations in order to maintain the allowance for loan losses at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. We recorded a \$304,000 provision for loan losses for the three months ended June 30, 2013 compared to a \$58,000 provision for loan loss for the three months ended June 30, 2012. The allowance for loan losses was \$2.2 million, or 53.5% of non-performing loans at June 30, 2013 compared to \$2.1 million, or 42.1% of non-performing loans at June 30, 2012. The increased provision for the first quarter of fiscal 2014 reflects management's view of the losses inherent in the loan portfolio. During the three months ended June 30, 2013, loan charge offs totaled \$169,000 with recoveries of \$24,000, compared to \$1.5 million in charge offs and no recoveries during the three months ended June 30, 2012. During the three months ended June 30, 2012, most of the \$1.5 million in charge offs were already established as of March 31, 2012 in the allowance for loan losses as specific reserves and thus had no impact on the provision for loan losses during that quarter. During fiscal year 2014 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.

**Analysis of Loan Loss Experience.** The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	<b>Three Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
	(dollars in thousands)	
Allowance for loan losses at beginning of period	<b>\$ 2,071</b>	\$ 3,552
Charge-offs:		
Real estate loans:		
One-to four-family	<b>30</b>	73
Commercial		489
Construction		337
Commercial	<b>139</b>	593
Home equity		5
Consumer		6
Total charge-offs	<b>169</b>	1,503
Recoveries	<b>24</b>	
Net charge-offs	<b>145</b>	1,503
Provision for loan losses	<b>304</b>	58
Allowance for loan losses at end of period	<b>\$ 2,230</b>	\$ 2,107
Allowance for loan losses to non-performing loans	<b>53.54%</b>	42.07%
Allowance for loan losses to total loans outstanding at the end of the period	<b>1.37%</b>	1.26%
Net charge-offs to average loans outstanding during the period (not annualized)	<b>0.09%</b>	0.89%

**Noninterest Income.** Noninterest income increased \$80,000 to \$265,000 for the three months ended June 30, 2013, compared to \$185,000 for the three months ended June 30, 2012. The increase was primarily attributable to an increase of \$44,000 in gain on sale of investment securities, a \$15,000 increase in service charges and a \$23,000 increase in earnings on bank-owned life insurance ( BOLI ), slightly offset by a \$3,000 decrease in gains on sale of loans held for sale. Other noninterest income did not change significantly for the three month period ended June 30, 2013 as compared to the period ended June 30, 2012.

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**Noninterest Expense.** Noninterest expense increased \$229,000, or 12.0%, to \$2.1 million for the three months ended June 30, 2013 from \$1.9 million for the three months ended June 30, 2012. The largest components of this increase were salaries and benefits, which increased by \$145,000, professional services, which increased \$160,000, and data processing, which increased \$16,000. These increases were partially offset by a \$29,000 decrease in advertising, a \$17,000 decrease in deposit insurance premiums, a \$15,000 decrease in foreclosed real estate expense and a \$48,000 decrease in other operating expense. The hiring of new staff contributed to higher salaries and benefits compared to the same period last year. Also contributing to higher noninterest expense were the costs incurred for professional services relating to being a stock institution and the workout of problem loans. Advertising expense decreased as a result of the rebranding effort that was undertaken last year.

**Income tax Expense.** We recorded a \$66,000 income tax benefit for the three months ended June 30, 2013 after a net loss before income taxes of \$48,000 and \$97,000 of income tax expense for the three months ended June 30, 2012. The effective income tax rate was a negative 136.3% for the three months ended June 30, 2013 and 30.3% for the three months ended June 30, 2012. The reason the effective tax rate in the first quarter of fiscal 2014 period was negative is a result of the net loss before income taxes, as well as tax-exempt revenue totaling \$125,000.

**Liquidity and Capital Resources**

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds available to meet short-term liquidity needs consist of deposit inflows, loan repayments, and maturities and sales of investment securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions, and competition. We regularly adjust our investments in liquid assets available to meet short-term liquidity needs based upon our assessment of (i) expected loan demand, (ii) expected deposit flows, (iii) yields available on interest-earning deposits and securities, and (iv) the objectives of our asset/liability management policy. We do not have long-term debt or other financial obligations that would create long-term liquidity concerns.

Our most liquid assets are cash and cash equivalents and interest-bearing deposits. The level of these assets depends on our operating, financing, lending, and investing activities during any given period. At June 30, 2013, cash and cash equivalents totaled \$27.3 million and securities classified as available-for-sale amounted to \$113.7 million. Our liquidity has increased as a result of the \$35.6 million received in net proceeds from the mutual-to-stock conversion completed on October 10, 2012. In addition, at June 30, 2013, the Bank had the ability to borrow a total of approximately \$65.2 million or 20% of total assets from the Federal Home Loan Bank of Atlanta. The Bank also has two lines of credit totaling \$6.0 million with one large financial institution. At June 30, 2013, we had no Federal Home Loan Bank advances outstanding or borrowings on the lines of credit.

Certificates of deposit due within one year of June 30, 2013 totaled \$101.5 million, or 54.3% of certificates of deposit. We believe the large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for longer periods due to the current low interest rate environment and local competitive pressures. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on certificates of deposit due on or before June 30, 2014. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, unused lines of credit and letters of credit. At June 30, 2013, we had \$29.1 million in commitments to extend credit outstanding.

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We are subject to various regulatory capital requirements administered by the Office of the Comptroller of the Currency, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At June 30, 2013, the Bank exceeded all of its regulatory capital requirements and was considered well capitalized under regulatory guidelines.

In July 2013, the Federal Deposit Insurance Corporation and the other federal bank regulatory agencies issued a final rule that will 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 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 unless a one-time opt-out is exercised. The rule limits a banking organization's capital distributions and certain discretionary bonus payments 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 becomes effective for the Company and the Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For a discussion of our market risk, please refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2013 filed on June 28, 2013. The Company's market risk has not changed materially from that disclosed in the annual report.

### **Item 4. Controls and Procedures**

An evaluation was performed under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of the period covered by this report. Based upon such evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

During the period covered by this report, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**Part II Other Information**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

For information regarding the Company's risk factors, see "Risk Factors" in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on June 28, 2013. As of June 30, 2013, the risk factors of the Company have not changed materially from those disclosed in the annual report.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of June 30, 2013 (unaudited) and March 31, 2013; (ii) the Consolidated Statements of Operations for the three months ended June 30, 2013 and 2012 (unaudited); (iii) the Consolidated Statements of Comprehensive Income for the three months ended June 30, 2013 and 2012 (unaudited); (iv) the Consolidated Statements of Equity for the three months ended June 30, 2013 and 2012 (unaudited); (v) the Consolidated Statement of Cash Flows for the three months ended June 30, 2013 and 2012 (unaudited); and (vi) Notes to Consolidated Financial Statements (unaudited).

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\* This information is furnished and not filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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**SIGNATURES**

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

**HAMILTON BANCORP, INC.**

Date: August 14, 2013

/s/ Robert A. DeAlmeida  
Robert A. DeAlmeida  
President and Chief Executive Officer

Date: August 14, 2013

/s/ John P. Marzullo  
John P. Marzullo  
Senior Vice President, Chief Financial Officer and Treasurer