Hamilton Bancorp, Inc.
Form 10-K
June 28, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2013

OR

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

For the transition period from _________ to _________

Commission File Number: 0-35693

HAMILTON BANCORP, INC.

(Exact name of registrant as specified in its charter)

MARYLAND	**46-0543309**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
501 Fairmount Avenue, Suite 200, Towson, Maryland	**21286**
(Address of principal executive offices)	**(Zip Code)**

(410) 823-4510

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by nonaffiliates as of September 30, 2012 was $0.

The number of shares outstanding of the registrant s common stock as of June 28, 2013 was 3,703,000.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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

Management s ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could affect actual results include changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board, the credit quality and composition of the loan and investment portfolios, valuation of assets acquired through foreclosure, deposit flows, competition, demand for loan products and for financial services in Hamilton Bancorp, Inc. s market area, changes in real estate market values in Hamilton Bancorp, Inc. s market area, changes in relevant accounting principles and guidelines and the inability of third party service providers to perform as required. For further discussion of factors that may affect the results, see Item 1A. Risk Factors in this Annual Report on Form 10-K (Annual Report). These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements after the date of this Annual Report, whether as a result of new information, future events or otherwise.

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

PART I

Item 1. BUSINESS

General

Hamilton Bancorp, Inc. is a Maryland chartered corporation established in June 2012 to become the holding company for Hamilton Bank in connection with the Bank s mutual-to-stock conversion. Hamilton Bancorp s business activity is the ownership of the Bank s capital stock and the management of the offering proceeds it retained in connection with the Bank s conversion. Hamilton Bancorp does not own or lease any property but instead uses the premises, equipment and other property of the Bank with the payment of appropriate rental fees, as required by applicable law and regulations, under the terms of an expense allocation agreement. In the future, Hamilton Bancorp may acquire or organize other operating subsidiaries; however, there are no current plans, arrangements, agreements or understandings, written or oral, to do so.

Hamilton Bank is a federally chartered savings bank that has served the banking needs of its customers since 1915. The Bank conducts business primarily from its five full-service banking offices located in Baltimore City, Maryland and the Maryland counties of Baltimore and Anne Arundel. Our business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations, in one- to four-family residential mortgage loans (including owner-occupied and investor loans), commercial real estate loans, commercial business loans, home equity loans and lines of credit, construction loans and, to a limited extent, consumer loans (consisting primarily of loans secured by deposits and automobile loans). At March 31, 2013, 79.7 million, or 49.4%, of our total loan portfolio was comprised of permanent residential mortgage loans.

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

We offer a variety of deposit accounts, including certificate of deposit accounts, money market accounts, savings accounts, NOW accounts and individual retirement accounts. We historically have not used borrowings to fund our operations. We are dedicated to offering alternative banking delivery systems, including ATMs, online banking and remote deposit capture.

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Available Information

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

Market Area

We conduct our operations from our five full-service banking offices in Maryland. Our primary deposit market includes the areas surrounding our banking offices in Cockeysville, Pasadena, Towson, and the Overlea and Hamilton areas of Baltimore City. Our primary lending market includes Baltimore City and the Maryland counties of Anne Arundel and Baltimore. However, we occasionally make loans secured by property located outside of our primary lending market, especially to borrowers with whom we have an existing relationship or who have a significant presence within our primary market. Our primary lending market contains a diverse cross section of employment sectors, with a mix of services, manufacturing, wholesale/retail trade, federal and local government, health care facilities and finance related employment. The city of Baltimore is now considered a major center for the financial services and health services industries.

In recent years Baltimore City and Baltimore County have experienced relatively slow growth, while Anne Arundel County has grown at a faster pace. The stronger population growth experienced in Anne Arundel County has been reflected in higher household income and lower unemployment. Median household income during 2011 for Baltimore City, Baltimore County and Anne Arundel County was approximately $36,000, $63,000 and $80,000, respectively, compared to $68,000 and $50,000 for Maryland and the United States, respectively. Baltimore City, Baltimore County and Anne Arundel County reported preliminary unemployment rates of 9.9%, 7.2% and 5.9%, respectively, for December 2012, compared to the statewide and national averages of 6.7% and 7.6%, respectively.

