

Hamilton Bancorp, Inc.
Form 10-Q
November 14, 2014
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2014**

OR

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

Commission File No. 001-35693

Hamilton Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

46-0543309
(I.R.S. Employer
Identification Number)

501 Fairmount Avenue, Suite 200, Towson, Maryland
(Address of Principal Executive Offices)
(410) 823-4510

21286
Zip Code

(Registrant's telephone number)

N/A

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

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

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

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

Edgar Filing: Hamilton Bancorp, Inc. - Form 10-Q

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

3,413,095 shares of the Registrant's common stock, par value \$0.01 per share, were issued and outstanding as of November 14, 2014.

Table of Contents

Hamilton Bancorp, Inc. and Subsidiaries

Form 10-Q

Index

	Page
Part I. Financial Information	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Financial Condition as of September 30, 2014 (unaudited) and March 31, 2014</u>	1
<u>Consolidated Statements of Operations for the Three and Six Months Ended September 30, 2014 and 2013 (unaudited)</u>	2
<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended September 30, 2014 and 2013 (unaudited)</u>	3
<u>Consolidated Statements of Changes in Shareholders' Equity for the Six Months Ended September 30, 2014 and 2013 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the Six Months Ended September 30, 2014 and 2013 (unaudited)</u>	5 - 6
<u>Notes to Consolidated Financial Statements (unaudited)</u>	7 - 24
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25 - 38
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	38
Item 4. <u>Controls and Procedures</u>	38
Part II. Other Information	
Item 1. <u>Legal Proceedings</u>	40
Item 1A. <u>Risk Factors</u>	40
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
Item 3. <u>Defaults upon Senior Securities</u>	40
Item 4. <u>Mine Safety Disclosures</u>	40
Item 5. <u>Other Information</u>	40
Item 6. <u>Exhibits</u>	40
<u>Signatures</u>	41

Table of Contents**Part I. Financial Information****Item 1. Financial Statements****HAMILTON BANCORP, INC AND SUBSIDIARY****Consolidated Statements of Financial Condition****September 30, 2014 and March 31, 2014**

	September 30, 2014 (Unaudited)	March 31, 2014 (Audited)
Assets		
Assets		
Cash and due from banks	\$ 3,994,375	\$ 3,471,505
Federal funds sold and Federal Home Loan Bank deposit	6,537,208	10,312,341
Interest-bearing deposits in other banks	9,323,562	19,289,464
Cash and cash equivalents	19,855,145	33,073,310
Investment securities available for sale	103,352,725	103,553,274
Federal Home Loan Bank stock, at cost	266,000	266,000
Loans held for sale	224,895	
Loans, less allowance for loan losses of \$2,093,808 and \$1,785,973	146,825,512	142,913,591
Premises and equipment	2,070,348	2,101,587
Foreclosed real estate	676,580	664,020
Accrued interest receivable	749,022	789,800
Bank-owned life insurance	12,183,464	12,002,078
Deferred income taxes	2,800,992	2,360,726
Income taxes refundable		659,859
Goodwill and other intangible assets	2,818,265	2,835,765
Other assets	1,446,290	1,549,057
Total Assets	\$ 293,269,238	\$ 302,769,067
Liabilities and Shareholders Equity		
Liabilities		
Noninterest-bearing deposits	\$ 16,931,883	\$ 15,327,161
Interest-bearing deposits	215,455,967	223,493,010
Total deposits	232,387,850	238,820,171
Advances by borrowers for taxes and insurance	414,921	669,797
Other liabilities	1,391,944	1,508,831
Total liabilities	234,194,715	240,998,799

Commitments and contingencies

Shareholders Equity

Common stock, \$.01 par value, 100,000,000 shares authorized. Issued: 3,413,095 shares at September 30, 2014 and 3,595,100 shares at March 31, 2014

	34,131	35,951
Additional paid in capital	30,614,026	32,910,362
Retained earnings	32,815,337	33,066,380
Unearned ESOP shares	(2,666,160)	(2,666,160)
Accumulated other comprehensive income	(1,722,811)	(1,576,265)
Total shareholders equity	59,074,523	61,770,268

Total Liabilities and Shareholders Equity **\$ 293,269,238** \$ 302,769,067

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

Table of Contents**HAMILTON BANCORP, INC AND SUBSIDIARY****Consolidated Statements of Operations (Unaudited)****Three and Six Months Ended September 30, 2014 and 2013**

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Interest revenue				
Loans, including fees	\$ 1,743,737	\$ 2,089,194	\$ 3,585,964	\$ 4,239,422
U.S. treasuries and government agencies	112,386	116,671	222,358	235,553
Municipal bonds	32,971		68,837	
Mortgage-backed securities	389,909	394,356	778,244	788,693
Federal funds sold and other bank deposits	6,168	8,433	16,373	20,068
Total interest revenue	2,285,171	2,608,654	4,671,776	5,283,736
Interest expense				
Deposits	427,918	485,532	858,989	1,033,490
Net interest income	1,857,253	2,123,122	3,812,787	4,250,246
Provision for loan losses	170,000	1,014,557	470,000	1,318,557
Net interest income after provision for loan losses	1,687,253	1,108,565	3,342,787	2,931,689
Noninterest revenue				
Service charges	115,869	104,570	220,585	200,363
Gain on sale of investment securities	166,155		188,174	95,516
Gain on sale of loans held for sale	23,539	16,470	24,737	19,982
Earnings on bank-owned life insurance	90,856	96,994	181,386	193,940
Other	(7,373)	1,261	5,836	2,489
Total noninterest revenue	389,046	219,295	620,718	512,290
Noninterest expenses				
Salaries	918,370	808,198	1,810,423	1,626,024
Employee benefits	412,831	315,923	833,732	609,355
Occupancy	202,483	266,136	406,843	485,519
Advertising	30,554	44,654	64,292	118,555
Furniture and equipment	60,726	70,743	116,377	155,356
Data processing	128,393	133,733	275,919	285,635
Legal services	49,848	98,257	109,539	191,110
Other professional services	59,625	96,478	154,108	219,254
Deposit insurance premiums	59,896	64,396	118,094	124,386
Foreclosed real estate expense and losses		23,140		40,595

Edgar Filing: Hamilton Bancorp, Inc. - Form 10-Q

Other operating	289,751	295,797	577,810	526,245
Total noninterest expenses	2,212,477	2,217,455	4,467,137	4,382,034
Income (loss) before income taxes	(136,178)	(889,595)	(503,632)	(938,055)
Income tax (benefit) expense	(77,116)	(389,296)	(252,589)	(455,343)
Net (loss) income	\$ (59,062)	\$ (500,299)	\$ (251,043)	\$ (482,712)
Basic earnings (loss) per common share - basic and diluted	\$ (0.02)	\$ (0.15)	\$ (0.08)	\$ (0.14)

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

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY
Consolidated Statements of Comprehensive Income (Unaudited)
Three and Six Months Ended September 30, 2014 and 2013

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net loss	\$ (59,062)	\$ (500,299)	\$ (251,043)	\$ (482,712)
Other comprehensive income:				
Unrealized loss on investment securities available for sale	(1,043,685)	(235,663)	(53,829)	(2,947,831)
Reclassification adjustment for realized gain on investment securities available for sale included in net income	(166,155)		(188,174)	(95,516)
Total unrealized loss on investment securities available for sale	(1,209,840)	(235,663)	(242,003)	(3,043,347)
Income tax benefit relating to investment securities available for sale	(477,221)	(85,579)	(95,457)	(1,148,443)
Other comprehensive loss	(732,619)	(150,084)	(146,546)	(1,894,904)
Total comprehensive loss	\$ (791,681)	\$ (650,383)	\$ (397,589)	\$ (2,377,616)

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

Table of Contents**HAMILTON BANCORP, INC AND SUBSIDIARY****Consolidated Statements of Changes in Shareholders Equity (Unaudited)****Six Months Ended September 30, 2014 and 2013**

	Common stock	Additional paid-in capital	Retained earnings	Unearned ESOP shares	Accumulated other comprehensive income	Total shareholders equity
Balance March 31, 2013	\$ 37,030	\$ 35,554,350	\$ 34,261,764	\$ (2,814,280)	\$ 396,747	\$ 67,435,611
Net loss			(482,712)			(482,712)
Unrealized gain on available for sale securities, net of tax effect of \$(1,148,443)					(1,894,904)	(1,894,904)
Balance September 30, 2013	\$ 37,030	\$ 35,554,350	\$ 33,779,052	\$ (2,814,280)	\$ (1,498,157)	\$ 65,057,995
Balance March 31, 2014	\$ 35,951	\$ 32,910,362	\$ 33,066,380	\$ (2,666,160)	\$ (1,576,265)	\$ 61,770,268
Net loss			(251,043)			(251,043)
Unrealized loss on available for sale securities, net of tax effect of \$ (95,457)					(146,546)	(146,546)
Repurchase of common stock	(1,798)	(2,500,392)				(2,502,190)
Stock based compensation - restricted stock	(22)	102,858				102,836
Stock based compensation - stock options		101,198				101,198
Balance September 30, 2014	\$ 34,131	\$ 30,614,026	\$ 32,815,337	\$ (2,666,160)	\$ (1,722,811)	\$ 59,074,523