Competition

We face significant competition within our market both in making loans and attracting deposits. Our market area has a high concentration of financial institutions including large money center and regional banks, community banks and credit unions. Some of our competitors offer products and services that we currently do not offer, such as trust services and private banking. Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms, consumer finance companies and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies. Our primary focus is to build and develop profitable customer relationships across all lines of business while maintaining our position as a community bank.

As of June 30, 2012 (the latest date for which information is available), our market share was 0.45% of total deposits in Baltimore City, making us the 11th largest out of 36 financial institutions in Baltimore City based upon deposit share as of that date. In addition, as of June 30, 2012, our deposit market share was 0.71% and 0.53% of total deposits in Baltimore County and Anne Arundel County, respectively, making us the 21st largest out of 42 financial institutions in Baltimore County and the 18th largest out of 32 financial institutions in Anne Arundel County.

Lending Activities

General. Historically, our principal lending activity was the origination, for retention in our portfolio, of mortgage loans collateralized by one- to four-family residential real estate located within our primary market area. However, in 2009 we changed our business strategy to become less reliant upon one- to four-family lending and to emphasize commercial business and commercial real estate lending. In connection with this strategy, we have hired three commercial real estate and commercial business loan officers with experience with such types of loans (one in fiscal 2010, the second in fiscal 2012, and the third in the last quarter of fiscal 2013), and utilize third parties to conduct the underwriting analysis of such loans based on our underwriting policies. We have also purchased commercial business and commercial real estate loans and participated in commercial and commercial real estate loans originated by other institutions. We currently sell almost all of our one- to four-family mortgage loans with terms over 10 years into the secondary market. In addition to commercial business loans, commercial

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real estate loans and residential mortgage loans, we also make home equity loans and lines of credit, residential and commercial construction loans, and, to a much lesser extent, consumer loans. A portion of the loans that we make for one- to four-family properties, are made to investors who reside in our community.

Loan Portfolio Composition. Set forth below is selected information concerning the composition of our loan portfolio in dollar amounts and in percentages as of the dates indicated. Amounts shown do not include loans held for sale equal to $197,000, $-0-, $-0-, $331,000 and $135,000 at March 31, 2013, 2012, 2011, 2010 and 2009, respectively.

	At March 31,					
	2013		2012		2011	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Real estate loans:						
Residential mortgage loans:						
One- to four-family residential	$ 63,912	39.6%	$ 76,687	44.2%	$ 92,144	51.5%
One- to four-family investor	15,826	9.8	17,265	9.9	19,568	10.9
Construction	3,508	2.2	3,865	2.2	6,514	3.6
Commercial real estate	36,239	22.5	31,018	17.9	21,034	11.7
Total real estate loans	119,485	74.1	128,835	74.2	139,260	77.7
Commercial business loans	26,937	16.7	27,158	15.7	19,425	10.8
Consumer:						
Home equity loans and lines of credit	13,727	8.5	16,344	9.4	19,224	10.8
Other consumer	1,123	0.7	1,181	0.7	1,310	0.7
Total consumer loans	14,850	9.2	17,525	10.1	20,534	11.5
Total loans receivable	161,272	100.0%	173,518	100.0%	179,219	100.0%
Premium on purchased loans	15		38		61	
Net deferred loan origination fees and costs	(96)		(100)		(206)	
Allowance for loan losses	(2,071)		(3,552)		(1,183)	
Total loans receivable, net	$ 159,120		$ 169,904		$ 177,891	

	At March 31,			
	2010		2009	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Real estate loans:				
Residential mortgage loans:				
One- to four-family residential	$ 117,607	65.0%	$ 120,616	76.0%
One- to four-family investor	19,949	11.0	8,426	5.3
Construction	2,837	1.6	1,815	1.1
Commercial real estate	11,421	6.3	6,946	4.4
Total real estate loans	151,814	83.9	137,803	86.8
Commercial business loans	8,574	4.7	1,331	0.8
Consumer:				

Home equity loans and lines of credit	19,224	10.7	19,362	12.2
Other consumer	1,353	0.7	248	0.2
Total consumer loans	20,577	11.4	19,610	12.4
Total loans receivable	180,965	100.0%	158,744	100.0%
Premium on purchased loans	84			
Net deferred loan origination fees and costs	(261)		(248)	
Allowance for loan losses	(567)		(514)	
Total loans receivable, net	$ 180,221		$ 157,982	

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Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at March 31, 2013. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	One- to Four-Family Residential Real Estate		One- to Four-Family Investor Real Estate		Construction Real Estate		Commercial Real Estate	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
				(Dollars in thousands)				
Due During the Years Ending March 31,								
2014	$ 160	5.68%	$ 13	7.75%	$ 3,508	4.82%	$ 1,712	1.34%
2015	109	4.92	217	6.32			1,468	2.42
2016	1,896	4.86	133	5.47			10,444	6.45
2017 to 2018	3,045	5.28	8,096	6.93			12,444	6.18
2019 to 2023	14,436	4.48	5,851	6.41			9,670	5.97
2024 to 2028	4,102	4.95	583	5.38				
2029 and beyond	40,164	5.01	933	6.29			501	6.50
Total	$ 63,912	4.89%	$ 15,826	6.62%	$ 3,508	4.82%	$ 36,239	5.73%

	Commercial Business		Home Equity Loans and Lines of Credit		Other Consumer		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
			(Dollars in thousands)					
Due During the Years Ending March 31,								
2014	$ 11,946	5.52%	$ 280	4.24%	$ 23	8.40%	$ 17,642	4.95%
2015	3,032	5.45	105	5.32	17	6.00	4,948	4.58
2016	4,746	6.44	706	5.01	13	6.50	17,938	6.21
2017 to 2018	850	4.94	539	4.49			24,974	6.24
2019 to 2023	6,157	5.48	1,557	5.78			37,671	5.38
2024 to 2028			5,010	3.85			9,696	4.41
2029 and beyond	206	5.48	5,530	4.64	1,070	3.94	48,404	5.00
Total	$ 26,937	5.65%	$ 13,727	4.49%	$ 1,123	4.12%	$ 161,272	5.36%

Fixed and Adjustable-Rate Loan Schedule. The following table sets forth at March 31, 2013, the dollar amount of all fixed-rate and adjustable-rate loans due after March 31, 2014.

	Due after March 31, 2014		
	Fixed	Adjustable	Total
		(In thousands)	
Real estate loans:			
One- to four-family residential	$ 62,992	$ 760	$ 63,752

One- to four-family investor	15,716	97	15,813
Construction			
Commercial	34,527		34,527
Commercial business loans	12,027	2,964	14,991
Consumer loans:			
Home equity loans and lines of credit	7,255	6,192	13,447
Other consumer	1,100		1,100
Total loans	$ 133,617	$ 10,013	$ 143,630

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Residential Mortgage Loans. Hamilton Bank originates mortgage loans secured by owner occupied one- to four-family residential properties. To a lesser extent, we have also made loans to investors for the purchase of one- to four-family residential properties that are not owner-occupied. As of March 31, 2013, we had a total of $79.7 million of residential mortgage loans secured by one- to four-family properties, of which $63.9 million, or 80.2%, were secured by properties serving as the primary residence of the owner. The remaining $15.8 million, or 19.8%, of such loans were secured by non owner-occupied properties. Almost all of our residential mortgage loans are secured by properties in the Greater Baltimore area.

Historically, the terms of our one- to four-family mortgage loans retained in our portfolio ranged from 10 to 30 years. In order to lower our interest rate risk, beginning in 2009 we have sold to the secondary market almost all one- to four-family loans that we originate with terms exceeding 10 years. During fiscal 2013 and 2012, we sold $3.8 million and $1.5 million of one- to four-family mortgage loans that we originated, respectively. Our residential mortgage portfolio is almost entirely comprised of fixed-rate loans, with 98.9% of residential mortgage loans due after March 31, 2014 having fixed rates at March 31, 2013. During the year ended March 31, 2013, we originated no residential mortgage loans with adjustable-rates.