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

Table of Contents**HAMILTON BANCORP, INC AND SUBSIDIARY****Consolidated Statements of Cash Flows (Unaudited)****Six Months Ended September 30, 2014 and 2013**

	Six Months Ended September 30,	
	2014	2013
Cash flows from operating activities		
Interest received	\$ 4,943,109	\$ 5,665,370
Fees and commissions received	226,421	146,829
Interest paid	(859,156)	(1,043,364)
Cash paid to suppliers and employees	(4,130,896)	(4,184,197)
Origination of loans held for sale	(1,810,500)	(1,400,000)
Proceeds from sale of loans held for sale	1,610,342	1,616,725
Income taxes (paid) refund received	567,639	1,309,933
Net cash provided by operating activities	546,959	2,111,296
Cash flows from investing activities		
Proceeds from sale of securities available for sale	5,318,086	3,608,148
Proceeds from maturing and called securities available for sale, including principal pay downs	14,586,322	13,165,583
Purchase of investment securities available for sale	(19,971,049)	(16,746,315)
Purchase of Federal Home Loan Bank stock		(4,500)
Loans made, net of principal repayments	(4,411,675)	5,205,097
Purchase of premises and equipment	(120,922)	(30,899)
Proceeds from sale of automobile	23,500	
Net cash provided (used) by investing activities	(4,575,738)	5,197,114
Cash flows from financing activities		
Net increase (decrease) in		
Deposits	(6,432,321)	(13,348,564)
Advances by borrowers for taxes and insurance	(254,876)	(371,922)
Repurchase of common stock	(2,502,190)	
Net cash used by financing activities	(9,189,387)	(13,720,486)
Net decrease in cash and cash equivalents	(13,218,166)	(6,412,076)
Cash and cash equivalents at beginning of period	33,073,310	33,968,744
Cash and cash equivalents at end of period	\$ 19,855,144	\$ 27,556,668

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

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

(Continued)

	Six Months Ended September 30,	
	2014	2013
Reconciliation of net loss to net cash provided (used) by operating activities		
Net loss	\$ (251,043)	\$ (482,712)
Adjustments to reconcile net loss to net cash provided (used) by operating activities		
Amortization of premiums on securities	213,361	356,337
Gain on sale of investment securities	(188,174)	(95,516)
Loan premium amortization		11,500
Deposit premium amortization		(9,000)
Core deposit intangible asset amortization	17,500	22,000
Premises and equipment depreciation and amortization	126,829	170,952
Gain on disposal of automobile	1,832	
Stock based compensation	204,034	
Provision for loan losses	470,000	1,318,557
Decrease (increase) in		
Accrued interest receivable	40,778	24,972
Loans held for sale	(224,895)	196,743
Cash surrender value of life insurance	(181,386)	(193,940)
Income taxes refundable and deferred income taxes	315,050	854,589
Other assets	102,766	16,507
Increase (decrease) in		
Accrued interest payable	(167)	(874)
Deferred loan origination fees	17,194	(11,176)
Other liabilities	(116,720)	(67,643)
Net cash provided by operating activities	\$ 546,959	\$ 2,111,296
Noncash investing activity		
Real estate acquired through foreclosure	\$ 12,560	\$ 1,003,313

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

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Form 10-Q

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014

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 common shares. All material intercompany accounts and transactions have been eliminated in consolidation.

In accordance with the 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, 2014 from audited financial statements. Operating results for the six months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2015, 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, 2014. Certain amounts from prior period financial statements have been reclassified to conform to the current period's presentation.

Summary of Significant Accounting Policies

Edgar Filing: Hamilton Bancorp, Inc. - Form 10-Q

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

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

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Nature of Operations. Hamilton Bancorp is a holding company that operates a community bank with 4 branches in the Baltimore-metropolitan area. Its primary deposit products are certificates of deposit and demand, savings, NOW, and money market accounts. Its primary lending products consist of real estate mortgages, along with commercial and consumer loans. Hamilton Bancorp's primary source of revenue is derived from loans to customers, who are predominately small and middle-market businesses and middle-income individuals.

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

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

Stock Based Compensation. Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company granted stock options and restricted stock for the first time in February, 2014.

Subsequent Events. Management has evaluated events and transactions subsequent to September 30, 2014 through the date these financial statements were available to be issued. No significant subsequent events were identified 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 did not 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.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 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.

ASU 2013-12, Definition of a Public Business Entity - An Addition to the Master Glossary. ASU 2013-12 amends the Master Glossary of the FASB Accounting Standards Codification to include one definition of public business entity for future use in U.S. GAAP and identifies the types of business entities that are excluded from the scope of the Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies. ASU 2013-12 did not have a significant impact on our financial statements.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective on January 1, 2017 and is not expected to have a significant impact on our financial statements.

ASU 2014-11, Transfers and Servicing (Topic 860). ASU 2014-11 requires that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, ASU 2014-11 requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. ASU 2014-11 requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, ASU 2014-11 requires disclosures related to collateral, remaining contractual term and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. ASU 2014-11 is effective on April 1, 2015 and is not expected to have a

significant impact on our financial statements.

Note 3: Earnings per Share

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

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Basic and diluted earnings per share for the three and six months ended September 30, 2014 and 2013 are summarized below:

	Three months ended September 30, 2014	Three months ended September 30, 2013	Six months ended September 30, 2014	Six months ended September 30, 2013
Net loss	\$ (59,062)	\$ (500,299)	\$ (251,043)	\$ (482,712)
Average common shares outstanding	3,147,580	3,421,572	3,205,123	3,421,572
Loss per common share - basic and diluted	\$ (0.02)	\$ (0.15)	\$ (0.08)	\$ (0.14)

Due to the net loss reported for the three and six months ended September 30, 2014, the outstanding common stock equivalents are not dilutive. There were no common stock equivalents, such as stock options, outstanding during the six months ended September 30, 2013.

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 were amortized over four years, which were 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 core deposit intangible asset is being amortized over 10 years.

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

	Goodwill	Core deposit intangible
Balance March 31, 2014	\$ 2,664,432	\$ 171,333
Amortization		(17,500)
Balance September 30, 2014	\$ 2,664,432	\$ 153,833

	Goodwill	Core deposit intangible
--	----------	----------------------------

Edgar Filing: Hamilton Bancorp, Inc. - Form 10-Q

Balance March 31, 2013	\$ 2,664,432	\$ 212,333
Amortization		(22,000)
Balance September 30, 2013	\$ 2,664,432	\$ 190,333

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

At September 30, 2014, future expected annual amortization associated with the core deposit intangible is as follows:

Year ending September 30,	Amount
2015	\$ 30,000
2016	28,167
2017	28,000
2018	28,000
2019	28,000
2020	11,666
	\$ 153,833

Note 5: Investment Securities Available for Sale

The amortized cost and fair value of securities at September 30, 2014 and March 31, 2014, are summarized as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
September 30, 2014				
U.S. treasuries and government agencies	\$ 20,445,037	\$ 9,403	\$ 772,587	\$ 19,681,853
Municipal bonds	3,188,715	179,442		3,368,157
Mortgage-backed	82,564,008	114,412	2,375,705	80,302,715
	\$ 106,197,760	\$ 303,257	\$ 3,148,292	\$ 103,352,725

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
March 31, 2014				
U.S. government agencies	\$ 24,539,483	\$ 20,505	\$ 1,146,883	\$ 23,413,105
Municipal bonds	3,241,992	95,568		3,337,560
Mortgage-backed	78,368,150	367,505	1,960,066	76,775,589
	106,149,625	483,578	3,106,949	103,526,254
FHLMC stock	6,681	20,339		27,020

Edgar Filing: Hamilton Bancorp, Inc. - Form 10-Q

\$ 106,156,306 \$ 503,917 \$ 3,106,949 \$ 103,553,274

Proceeds from the sale of investment securities were \$5,289,386 during the three months ended September 30, 2014 with gains of \$166,155 and no losses for that period. During the three months ended September 30, 2013 there were no sales of investment securities.

Proceeds from the sale of investment securities were \$5,318,086 and \$3,608,148 during the six months ended September 30, 2014 and 2013, respectively, with gains of \$188,174 and no losses for the six months ended September 30, 2014 and gains of \$95,516 and no losses for the six months ended September 30, 2013.

As of September 30, 2014 and March 31, 2014, all mortgage-backed securities are backed by U.S. Government-Sponsored Enterprises (GSE s).

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

As of September 30, 2014, the Company had pledged one security to the Federal Reserve Bank with a book value of \$2,000,000 and a fair value of \$1,882,896.

The amortized cost and estimated fair value of debt securities by contractual maturity at September 30, 2014 and March 31, 2014 follow. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	Available for Sale			
	September 30, 2014		March 31, 2014	
	Amortized cost	Fair value	Amortized cost	Fair value
Maturing				
Within one year	\$ 1,005,443	\$ 1,009,323	\$ 1,017,006	\$ 1,032,051
Over one to five years	2,439,594	2,437,461	4,522,476	4,527,248
Over five to ten years	17,000,000	16,235,069	17,000,000	15,904,931
Over ten years	3,188,715	3,368,157	5,241,993	5,286,435
Mortgage-backed, in monthly installments	82,564,008	80,302,715	78,368,150	76,775,589
	\$ 106,197,760	\$ 103,352,725	\$ 106,149,625	\$ 103,526,254

The following table presents the Company's investments' gross unrealized losses and the corresponding fair values by investment category and length of time that the securities have been in a continuous unrealized loss position at September 30, 2014 and March 31, 2014.