We generally do not make new one- to four-family mortgage loans on owner-occupied properties with loan-to-value ratios exceeding 95% at the time the loan is originated, and all loans with loan-to-value ratios in excess of 80% require private mortgage insurance. Loan to value ratios on refinances may not exceed 80%, and loan-to-value ratios for non-owner occupied properties may not exceed 65%. In addition, borrower debt may generally not exceed 36% of the borrower s monthly cash flow. With respect to borrower debt on loans secured by non-owner occupied properties, we look to the investor s aggregate debt and cash flows from all investment properties the investor operates. We require all properties securing residential mortgage loans to be appraised by a board-approved independent appraiser.

Loans secured by non-owner occupied properties typically have 7 year terms and amortize over a 30 year period. Because of the increased risk associated with non-owner occupied properties, interest rates on such loans are higher than for owner-occupied properties, and are currently at 8.0%. We have generally only originated loans secured by non-owner occupied properties to investors that reside in our market area.

In an effort to provide financing for first-time home buyers, we offer 30-year fixed-rate one- to four-family mortgage loans with loan-to-value ratios up to 95%, which cannot be readily sold to the secondary market and are held in portfolio. In fiscal 2013, we did not originate any such loans which we did not sell.

We also make jumbo loans (loans above $417,000, the current maximum conforming loan amount as established by the Federal Housing Finance Agency) that we retain in our portfolio. Jumbo loans that we originate typically have 7 year terms, 30 year amortization and maximum loan-to-value ratios of 80%. At March 31, 2013, our largest outstanding jumbo residential mortgage loan was for $1.6 million and was performing in accordance with its original terms.

Beginning in 2009, applications for loans that we intend to sell are processed through Mortgage Department Services, LLC (MDS), a company in which we have a minority interest. Prior to delivering applications to MDS, we review each application to ensure that the loan meets MDS standards for sale to the secondary market. However, we have outsourced the loan processing and loan underwriting to MDS as a cost savings measure. See Loan Originations, Participations, Purchases and Sales. We receive an origination fee for each loan processed and sold to the secondary market through MDS. All such loans are sold with servicing released and without recourse to Hamilton Bank other than for breaches of customary representations and warranties to the buyers.

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

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Commercial Real Estate Loans. We originate commercial real estate loans in the Greater Baltimore area that are secured by properties used for business purposes such as small office buildings or retail facilities. We have increased our origination of commercial real estate loans over the last several years, and intend to continue to grow this portion of our loan portfolio in the future. At March 31, 2013, commercial real estate loans totaled $36.2 million, which amounted to 22.5% of total loans, compared to approximately $6.9 million, or 4.4% of total loans, at March 31, 2009.

Our commercial real estate loans are underwritten by a third-party underwriter, based on our loan underwriting polices. These third parties provide Hamilton Bank with a report on each loan application, which our lending officers then present to the board of directors or the appropriate loan committee. Our policies provide that such loans may be made in amounts of up to 80% of the appraised value of the property, provided that the property is more than 50% owner-occupied, or 75% of the appraised value of the property if it is not owner-occupied. Our commercial real estate loans have terms of up to 5 years and amortize for a period of up to 20 years. Interest rates may be fixed or adjustable. If adjustable, then they are generally based on the Prime rate of interest.

The regulatory loan-to-one borrower limit is 15% of a bank s unimpaired capital plus unimpaired surplus. As a result of the additional capital received in the stock offering, Hamilton Bank s loans-to-one borrower limit is just over $7.0 million. We have adopted an internal limit of $4.8 million. We generally target commercial real estate loans with balances of $250,000 to $3.0 million. At March 31, 2013, our commercial real estate loans had an average balance of $805,000. At that same date, our largest commercial real estate relationship included 7 loans totaling $4.7 million. These loans were secured by several restaurants, and were performing in accordance with their original terms at March 31, 2013.

Commercial real estate lending involves additional risks compared to one- to four-family residential lending because payments on loans secured by commercial real estate properties are often dependent on the successful operation or management of the properties, and/or the collateral value of the commercial real estate securing the loan. Repayment of such loans may be subject, to a greater extent than residential loans, to adverse conditions in the real estate market or the economy. Also, commercial real estate loans typically involve large loan balances to single borrowers or groups of related borrowers. Commercial real estate loans generally have a higher rate of interest and shorter term than residential mortgage loans because of increased risks associated with commercial real estate lending. We seek to minimize these risks through our underwriting standards. However, we have recently experienced an increase in delinquencies and non-performing loans in our commercial real estate loan portfolio. See Risk Factors Our entry into commercial real estate and commercial business lending has resulted in higher losses on our loans.

Commercial Business Loans. We originate commercial business loans and lines of credit secured by non-real estate business assets. These loans are generally originated to small businesses in our primary market area. Our commercial business loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture, and are primarily secured by business assets other than real estate, such as business equipment, inventory and accounts receivable. We have increased our origination of commercial business loans over the last few years, and intend to continue to grow this portfolio at a moderate pace. At March 31, 2013, commercial business loans and lines of credit outstanding totaled $26.9 million, which amounted to 16.7% of total loans, compared to approximately $1.3 million, or 0.8% of total loans, at March 31, 2009. At March 31, 2013, we also had $8.2 million of unfunded commitments on such loans.

Our commercial business loans have terms up to 5 years at both fixed and adjustable rates of interest, although, adjustable rates of interest are preferred and obtained when possible. Our commercial business loans are underwritten by the same third-party underwriter who underwrites our commercial real estate loans, based on our commercial business loan underwriting policies. Our commercial real estate loans are underwritten by a third-party underwriter, based on our loan underwriting polices. These third parties provide Hamilton Bank with a report on each loan application, which our lending officers then present to the board of directors or the appropriate loan committee. Our lending policies require that commercial business loans secured by accounts receivable do not exceed 75% of the value of the outstanding receivables less than 90 days past due. Commercial business advances secured by inventory are not to exceed 40% of the inventory book value and those secured by equipment are not to exceed 90% of the equipment s carrying cost. We typically avoid making commercial

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business loans to purchase highly specialized, custom made equipment which may be difficult to dispose of in the event of default. When making commercial business loans, we consider the financial statements, lending history and debt service capabilities of the borrower (generally requiring a minimum debt service coverage ratio of 1.25:1.00), the projected cash flows of the business, and the value of the collateral, if any. Virtually all commercial business loans are guaranteed by the principals of the borrower.

Hamilton Bank is also qualified to make Small Business Administration (SBA) loans. The SBA program is an economic development program which finances the expansion of small businesses. Under the SBA program, we originate and fund loans under the SBA 7(a) Loan Program which qualify for guarantees up to 90% of principal and accrued interest. We also originate loans under the SBA s CDC/504 Loan Program in which we generally provide 50% of the financing, taking a first lien on the real property as collateral. We do not treat the SBA guarantee as a substitute for a borrower meeting our credit standards, and, except for minimum capital levels or maximum loan terms, the borrower must meet our other credit standards as applicable to loans outside the SBA process. During fiscal 2013, we originated $1.1 million of loans under SBA programs, compared to $4.3 million of such loans originated in fiscal 2012.

We focus on the origination of commercial business loans in amounts between $500,000 and $1.5 million. At March 31, 2013, our commercial business loans had an average balance of $364,000. At that same date, our largest commercial business loan was a $2.2 million term loan to a health club secured by the business assets of the company. This loan was performing in accordance with its original terms at March 31, 2013.