	Less than 12 months		12 months or longer		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
September 30, 2014						
U.S. treasuries and government agencies	\$ 7,656	\$ 1,916,094	\$ 764,931	\$ 16,235,069	\$ 772,587	\$ 18,151,163
Municipal bonds						
Mortgage-backed	672,086	31,397,814	1,703,619	36,902,734	2,375,705	68,300,548
	\$ 679,742	\$ 33,313,908	\$ 2,468,550	\$ 53,137,803	\$ 3,148,292	\$ 86,451,711
		Less than 12 months Fair		12 months or longer Fair		Total Fair

Edgar Filing: Hamilton Bancorp, Inc. - Form 10-Q

March 31, 2014	Gross unrealized		Gross unrealized		Gross unrealized	
	losses	value	losses	value	losses	value
U.S. government agencies	\$ 995,320	\$ 17,004,680	\$ 151,563	\$ 2,848,437	\$ 1,146,883	\$ 19,853,117
Municipal bonds						
Mortgage-backed	1,712,098	48,609,006	247,968	7,216,678	1,960,066	55,825,684
FHLMC stock						
	\$ 2,707,418	\$ 65,613,686	\$ 399,531	\$ 10,065,115	\$ 3,106,949	\$ 75,678,801

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

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Note 6: Loans Receivable and Allowance for Loan Losses

Loans receivable consist of the following at September 30, 2014 and March 31, 2014:

	September 30, 2014	March 31, 2014
Real estate loans:		
One-to four-family:		
Residential	\$ 53,644,611	\$ 57,673,450
Residential construction	2,432,718	473,271
Investor (1)	13,371,075	14,000,119
Commercial	46,457,869	41,406,424
Commercial construction	1,461,037	2,794,793
	117,367,310	116,348,057
Commercial	18,747,843	15,656,599
Home equity loans	11,773,846	11,660,531
Consumer	1,147,606	1,154,007
Total Loans	149,036,605	144,819,194
Net deferred loan origination fees and costs	(117,285)	(119,630)
Allowance for loan losses	(2,093,808)	(1,785,973)
	\$ 146,825,512	\$ 142,913,591

(1) Investor loans are residential mortgage loans secured by non-owner occupied one- to four-family properties. Residential lending is generally considered to involve less risk than other forms of lending, although payment experience on these loans is dependent on economic and market conditions in the Bank's lending area. Construction loan repayments are generally dependent on the related properties or the financial condition of its borrower or guarantor. Accordingly, repayment of such loans can be more susceptible to adverse conditions in the real estate market and the regional economy.

A substantial portion of the Bank's loan portfolio is 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.

Edgar Filing: Hamilton Bancorp, Inc. - Form 10-Q

The following tables set forth for the six months ended September 30, 2014 and 2013 and for the year ended March 31, 2014, the balance of the allowance for loan losses by portfolio segment, disaggregated by impairment methodology, which is further 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.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

months ended:	Allowance	Provision for	Charge	Recoveries	Allowance	Allowance		Loan Balance	
						Individually	Collectively	Individually	Collectively
September 30, 2014	3/31/2014	loan losses	offs		9/30/2014	for	for	for	for
Real estate loans:									
One-to four-family	\$ 528,362	\$ 109,464	\$ 105,498	\$ 1,315	\$ 533,643	\$ 157,155	\$ 376,488	\$ 1,812,115	\$ 67,636,28
Commercial	575,881	7,706			583,587		583,587	3,359,813	43,098,05
Commercial									
Construction	60,361	(60,361)						1,461,037	
Commercial	590,975	322,057		9,314	922,346	2,473	919,873	2,598,666	16,149,17
Home equity loans	27,181	92,859	69,801	2,505	52,744		52,744	49,283	11,724,56
Consumer	3,213	(1,725)			1,488		1,488	1,201	1,146,40
	\$ 1,785,973	\$ 470,000	\$ 175,299	\$ 13,134	\$ 2,093,808	\$ 159,628	\$ 1,934,180	\$ 9,282,115	\$ 139,754,49

months ended:	Allowance	Provision for	Charge	Recoveries	Allowance	Allowance		Loan Balance	
						Individually	Collectively	Individually	Collective
September 30, 2013	3/31/2013	loan losses	offs		9/30/2013	for	for	for	for
Real estate loans:									
One-to four-family	\$ 372,390	\$ 172,776	\$ 64,206	\$ 24,280	\$ 505,240	\$ 63,642	\$ 441,598	\$ 1,923,343	\$ 72,829,2
Commercial	613,047	43,004			656,051		656,051	4,768,676	34,711,6
Commercial									
Construction	417,311	(84,222)			333,089	249,587	83,502	2,541,587	2,031,6
Commercial	635,840	1,188,174	707,739	15,925	1,132,200		1,132,200	4,052,401	17,786,7
Home equity loans	31,484	(2,649)			28,835		28,835	57,024	12,454,6
Consumer	1,152	1,474		469	3,095		3,095		1,175,1
	\$ 2,071,224	\$ 1,318,557	\$ 771,945	\$ 40,674	\$ 2,658,510	\$ 313,229	\$ 2,345,281	\$ 13,343,031	\$ 140,989,1

r ended:	Allowance	Provision for	Charge	Recoveries	Allowance	Allowance		Loan Balance	
						Individually	Collectively	Individually	Collective
March 31, 2014	3/31/2013	loan losses	offs		3/31/2014	for	for	for	for

Real estate assets:									
Owner-occupied	\$ 372,390	\$ 337,416	\$ 205,809	\$ 24,365	\$ 528,362	\$ 168,487	\$ 359,875	\$ 1,913,630	\$ 70,233,2
Multi-family	613,047	(84,100)		46,934	575,881		575,881	3,363,584	38,042,8
Commercial									
Under construction	417,311	643,050	1,000,000		60,361		60,361	1,552,293	1,242,5
Commercial	635,840	968,537	1,058,733	45,331	590,975	259	590,716	3,953,618	11,702,9
Other equity									
Assets	31,484	7,082	11,385		27,181		27,181	204,209	11,456,3
Consumer	1,152	1,572		489	3,213		3,213		1,154,0
	\$ 2,071,224	\$ 1,873,557	\$ 2,275,927	\$ 117,119	\$ 1,785,973	\$ 168,746	\$ 1,617,227	\$ 10,987,334	\$ 133,831,8

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Past due loans, segregated by age and class of loans, as of September 30, 2014 and March 31, 2014, were as follows:

	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	Total loans	Accruing loans 90 or more days past due	Nonaccrual loans	Nonaccrual interest not accrued
September 30, 2014									
Real estate loans:									
One-to four-family	\$ 574,811	\$ 1,200	\$ 357,518	\$ 933,529	\$ 68,514,875	\$ 69,448,404	\$	\$ 358,718	\$ 22,400
Commercial			274,285	274,285	46,183,584	46,457,869	274,285		
Commercial construction					1,461,037	1,461,037		1,461,037	11,000
Commercial	94,749	585,000	923,409	1,603,158	17,144,685	18,747,843		1,557,934	100,000
Home equity loans	46,923	12,957	49,283	109,163	11,664,683	11,773,846		49,283	5,000
Consumer	3,592	579	1,201	5,372	1,142,234	1,147,606		1,201	
	\$ 720,075	\$ 599,736	\$ 1,605,696	\$ 2,925,507	\$ 146,111,098	\$ 149,036,605	\$ 274,285	\$ 3,428,173	\$ 140,000

	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	Total loans	Accruing loans 90 or more days past due	Nonaccrual loans	Nonaccrual interest not accrued
March 31, 2014									
Real estate loans:									
One-to four-family	\$ 253,465	\$	\$ 442,355	\$ 695,820	\$ 71,451,020	\$ 72,146,840	\$	\$ 442,355	\$ 29,400
Commercial			301,295	301,295	41,105,129	41,406,424	301,295		
Commercial construction		1,242,500		1,242,500	1,552,293	2,794,793		1,552,293	
Commercial	439,603	2,172,968	1,801,746	4,414,317	11,242,282	15,656,599	500,000	2,040,864	71,800
Home equity loans			204,209	204,209	11,456,322	11,660,531		204,209	9,600
Consumer	7,629			7,629	1,146,378	1,154,007			
	\$ 700,697	\$ 3,415,468	\$ 2,749,605	\$ 6,865,770	\$ 137,953,424	\$ 144,819,194	\$ 801,295	\$ 4,239,721	\$ 110,900

Edgar Filing: Hamilton Bancorp, Inc. - Form 10-Q

Impaired Loans as of and for the six months ended September 30, 2014 and as of and for the year ended March 31, 2014 were as follows:

September 30, 2014	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
Real estate loans:							
One-to four-family	\$ 1,905,280	\$ 352,766	\$ 1,459,349	\$ 1,812,115	\$ 157,155	\$ 1,853,390	\$ 31,759
Commercial	3,435,065	3,359,813		3,359,813		3,360,622	73,221
Commercial Construction	2,549,027	1,461,037		1,461,037		2,138,951	
Commercial	3,412,805	2,542,281	56,385	2,598,666	2,473	2,902,975	18,630
Home equity loans	69,095	49,283		49,283		59,361	112
Consumer	1,201	1,201		1,201		1,192	36
	\$ 11,372,473	\$ 7,766,381	\$ 1,515,734	\$ 9,282,115	\$ 159,628	\$ 10,316,491	\$ 123,758

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

March 31, 2014	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
Real estate loans:							
One-to four-family	\$ 2,103,937	\$ 442,355	\$ 1,471,275	\$ 1,913,630	\$ 168,487	\$ 2,015,371	\$ 85,927
Commercial	3,363,584	3,363,584		3,363,584		3,381,166	278,249
Commercial							
Construction	2,552,293	1,552,293		1,552,293		2,546,048	174,501
Commercial	5,405,706	3,886,889	66,729	3,953,618	259	4,664,305	319,389
Home equity loans	215,594	204,209		204,209		153,943	8,315
Consumer							
	\$ 13,641,114	\$ 9,449,330	\$ 1,538,004	\$ 10,987,334	\$ 168,746	\$ 12,760,833	\$ 866,381

Credit quality indicators

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

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

Pass

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

Special Mention

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

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

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

Substandard

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

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

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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, less estimated cost to sell.

Doubtful

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

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

Loss

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

The following tables present the September 30, 2014 and March 31, 2014, balances of classified loans based on the risk grade. Classified loans include Special Mention, Substandard, Doubtful and Loss loans. The Bank had no loans classified as Doubtful or Loss as of September 30, 2014 or March 31, 2014.

September 30, 2014	Pass	Special mention	Substandard	Total
Real estate loans:				
One-to four-family	\$ 67,046,457	\$ 2,043,229	\$ 358,718	\$ 69,448,404
Commercial	39,833,036	3,265,020	3,359,813	46,457,869
Commercial Construction			1,461,037	1,461,037
Commercial	13,343,051	2,806,126	2,598,666	18,747,843
Home equity loans	11,711,606	12,957	49,283	11,773,846
Consumer	1,145,826	579	1,201	1,147,606

Edgar Filing: Hamilton Bancorp, Inc. - Form 10-Q

\$ 133,079,976 \$ 8,127,911 \$ 7,828,718 \$ 149,036,605

March 31, 2014	Pass	Special mention	Substandard	Total
Real estate loans:				
One-to four-family	\$ 69,979,745	\$ 1,724,740	\$ 442,355	\$ 72,146,840
Commercial	35,187,711	2,855,129	3,363,584	41,406,424
Commercial Construction	1,242,500		1,552,293	2,794,793
Commercial	8,462,441	3,240,542	3,953,616	15,656,599
Home equity loans	11,456,322		204,209	11,660,531
Consumer	1,154,007			1,154,007
	\$ 127,482,726	\$ 7,820,411	\$ 9,516,057	\$ 144,819,194

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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, nonaccrual loans that are modified and considered TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

A summary of TDRs at September 30, 2014 and March 31, 2014 follows:

September 30, 2014	Number of contracts	Performing	Nonperforming	Total
Real estate loans:				
One-to four-family	5	\$ 1,384,837	\$ 74,607	\$ 1,459,444
Commercial	2	3,359,813		3,359,813
Commercial Construction				
Commercial	3	56,385	640,088	696,473
Home equity loans				
Consumer				
	10	\$ 4,801,035	\$ 714,695	\$ 5,515,730

March 31, 2014	Number of contracts	Performing	Nonperforming	Total
Real estate loans:				
One-to four-family	5	\$ 1,471,275	\$ 6,259	\$ 1,477,534
Commercial				
Commercial Construction				
Commercial	3	66,729	870,489	937,218
Home equity loans				
Consumer				
	8	\$ 1,538,004	\$ 876,748	\$ 2,414,752

The following table presents the number of contracts and the dollar amount of TDRs that were added during the six month period ended September 30, 2014. The amount shown reflects the outstanding loan balance at the time of the modification.

Edgar Filing: Hamilton Bancorp, Inc. - Form 10-Q

Six months ended September 30, 2014	Number of contracts	Outstanding recorded investment
Real estate loans:		
One-to four-family		\$
Commercial	2	3,359,813
Commercial Construction		
Commercial		
Home equity loans		
Consumer		
	2	\$ 3,359,813

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

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

The Bank had the following outstanding commitments and unused lines of credit as of September 30, 2014 and March 31, 2014:

	September 30, 2014	March 31, 2014
Unused commercial lines of credit	\$ 8,986,700	\$ 2,614,410
Unused home equity lines of credit	16,113,690	17,414,411
Unused consumer lines of credit	61,137	59,029
Residential construction loan commitments	2,034,794	976,829
Commercial construction loan commitments		47,021
Home equity loan commitments	352,000	142,200
Commercial loan commitments	500,000	2,589,249
Standby letter of credit	50,000	

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 September 30, 2014 and March 31, 2014 were as follows:

	Actual		Minimum capital requirement		To be well capitalized (1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2014						
	\$ 43,238	26.31%	\$ 13,146	8.00%	\$ 16,433	10.00%

(dollars in thousands)

Edgar Filing: Hamilton Bancorp, Inc. - Form 10-Q

Total risk-based capital (to risk-weighted assets)						
Tier 1 capital (to risk-weighted assets)	42,000	25.07%	6,573	4.00%	9,860	6.00%
Tier 1 capital (to adjusted total assets)	42,000	14.64%	11,257	4.00%	14,071	5.00%

	Actual		Minimum capital requirement		To be well capitalized (1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2014						
<i>(dollars in thousands)</i>						
Total risk-based capital (to risk-weighted assets)						
	\$ 45,800	28.38%	\$ 12,908	8.00%	\$ 16,135	10.00%
Tier 1 capital (to risk-weighted assets)	44,014	27.28%	6,454	4.00%	9,681	6.00%
Tier 1 capital (to adjusted total assets)	44,014	15.10%	11,660	4.00%	14,575	5.00%

(1) Under prompt corrective action provision.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 September 30, 2014, 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: Stock Based Compensation

In November 2013, the Company's shareholders approved a new Equity Incentive Plan (the "2013 Equity Incentive Plan"). The 2013 Equity Incentive Plan allows for up to 148,120 shares to be issued to employees, executive officers or Directors in the form of restricted stock, and up to 370,300 shares to be issued to employees, executive officers or Directors in the form of stock options. At September 30, 2014, there were 77,250 restricted stock awards issued and 75,000 outstanding and 225,150 stock option awards granted under the 2013 Equity Incentive Plan.

Stock Options:

Under the above plan, the exercise price for stock options is the market price at date of grant. The maximum option term is ten years and the options granted shall vest in five equal annual installments of 20% with the first installment becoming exercisable on the first anniversary of the date of grant, or February 3, 2015, and succeeding installments on each anniversary thereafter, through February 3, 2019. The Company plans to issue new shares to satisfy share option exercises. Total compensation cost that has been charged to employee benefit expense for the stock option plan was \$48,896 and \$101,198 for the three and six months ended September 30, 2014, respectively. There was no cost recorded during the three and six months ended September 30, 2013 because the 2013 Equity Incentive Plan was not established until February 2014.

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

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

	2014
Risk free interest rate	2.07%
Expected term	7.0 years
Expected stock price volatility	27.30%
Dividend yield	0.00%

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

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY
Notes to Consolidated Financial Statements (Continued)

A summary of stock option activity for the six months ended September 30, 2014 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
September 30, 2014:			
Outstanding at beginning of period	225,150	\$ 13.85	9.8 years
Granted			
Exercised			
Forfeited, exchanged or expired	(5,500)		years
Outstanding at end of period	219,650	\$ 13.85	9.2 years
Vested at end of period		\$ 13.85	9.2 years

As of September 30, 2014 there was \$906,574 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 4.33 years. As of September 30, 2014, the outstanding stock options have no intrinsic value because the stock price at September 30, 2014 was less than the weighted average exercise price.

Restricted Stock:

The specific terms of each restricted stock award are determined by the Compensation Committee at the date of the grant. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at the issue date. The fair value of the stock was determined using the total number of restricted stock awards granted multiplied by the fair market value of a share of Company stock at the grant date. Restricted stock awards granted shall vest in five equal annual installments of 20% with the first installment becoming vested on the first anniversary of the date of grant, or February 3, 2015, and succeeding installments on each anniversary thereafter, through February 3, 2019.