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

Home Equity Loans and Lines of Credit. In addition to traditional one- to four-family residential mortgage loans, we offer home equity loans and lines of credit that are secured by the borrower s primary or secondary residence. At March 31, 2013, we had $13.7 million, or 8.5% of our total loan portfolio in home equity loans and lines of credit. At that date we also had $17.3 million of undisbursed funds related to home equity lines of credit.

Home equity loans and lines of credit are generally underwritten using the same criteria that we use to underwrite one- to four-family residential mortgage loans. Home equity loans and lines of credit may be underwritten with a loan-to-value ratio of up to 80% when combined with the principal balance of the existing first mortgage loan. Our home equity loans are primarily originated with fixed rates of interest with terms of up to 20 years. Our home equity lines of credit are originated with adjustable-rates based on the prime rate of interest minus an applicable margin and require interest paid monthly. Our adjustable-rate lines of credit have floors of 4% and ceilings of 18%. Home equity loans and lines of credit are available in amounts of between $10,000 and $250,000.

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

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Construction Loans. We originate construction loans for both commercial and residential real estate. Construction loans we originate generally provide for the payment of interest only during the construction phase. At the end of the construction phase, the loan converts to a permanent mortgage loan at the same rate of interest. Before making a commitment to fund a construction loan, Hamilton Bank requires detailed cost estimates to complete the project and an appraisal of the property by an independent licensed appraiser. Hamilton Bank also reviews and inspects each property before disbursement of funds during the term of the construction loan. Loan proceeds are disbursed after inspection based on the percentage of completion method. Construction loans for one- to four-family residential real estate may be underwritten with a loan-to-value ratio of up to 80%. Commercial construction loans generally may not exceed a loan-to-value ratio of 75%.

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

At March 31, 2013, total construction loans represented $3.5 million, or 2.2%, of Hamilton Bank s total loans, of which only $17,000 consisted of residential construction loans and the remainder was commercial construction. At March 31, 2013, the unadvanced portion of total construction loans totaled $241,000. At March 31, 2013, our largest construction loan had a principal balance of $2.5 million, and was performing in accordance with its original terms.

Other Consumer Loans. We make loans secured by deposit accounts up to 90% of the amount of the depositor s deposit account balance. On a more limited basis, we also originate automobile loans to our customers. Other consumer loans totaled $1.1 million, or 0.7% of our total loan portfolio, at March 31, 2013.

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

Consistent with our interest rate risk strategy, in the low interest rate environment that has existed in recent years, we have sold on a servicing-released basis almost all of the one- to four-family residential mortgage loans with maturities over 10 years that we have originated. All loan applications that we have the intention of selling are processed through MDS. We have outsourced the loan processing and loan underwriting to the MDS as a cost savings measure. We pay a flat fee to MDS for each loan settled and we receive a fee per loan in return for delivery of the loan to the secondary market. All loans sold through MDS are sold without recourse to Hamilton Bank other than for breaches of customary representations and warranties to the buyers.

From time to time, we have purchased loan participations in commercial loans in which we are not the lead lender that are secured by real estate or other assets within the state of Maryland, but not necessarily our primary lending area. With regard to all loan participations, we follow our customary loan underwriting and approval policies, and although we may be only approving and servicing a portion of the loan, we underwrite the loan request as if we had originated the loan to ensure cash flow and collateral are sufficient. At March 31, 2013, our loan participations totaled $21.6 million, or 13.4% of our total loan portfolio, the majority of which were in our primary market area. Of these $21.6 million in participations, $2.9 million were non-performing at March 31, 2013. We do not expect to enter into additional loan participations in the near future. However, we do look at opportunities for participations on a case by case basis.

During fiscal 2010, in connection with the acquisition of our Pasadena, Maryland office from K Bank, we purchased approximately $25.6 million of K Bank s loans. As of March 31, 2013, the remaining balance of loans purchased from K Bank totaled $12.5 million, or 7.7% of total gross loans. Of these $12.5 million in purchased loans, $1.7 million were non-performing at March 31, 2013. At March 31, 2013, we had no purchased loans in portfolio other than those purchased from K Bank. We do not expect to acquire whole loans from other financial institutions in the near future, however, we do look at opportunities for such purchases on a case by case basis.