A summary of changes in the Company's nonvested shares for the six months ended September 30, 2014 is as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at April 1, 2014	77,250	\$ 13.85
Granted		

Vested			
Forfeited		(2,250)	
Nonvested at September 30, 2014	75,000	\$	13.85

The Company recorded restricted stock awards expense of \$49,340 and \$102,836 during the three and six months ended September 30, 2014, respectively. There was no cost recorded during the three and six months ended September 30, 2013 because the 2013 Equity Incentive Plan was not established until February 2014. As of September 30, 2014, there was \$901,000 of total unrecognized compensation cost related to nonvested shares granted under the 2013 stock incentive plan. The cost is expected to be recognized over a weighted-average period of 4.33 years.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Note 9: Fair Value Measurements

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

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

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

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

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

Fair value measurements on a recurring basis

Securities available for sale If quoted prices are available in an active market for identical assets, securities are classified within Level 1 of the hierarchy. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. As of September 30, 2014 and March 31, 2014, the Bank has categorized its investment securities available for sale as follows:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
September 30, 2014				
U.S. treasuries and government agencies	\$	\$ 19,681,853	\$	\$ 19,681,853
Municipal bonds		3,368,157		3,368,157
Mortgage-backed		80,302,715		80,302,715
Total investment securities available for sale	\$	\$ 103,352,725	\$	\$ 103,352,725
	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
March 31, 2014				
U.S. government agencies	\$	\$ 23,413,105	\$	\$ 23,413,105
Municipal bonds		3,337,560		3,337,560
Mortgage-backed		76,775,589		76,775,589

Edgar Filing: Hamilton Bancorp, Inc. - Form 10-Q

FHLMC stock	27,020			27,020
Total investment securities available for sale	\$ 27,020	\$ 103,526,254	\$	\$ 103,553,274

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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 September 30, 2014 and March 31, 2014, the fair values consist of loan balances of \$9,282,115 and \$10,987,334 that have been written down by \$159,628 and \$168,746, 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 September 30, 2014 and March 31, 2014, the fair value of foreclosed real estate was estimated to be \$676,580. 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
September 30, 2014				
Impaired loans	\$	\$	\$ 9,122,487	\$ 9,122,487
Foreclosed real estate			676,580	676,580
Total impaired loans and foreclosed real estate	\$	\$	\$ 9,799,067	\$ 9,799,067

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
March 31, 2014				
Impaired loans	\$	\$	\$ 10,818,588	\$ 10,818,588
Foreclosed real estate			664,020	664,020
Total impaired loans and foreclosed real estate	\$	\$	\$ 11,482,608	\$ 11,482,608

The following table summarizes changes in foreclosed real estate for the six months ended September 30, 2014, which is measured on a nonrecurring basis using significant unobservable, level 3, inputs:

Balance, March 31, 2014	\$ 664,020
Transfer to foreclosed real estate	12,560
Proceeds from sale of foreclosed real estate	
Loss on sale of foreclosed real estate	
Balance, September 30, 2014	\$ 676,580

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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.

	September 30, 2014		March 31, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Level 1 inputs				
Cash and cash equivalents	\$ 19,855,145	\$ 19,855,145	\$ 33,073,310	\$ 33,073,310
Level 2 inputs				
Loans held for sale	224,895	224,895		
Federal Home Loan Bank stock	266,000	266,000	266,000	266,000
Bank-owned life insurance	12,183,464	12,183,464	12,002,078	12,002,078
Level 3 inputs				
Loans receivable, net	146,825,512	150,022,069	142,913,591	145,442,441
Financial liabilities				
Level 1 inputs				
Advance payments by borrowers for taxes and insurance	414,921	414,921	669,797	669,797
Level 3 inputs				
Deposits	232,387,850	233,007,703	238,820,171	239,452,889

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

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

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.

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.

Table of Contents

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 27, 2014 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 our four 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.

Table of Contents**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 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 as 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 Company is considered the Reporting Unit for purposes of impairment testing. Impairment testing requires that the fair value of the Company be compared to the carrying amount of the Company's net assets, including goodwill. If the fair value of the Company exceeds the book value, no write-down of recorded goodwill is required. If the fair value of the Company is less than book value, an expense may be required to write-down the related goodwill to the proper carrying value. We test for impairment of goodwill during February of each year. We estimate the fair value of the Company utilizing four valuation methods including the Comparable Transactions Approach, the Control Premium Approach, the Public Market Peers Approach, and the Discounted Cash Flow Approach.

Based on our impairment testing during February 2014, there was no evidence of impairment of the Bank's goodwill or intangible assets.

Deferred Income Tax. Deferred income taxes are recognized for the tax consequences of temporary differences between financial statement carrying amounts and the tax bases of assets and liabilities. Deferred income taxes are provided on income and expense items when they are reported for financial statement purposes in periods different

from the periods in which these items are recognized in the income tax returns. Deferred tax assets are recognized only to the extent that it is more likely than not that such amounts will be realized based upon consideration of available evidence, including tax planning strategies and other factors.

Comparison of Financial Condition at September 30, 2014 and March 31, 2014

Assets. Total assets decreased \$9.5 million, or 3.1%, to \$293.3 million at September 30, 2014 from \$302.8 million at March 31, 2014. The decrease was primarily the result of a \$13.2 million decrease in cash and cash equivalents, partially offset by an increase of \$4.1 million in the net loan portfolio (including loans held for sale).

Table of Contents

Cash and Cash Equivalents. Cash and cash equivalents decreased by \$13.2 million, or 39.9%, to \$19.9 million at September 30, 2014 from \$33.1 million at March 31, 2014. The decrease in cash and cash equivalents over that period funded a \$4.4 million increase in gross loans, a \$6.4 million outflow of deposits, and a 5.0% stock buyback program that was completed in May 2014 for \$2.5 million.

Securities. Total securities remained relatively unchanged at \$103.4 million at September 30, 2014 compared to March 31, 2014, after increasing in the prior quarter by \$4.4 million, or 4.3%, to \$108.0 million. Mortgage-backed securities increased \$3.5 million, along with the purchase of a U.S. Treasury for \$1.9 million, offset by a \$5.6 million decrease in U.S. government agency securities and no change in the investment balance of municipal securities.

The increase in mortgage-backed securities during the most recent six months included the purchase of \$16.2 million in mortgage-backed securities and collateralized mortgage obligations, partially offset by \$8.6 million in principal pay downs and \$4.0 million in sales that generated a \$78,000 gain on sale. The decrease in U.S. government agency securities was due to three bonds that were called over the six month period, each with a \$2.0 million par value. Although the investment balance of municipal securities remained unchanged, one bond was sold with a par value of \$1.0 million that netted an \$88,000 gain on the sale, offset by the purchase of another municipal bond for \$900,000. In addition, we sold our stock in the Federal Home Loan Mortgage Corporation in the first quarter of fiscal 2015 for a gain of \$22,000. The fair value of the investment portfolio decreased over the six month period by \$220,000 from a loss position of \$2.6 million at March 31, 2014 to a loss position of \$2.8 million at September 30, 2014 due to a slight increase in interest rates over that period.

Loans. Net loans, including loans held for sale, increased by \$4.4 million, or 3.1%, to \$149.1 million at September 30, 2014 from \$144.7 million at March 31, 2014. The Bank continues to focus on growing both commercial real estate and commercial business loans as these loans offer higher rates of return and shorter maturity periods than typical retail lending. The largest increase in loans over the most recent six months was a \$5.1 million, or 12.2% increase in commercial real estate loans from \$41.4 million at March 31, 2014 to \$46.5 million at September 30, 2014. In addition, commercial business loans continued to grow, increasing \$3.1 million, or 19.7%, to \$18.7 million at September 30, 2014 from \$15.7 million at March 31, 2014. The Bank is starting to see the benefits of our new commercial lending platform that has been restructured with new personnel and improved underwriting and monitoring procedures.

Partially offsetting the increases in the commercial loan portfolio is a \$2.7 million decrease in one- to four-family residential loans (including investor loans) from \$72.1 million at March 31, 2014 to \$69.4 million at September 30, 2014 as these loans either paid down, repaid or refinanced. The Bank continues to originate traditional one- to four-family residential loans and sell them in the secondary market at a premium in order to manage interest rate risk in a rising rate environment. During this year the Bank has begun to promote its one- to four-family residential construction lending program. At March 31, 2014, the Bank had originated roughly \$1.5 million in residential construction loans, of which \$473,000 in funds had been advanced. Since then, an additional \$3.0 million in residential construction loans have been originated, bringing total originations to \$4.5 million at September 30, 2014, of which \$2.4 million has been advanced. The construction period on the residential homes is typically nine to twelve months, at which time Hamilton Bank is taken out through permanent financing by a third party.

Deposits. Total deposits decreased \$6.4 million, or 2.7%, to \$232.4 million at September 30, 2014 from \$238.8 million at March 31, 2014. The Company continues to focus on changing its deposit mix to rely less on time deposits as a primary funding source and attract lower costing core deposits (which we consider to be all deposits other than certificates of deposit), including money market accounts. As a result, core deposits increased \$2.8 million, or 4.0%, to \$71.5 million at September 30, 2014 compared to \$68.7 million at March 31, 2014. The increase in core deposits consisted of a \$1.5 million, or 6.0%, increase in checking accounts to \$25.9 million at September 30, 2014 and an

Edgar Filing: Hamilton Bancorp, Inc. - Form 10-Q

increase in money market accounts of \$2.0 million, or 6.9%, to \$30.3 million at that same date. Savings accounts, however, decreased by \$661,000 to \$15.3 million at September 30, 2014 from \$16.0 million at March 31, 2014.

The overall increase in core deposits was offset by a \$9.2 million, or 5.4%, decrease in time deposits which decreased from \$170.1 million at March 31, 2014 to \$160.9 million at September 30, 2014.

Borrowings. The Company had no borrowings outstanding at September 30, 2014 or March 31, 2014.

Table of Contents

Equity. Total shareholders' equity at September 30, 2014 decreased \$2.7 million to \$59.1 million, compared to total shareholders' equity of \$61.8 million at March 31, 2014. The decrease in shareholders' equity was attributable to the \$251,000 net loss in the first half of fiscal 2015 and a 5.0% stock buyback program completed in May 2014 for \$2.5 million that resulted in the purchase of 179,755 common shares. The stock buyback program assisted in increasing the Company's book value per common share from \$17.18 at March 31, 2014 to \$17.30 at September 30, 2014.

Comparison of Asset Quality at September 30, 2014 and March 31, 2014

The Bank's asset quality continues to improve and remains a primary focus of management and the Board of Directors. Nonperforming assets at September 30, 2014 were \$4.4 million, a decrease of \$1.3 million from March 31, 2014 and a \$2.2 million, or 33.8% decrease compared to a year ago. Nonperforming assets to total assets decreased from 1.88% at March 31, 2014 to 1.49% of total assets at September 30, 2014. Nonperforming assets for the respective periods were as follows:

	At September 30, 2014	At March 31, 2014	At September 30, 2013
	(dollars in thousands)		
Nonaccruing loans	\$ 3,428	\$ 4,239	\$ 4,182
Accruing loans delinquent more than 90 days	274	801	675
Foreclosed real estate	677	664	1,759
Total nonperforming assets	\$ 4,379	\$ 5,704	\$ 6,616

Nonperforming loans, consisting of nonaccruing and accruing loans delinquent more than 90 days, made up the majority of the decrease in nonperforming assets, decreasing \$1.3 million to \$3.7 million at September 30, 2014 from \$5.0 million at March 31, 2014. Accruing loans delinquent more than 90 days represent loans that are on accrual status and paying under the contractually agreed upon terms of the note, however, such loans were 90 days past their contractual maturity date and, therefore, reported as nonperforming. At September 30, 2014 these loans decreased \$527,000 to \$274,000 as several loans were renewed or extended.

Nonaccrual loans decreased \$811,000, or 19.1%, to \$3.4 million at September 30, 2014 compared to \$4.2 million at March 31, 2014. The decrease in non-accrual loans includes \$162,000 in net charge-offs and \$685,000 in proceeds from loan payments and/or sale of collateral, including a \$186,000 loan pay-off from the Small Business Administration for their guarantee on a commercial loan.

Nonaccrual loans at September 30, 2014 include six commercial loans totaling \$3.0 million, one of which is a troubled debt restructure (TDR) for \$630,000 that continues to pay as agreed, but has been placed on nonaccrual by management until the borrower can show sustained cash flow adequate to perform under the terms of the TDR agreement. Nonaccrual commercial loans also include a construction loan for \$1.5 million that is also paying as agreed but has been placed on nonaccrual due to failure to complete the project and lack of funding to do so. The remaining balance of nonaccrual loans is primarily associated with one- to four-family residential mortgages.

Foreclosed real estate of \$677,000 has remained relatively unchanged from March 31, 2014 to September 30, 2014. There are three properties that comprise foreclosed real estate, one representing semi-developed land in the amount of \$664,000. The Bank is a participant in this credit and not the lead lender. The lead lender has since failed and the

Federal Deposit Insurance Corporation (FDIC) has taken interest in the property. The remaining balance of foreclosed real estate property is comprised of two one- to four-family residential properties in which we have a minor participation interest.

The provision for loan losses totaled \$470,000 for the six months ended September 30, 2014 compared to a \$1.3 million provision for the same period a year ago. The provision for the first half of fiscal 2015 is attributable to new commercial loan originations, particularly commercial business lines of credit, and the required allowance for loan loss balance calculated in accordance with ASC 450. The larger provision for loan loss in the prior year period was attributable to charge-offs that occurred within the commercial loan portfolio versus new loan originations.

Table of Contents

The allowance for loan losses at September 30, 2014 totaled \$2.1 million, or 1.40% of total gross loans, compared to \$1.8 million, or 1.23% of total loans at March 31, 2014. The \$308,000 increase in the allowance for loan losses is the result of \$470,000 in provision for loan losses, partially offset by \$162,000 in net charge-offs for the six month period ended September 30, 2014.

Comparison of Results of Operations for the Three Months Ended September 30, 2014 and 2013 (unaudited)

General. A net loss of \$59,000 was reported for the three months ended September 30, 2014, compared to a net loss of \$500,000 for the three months ended September 30, 2013, an improvement of \$441,000. The decrease in the net loss resulted primarily from an \$845,000 decrease in the provision for loan losses and a \$170,000 increase in noninterest revenue, partially offset by a \$266,000 decrease in net interest income and a \$312,000 decrease in income tax benefit.

Net Interest Income. Net interest income decreased \$266,000, or 12.5%, to \$1.9 million for the three months ended September 30, 2014 compared to \$2.1 million for the three months ended September 30, 2013. The decrease in net interest income was due to a \$323,000 decrease in interest revenue, partially offset by a \$58,000 decrease in interest expense. The decrease in interest revenue was due to a decrease in the average balance of interest-earning assets and a decrease in average yield. The average balance of interest-earning assets decreased \$23.1 million, or 7.8%, for the quarter ended September 30, 2014 compared to the same period in fiscal 2014, while the average yield decreased 17 basis points from 3.53% for the quarter ended September 30, 2013 to 3.36% for the quarter ended September 30, 2014. Over this period, the Bank had several large credit relationships carrying higher than average rates of interest pay-off.

The decline in the average balance of interest-earning assets for the quarter ended September 30, 2014 was partially offset by a \$17.0 million decline in the average balance of interest-bearing liabilities for the same period, as well as a 4 basis point decrease in the average yield of interest-bearing liabilities from 0.82% for the quarter ended September 30, 2013 to 0.78% for the quarter ended September 30, 2014. The net interest margin decreased 15 basis points from 2.88% for the three months ended September 30, 2013 to 2.73% for the three months ended September 30, 2014.

Interest Revenue. Interest revenue decreased \$323,000 to \$2.3 million for the three months ended September 30, 2014 from \$2.6 million for the three months ended September 30, 2013. The decrease resulted primarily from a \$345,000 decrease in interest revenue on loans, partially offset by an increase of \$24,000 in interest revenue on investment and mortgage-backed securities.

Interest on loans decreased \$345,000, or 16.5%, to \$1.7 million for the three months ended September 30, 2014, compared to \$2.1 million for the three months ended September 30, 2013. The decrease in interest revenue on loans was primarily due to a \$15.5 million decrease in the average balance of loans from \$158.2 million for the three months ended September 30, 2013 to \$142.6 million for the three months ended September 30, 2014. This decrease was due to the payoff of several large commercial loans bearing higher rates of interest. The payoff of these commercial loans also contributed to a 39 basis point decrease in the average yield on loans from 5.28% for the three months ended September 30, 2013 to 4.89% for the three months ended September 30, 2014. The decrease in average yields on loans is also a reflection of the decrease in market interest rates for loan products.

Interest revenue on total securities increased \$24,000 to \$535,000 for the three months ended September 30, 2014 from \$511,000 for the three months ended September 30, 2013. The increase resulted from \$33,000 in interest revenue associated with new investments in municipal bonds, partially offset by a \$4,000 decrease in interest revenue on U.S. treasuries and government agencies, as well as a \$4,000 decrease in interest on mortgage-backed securities. The

overall increase in interest revenue on investment securities (includes U.S. agency and treasury securities and municipal bonds) was primarily due to a 35 basis point increase in the average yield to 2.22% for the quarter ended September 30, 2014 compared to 1.87% for the quarter ended September 30, 2013. In addition, the average balance of these investment securities also increased by \$1.0 million to \$26.1 million at September 30, 2014. The decrease in interest revenue from mortgage-backed securities was primarily due to a \$6.1 million decrease in the average balance on mortgage-backed securities to \$82.9 million at September 30, 2014, partially offset by an 11 basis point increase in the average yield to 1.88% for the quarter ended September 30, 2014 compared to the same period last year.

Table of Contents

Interest Expense. Interest expense, consisting entirely of the cost of interest-bearing deposits, decreased \$58,000, or 11.9%, to \$428,000 for the three months ended September 30, 2014 from \$486,000 for the three months ended September 30, 2013. The decrease in the cost of interest-bearing deposits was due to a \$17.0 million, or 7.2% decrease in the average balance of interest-bearing deposits from \$235.4 million for the three months ended September 30, 2013 to \$218.4 million for the three months ended September 30, 2014. Over the past year, the Bank has continued to allow higher costing certificates of deposit to run-off and focused on generating lower costing core deposits, including checking and money market accounts. The balance of certificates of deposit has decreased \$15.5 million, or 8.8% from \$176.4 million at September 30, 2013 to \$160.9 million at September 30, 2014.

In addition to the decrease in the average balance of interest-bearing deposits, interest expense also decreased due to the average rate paid on those deposits decreasing 4 basis points to 0.78% for the three months ended September 30, 2014 compared to 0.82% for the same period a year ago.

Table of Contents

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

	Three Months Ended September 30, (dollars in thousands)					
	2014			2013		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Assets:						
Cash and cash equivalents	\$ 20,662	\$ 6	0.12%	\$ 23,062	\$ 8	0.14%
Investment securities (1)	26,073	145	2.22%	25,078	117	1.87%
Mortgage-backed securities	82,938	390	1.88%	89,065	394	1.77%
Loans receivable, net (2)	142,630	1,744	4.89%	158,156	2,090	5.29%
Total interest-earning assets	272,303	2,285	3.36%	295,361	2,609	3.53%
Noninterest-earning assets	22,923			23,382		
Total assets	\$ 295,226			\$ 318,743		
Liabilities and Shareholders Equity:						
Certificates of deposit	\$ 164,074	\$ 416	1.01%	\$ 180,557	\$ 473	1.05%
Money Market	29,510	9	0.12%	29,226	9	0.12%
Statement savings	15,448	2	0.05%	15,393	2	0.05%
NOW accounts	9,390	1	0.04%	10,245	2	0.08%
Total interest-bearing deposits	218,422	428	0.78%	235,421	486	0.83%
Other interest-bearing liabilities			0.00%			0.00%
Total interest-bearing liabilities	218,422	428	0.78%	235,421	486	0.83%
Noninterest-bearing deposits	16,866			15,715		
Other noninterest-bearing liabilities	1,767			1,928		
Total liabilities	237,055			253,064		
Total shareholders equity	58,171			65,679		
Total liabilities and shareholders equity	\$ 295,226			\$ 318,743		
Net interest income		\$ 1,857			\$ 2,123	
Net interest rate spread (3)			2.58%			2.71%

Net interest-earning assets (4)	\$ 53,881	\$ 59,940
Net interest margin (5)	2.73%	2.88%
Average interest-earning assets to average interest-bearing liabilities	124.67%	125.46%

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

Table of Contents

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 provision for loan loss of \$170,000 for the quarter ended September 30, 2014 compared to a provision for loan loss of \$1.0 million for the quarter ended September 30, 2013. The decrease in the provision for loan loss in the current quarter was partially due to a decrease in net charge-offs from \$586,000 for the three months ended September 30, 2013 to \$123,000 for the three months ended September 2014.

The allowance for loan losses was \$2.1 million, or 56.6% of non-performing loans at September 30, 2014 compared to \$2.7 million, or 54.7% of non-performing loans at September 30, 2013. During the three months ended September 30, 2014, loan charge offs totaled \$130,000 with recoveries of \$7,000, compared to \$603,000 in charge offs and \$17,000 in recoveries during the three months ended September 30, 2013. During fiscal year 2015 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.

	Three Months Ended September 30,	
	2014	2013
	(dollars in thousands)	
Allowance for loan losses at beginning of period	\$ 2,047	\$ 2,230
Charge-offs:		
Real estate loans:		
One-to four-family	103	35
Commercial		
Commercial construction		
Commercial		568
Home equity	27	
Consumer		
Total charge-offs	130	603
Recoveries	7	17
Net charge-offs	123	586
Provision for loan losses	170	1,015
Allowance for loan losses at end of period	\$ 2,094	\$ 2,659
Allowance for loan losses to non-performing loans	56.56%	54.74%
Allowance for loan losses to total loans outstanding at the end of the period	1.40%	1.72%

Net charge-offs to average loans outstanding during the period (not annualized)	0.08%	0.36%
--	--------------	-------

Noninterest Revenue. Noninterest revenue increased \$170,000, or 77.4% to \$389,000 for the three months ended September 30, 2014, compared to \$219,000 for the three months ended September 30, 2013. The increase is attributable to a \$166,000 gain realized on the sale of several securities compared to no gains realized on security sales over the same period last year. Service charges increased \$11,000, or 10.8% to \$116,000 for the three months ended September 30, 2014 compared to \$105,000 for the same period last year. We continue to focus on growing our core deposits, particularly checking accounts, and has increased our fee structure to be more aligned with our market. In addition, gain on loans held for sale increased \$7,000 for the three months ended September 30, 2014 compared to the same three months in fiscal 2014. The increases were partially offset by decreases in income from bank-owned life insurance and other noninterest revenue. Other noninterest revenue decreased as a result of a \$9,000 adjustment relating to the recording of proceeds received from a Small Business Investment Company the Bank has partnered with.

Table of Contents

Noninterest Expense. Noninterest expense increased \$5,000 to \$2.2 million for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. The largest change in noninterest expense over these periods consisted of a \$207,000 increase in salaries and benefits due to \$98,000 in cost associated with equity awards granted under the 2013 Equity Incentive Plans that was established in February 2014, the hiring of new personnel and increased insurance premiums. These increases were partially offset by a \$64,000 decrease in occupancy expense, a \$48,000 decrease in legal services, a \$37,000 decrease in other professional services, a \$23,000 decrease in other foreclosed real estate expense, and a \$14,000 decrease in advertising. The decrease in legal services and other professional services compared to the same quarter a year ago is due to the reduction in problem assets and the costs incurred last year with becoming a public company for the first time. In addition, over the first half of fiscal 2015 management diligently looked for ways to cut costs and improve efficiency going forward. That is why most of the other noninterest expenses decreased in the second quarter of fiscal 2015 compared to the same period in fiscal 2014.

Income tax Expense. We recorded a \$77,000 income tax benefit for the three months ended September 30, 2014 after a net loss before income taxes of \$136,000, compared to a tax benefit of \$389,000 for the three months ended September 30, 2013 after a net loss before income taxes of \$890,000. The effective income tax rate was a negative 56.6% for the three months ended September 30, 2014 and 43.8% for the three months ended September 30, 2013. The reason the effective tax rate in both quarters was negative is a result of the net loss before income taxes, as well as the impact from tax-exempt revenue.

Comparison of Results of Operations for the Six Months Ended September 30, 2014 and 2013 (unaudited)

General. A net loss of \$251,000 was reported for the six months ended September 30, 2014, compared to a net loss of \$483,000 for the six months ended September 30, 2013, an improvement of \$232,000. The decrease in the net loss resulted primarily from an \$849,000 decrease in the provision for loan losses and a \$108,000 increase in noninterest revenue, partially offset by a \$437,000 decrease in net interest income, an \$85,000 increase in noninterest expenses and a \$203,000 decrease in income tax benefit.

Net Interest Income. Net interest income decreased \$437,000, or 10.3%, to \$3.8 million for the six months ended September 30, 2014 compared to \$4.3 million for the six months ended September 30, 2013. The decrease in net interest income was due to a \$612,000 decrease in interest revenue, partially offset by a \$175,000 decrease in interest expense. The decrease in interest revenue was due to a decrease in the average balance of interest-earning assets and a decrease in average yield. The average balance of interest-earning assets decreased \$26.2 million, or 8.7%, during the six month period ended September 30, 2014 compared to the same period in fiscal 2014, while the average yield decreased 11 basis points from 3.51% for the six months ended September 30, 2013 to 3.40% for the six months ended September 30, 2014. Over this period, the Bank had several large credit relationships carrying higher than average rates of interest pay-off.

The decline in the average balance of interest-earning assets was partially offset by a \$19.9 million decline in the average balance of interest-bearing liabilities over the same period, as well as an 8 basis point decrease in the average yield of interest-bearing liabilities from 0.86% for the six months ended September 30, 2013 to 0.78% for the six months ended September 30, 2014. The net interest margin decreased 5 basis points from 2.82% for the six months ended September 30, 2013 to 2.77% for the six months ended September 30, 2014.

Interest Revenue. Interest revenue decreased \$612,000 to \$4.7 million for the six months ended September 30, 2014 from \$5.3 million for the six months ended September 30, 2013. The decrease resulted primarily from a \$653,000 decrease in interest revenue on loans, partially offset by an increase of \$45,000 in interest revenue on investment securities.

Edgar Filing: Hamilton Bancorp, Inc. - Form 10-Q

Interest on loans decreased \$653,000, or 15.4%, to \$3.6 million for the six months ended September 30, 2014, compared to \$4.2 million for the six months ended September 30, 2013. The decrease in interest revenue on loans was

Table of Contents

primarily due to a \$15.6 million decrease in the net average balance of loans from \$158.9 million for the six months ended September 30, 2013 to \$143.4 million for the six months ended September 30, 2014. This decrease was due to the payoff of several large commercial loans bearing higher rates of interest. The payoff of these commercial loans also contributed to a 33 basis point decrease in the average yield on loans from 5.33% for the six months ended September 30, 2013 to 5.00% for the six months ended September 30, 2014. The decrease in average yields on loans is also a reflection of the decrease in market interest rates for loan products.

Interest revenue on total securities increased \$45,000 to \$1.1 million for the six months ended September 30, 2014 from \$1.0 million for the six months ended September 30, 2013. The increase resulted from \$69,000 in interest revenue associated with new investments in municipal bonds, partially offset by a \$13,000 decrease in interest revenue on U.S. treasuries and government agencies, as well as a \$10,000 decrease in interest on mortgage-backed securities. The overall increase in interest revenue on investment securities (includes U.S. agency and treasury securities and municipal bonds) was primarily due to a 39 basis point increase in the average yield to 2.20% for the six months ended September 30, 2014 compared to 1.81% for the six months ended September 30, 2013. In addition, the average balance of these investment securities also increased by \$401,000 to \$26.5 million for the six months ended September 30, 2014. The decrease in interest revenue from mortgage-backed securities was primarily due to a \$9.2 million decrease in the average balance on mortgage-backed securities to \$81.3 million at September 30, 2014, partially offset by an 18 basis point increase in the average yield to 1.92% for the period ended September 30, 2014 compared to the same period last year.

Interest Expense. Interest expense, consisting entirely of the cost of interest-bearing deposits, decreased \$175,000, or 16.9%, to \$859,000 for the six months ended September 30, 2014 from \$1.0 million for the six months ended September 30, 2013. The decrease in the cost of interest-bearing deposits was due to a \$19.9 million, or 8.3%, decrease in the average balance of interest-bearing deposits from \$240.1 million for the six months ended September 30, 2013 to \$220.2 million for the six months ended September 30, 2014. Over the past year, the Bank has continued to allow higher costing certificates of deposit to run-off and focused on generating lower costing core deposits, including checking and money market accounts. The balance of certificates of deposit has decreased \$15.5 million, or 8.8% from \$176.4 million at September 30, 2013 to \$160.9 million at September 30, 2014.

In addition to the decrease in the average balance of interest-bearing deposits, interest expense also decreased due to the average rate paid on those deposits decreasing 8 basis points to 0.78% for the six months ended September 30, 2014 compared to 0.86% for the same period a year ago.

Table of Contents

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

	Six Months Ended September 30, (dollars in thousands)					
	2014			2013		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Assets:						
Cash and cash equivalents	\$ 23,888	\$ 16	0.13%	\$ 25,647	\$ 20	0.16%
Investment securities (1)	26,481	291	2.20%	26,080	236	1.81%
Mortgage-backed securities	81,266	779	1.92%	90,515	789	1.74%
Loans receivable, net (2)	143,362	3,586	5.00%	158,928	4,239	5.33%
Total interest-earning assets	274,997	4,672	3.40%	301,170	5,284	3.51%
Noninterest-earning assets	22,930			22,967		
Total assets	\$ 297,927			\$ 324,137		
Liabilities and Shareholders Equity:						
Certificates of deposit	\$ 166,354	\$ 836	1.01%	\$ 185,986	\$ 1,009	1.09%
Money Market	28,920	18	0.12%	28,815	17	0.12%
Statement savings	15,582	4	0.05%	15,301	4	0.05%
NOW accounts	9,316	1	0.02%	9,974	3	0.06%
Total interest-bearing deposits	220,172	859	0.78%	240,076	1,033	0.86%
Other interest-bearing liabilities			0.00%			0.00%
Total interest-bearing liabilities	220,172	859	0.78%	240,076	1,033	0.86%
Noninterest-bearing deposits	16,417			14,946		
Other noninterest-bearing liabilities	2,003			2,523		
Total liabilities	238,592			257,545		
Total shareholders equity	59,335			66,592		
Total liabilities and shareholders equity	\$ 297,927			\$ 324,137		
Net interest income		\$ 3,813			\$ 4,251	
Net interest rate spread (3)			2.62%			2.65%

Net interest-earning assets (4)	\$ 54,825	\$ 61,094
Net interest margin (5)	2.77%	2.82%
Average interest-earning assets to average interest-bearing liabilities	124.90%	125.45%

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

Table of Contents

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 provision for loan loss of \$470,000 for the six months ended September 30, 2014 compared to a provision for loan loss of \$1.3 million for the six months ended September 30, 2013. The decrease in the provision for loan loss in the current quarter was due to a decrease in net charge-offs from \$731,000 for the six months ended September 30, 2013 to \$162,000 for the six months ended September 30, 2014, partially offset by an increase in provisions related to new commercial loan originations, particularly business lines of credit, and the required allowance for loan loss balance calculated in accordance with ASC 450.

The allowance for loan losses was \$2.1 million, or 56.5% of non-performing loans at September 30, 2014 compared to \$2.7 million, or 54.7% of non-performing loans at September 30, 2013. During the six months ended September 30, 2014, loan charge offs totaled \$175,000 with recoveries of \$13,000, compared to \$772,000 in charge offs and \$41,000 in recoveries during the six months ended September 30, 2013. During fiscal year 2015 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.

	Six Months Ended September 30, 2014 2013	
	(dollars in thousands)	
Allowance for loan losses at beginning of period	\$ 1,786	\$ 2,071
Charge-offs:		
Real estate loans:		
One-to four-family	105	64
Commercial		
Commercial construction		
Commercial		708
Home equity	70	
Consumer		
Total charge-offs	175	772
Recoveries	13	41
Net charge-offs	162	731
Provision for loan losses	470	1,319
Allowance for loan losses at end of period	\$ 2,094	\$ 2,659
Allowance for loan losses to non-performing loans	56.56%	54.74%
	1.40%	1.72%

Allowance for loan losses to total loans outstanding at the end of the period

Net charge-offs to average loans outstanding during the period (not annualized)	0.11%	0.45%
---	--------------	-------

Noninterest Revenue. Noninterest revenue increased \$108,000, or 21.2% to \$621,000 for the six months ended September 30, 2014, compared to \$512,000 for the six months ended September 30, 2013. The increase is attributable to a \$188,000 gain realized on the sale of several securities compared to \$96,000 in gains realized on security sales during the same period last year. Service charges increased \$20,000, or 10.1% to \$221,000 for the six months ended September 30, 2014 compared to \$200,000 during the same period last year. The Bank continues to focus on growing our core deposits,

Table of Contents

particularly checking accounts, and has increased our fee structure to be more aligned with our market. In addition, gain on loans held for sale increased \$5,000 for the six months ended September 30, 2014 compared to the same period in fiscal 2014. The increases were partially offset by a \$13,000 decrease in income from bank-owned life insurance (BOLI) from \$194,000 for the six months ended September 30, 2013 to \$181,000 for the six months ended September 30, 2014. Income from BOLI decreased due to a decrease in interest rates earned on the cash surrender value of the policies.

Noninterest Expense. Noninterest expense increased slightly by \$85,000, or 1.9%, to \$4.5 million for the six months ended September 30, 2014 compared to \$4.4 million for the six months ended September 30, 2013. The largest change in noninterest expense over these periods consisted of a \$409,000 increase in salaries and benefits due to \$204,000 in cost associated with equity awards granted under the 2013 Equity Incentive Plan established in February 2014, the hiring of new personnel and increased insurance premiums. The increase in salaries and benefits was offset by a \$79,000 decrease in occupancy expense, an \$82,000 decrease in legal services, a \$65,000 decrease in other professional services, a \$41,000 decrease in other foreclosed real estate expense, and a \$54,000 decrease in advertising. The decrease in legal services and other professional services compared to the same period a year ago are due to the reduction in problem assets and the costs incurred last year with becoming a public company for the first time. In addition, over the first half of fiscal 2015 management diligently looked for ways to cut costs and improve efficiency going forward. That is why most of the other noninterest expenses decreased in the first half of fiscal 2015 compared to the same period in fiscal 2014.

Income tax Expense. We recorded a \$253,000 income tax benefit for the six months ended September 30, 2014 after a net loss before income taxes of \$504,000, compared to a tax benefit of \$455,000 for the six months ended September 30, 2013 after a net loss before income taxes of \$938,000. The effective income tax rate was a negative 50.2% for the six months ended September 30, 2014 and 48.5% for the six months ended September 30, 2013. The reason the effective tax rate in both periods was negative is a result of the net loss before income taxes, as well as the impact from tax-exempt revenue.

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 September 30, 2014, cash and cash equivalents totaled \$19.9 million and securities classified as available-for-sale amounted to \$103.4 million. At September 30, 2014, the Bank had the ability to borrow a total of approximately \$57.1 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 September 30, 2014, we had no Federal Home Loan Bank advances outstanding or borrowings on the lines of credit.

Certificates of deposit due within one year of September 30, 2014 totaled \$108.9 million, or 67.7% 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 September 30, 2015. 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.

Table of Contents

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 September 30, 2014, we had \$28.1 million in commitments to extend credit outstanding.

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 September 30, 2014, 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, 2014 filed on June 27, 2014. The Company's market risk has not changed materially from that disclosed in the annual report.

Item 4. Controls and Procedures

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

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

Table of Contents

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

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY
Notes to Consolidated Financial Statements (Continued)

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 27, 2014. As of September 30, 2014, 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 September 30, 2014 (unaudited) and March 31, 2014; (ii) the Consolidated Statements of Operations for the three and six months ended September 30, 2014 and 2013 (unaudited); (iii) the Consolidated Statements of Comprehensive Income for the three and six months ended September 30, 2014 and 2013 (unaudited); (iv) the Consolidated Statements of Equity for the six months ended September 30, 2014 and 2013 (unaudited); (v) the Consolidated Statement of Cash Flows for the six months ended September 30, 2014 and 2013 (unaudited); and (vi) Notes to Consolidated Financial Statements (unaudited).

* This information is furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 unless specifically incorporated therein.

Table of Contents

HAMILTON BANCORP, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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: November 14, 2014

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

Date: November 14, 2014

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