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

	Year Ended March 31, 2013	2012
	(In thousands)	
Total loans at beginning of year	$ 173,518	$ 179,219
Loans originated:		
Real estate loans:		
Residential mortgage loans:		
One- to four-family residential	2,718	5,231
One- to four-family investor		124
Construction		400
Commercial real estate	8,247	7,825
Total real estate loans	10,965	13,580
Commercial business loans	6,639	15,633
Consumer:		
Home equity loans and lines of credit	2,116	1,688
Other consumer	4	5
Total consumer loans	2,120	1,693
Total loans originated	19,724	30,906
Deduct:		
Principal repayments	24,637	29,894
Transferred to foreclosed real estate	428	756
Unused lines of credit	3,302	4,383
Loan sales	3,603	1,574
Net loan activity	(12,246)	(5,701)
Total loans at end of year	$ 161,272	$ 173,518

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

Hamilton Bank s policies and loan approval limits are established by our board of directors. Residential real estate loans and home equity loans and lines of credit of up to $1.0 million may be approved by a Loan Committee consisting of our President, our Executive Vice President, Chief Credit Officer and our Vice President of Risk and Compliance. All real estate loans and home equity loans and lines of credit above $1.0 million must be approved by the full board of directors. All commercial business loans and commercial real estate loans require two levels of approval. The first level of approval is the Senior Vice President of Business Banking or other senior loan officer presenting the loan. The second level of approval required depends on the amount of the loan as follows: (i) secured commercial loans up to $1.0 million must be approved by a loan committee consisting of the President, Executive Vice President, Chief Credit Officer and Vice President of Risk and Compliance; (ii) secured commercial loans up to $2.0 million must be approved by an executive loan committee consisting of the Chairman of the Board

and the loan committee; and (iii) secured commercial loans over $2.0 million, loans that would bring the total loan relationship above $2.0 million, and all unsecured commercial loans, must be approved by the full board of directors. We currently have no unsecured commercial business loans.

Securities Activities

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

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

We account for investment and mortgage-backed securities in accordance with Accounting Standards Codification Topic 320, Investments Debt and Equity Securities. Accounting Standards Codification 320 requires that investments be categorized as held-to maturity, trading, or available for sale. Our securities are generally categorized as available-for-sale based on our need to meet daily liquidity needs and to take advantage of profits that may occur from time to time. At March 31, 2013, all of our securities were classified as available for sale.

Federally chartered savings institutions have authority to invest in various types of assets, including government-sponsored enterprise obligations, securities of various federal agencies, residential mortgage-backed securities, certain certificates of deposit of insured financial institutions, overnight and short-term loans to other banks, corporate debt instruments, debt instruments of municipalities and Fannie Mae and Freddie Mac equity securities. At March 31, 2013, our investment portfolio consisted entirely of securities and mortgage-backed securities issued by U.S. Government agencies or U.S. Government-sponsored enterprises, including stock in the Federal Home Loan Mortgage Corporation. The principal and interest on our mortgage-backed securities are guaranteed by the issuing entity. At March 31, 2013, we owned $400,600 in Federal Home Loan Bank of Atlanta stock. As a member of Federal Home Loan Bank of Atlanta, we are required to purchase stock in the Federal Home Loan Bank of Atlanta. At March 31, 2013, we had no investments in a single company or entity (other than an agency of the U.S. Government or a U.S. Government-sponsored enterprise) that had an aggregate book value in excess of 10% of our equity.

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

	At March 31, 2013 Amortized Cost	2013 Fair Value	2012 Amortized Cost	2012 Fair Value	2011 Amortized Cost	2011 Fair Value
	(In thousands)					
Mortgage-backed securities:						
Fannie Mae	$ 49,657	$ 49,845	$ 30,975	$ 31,134	$ 18,605	$ 18,663
Ginnie Mae	11,536	11,975	22,049	22,571	11,810	11,757
Freddie Mac	27,303	27,380	21,992	22,303	28,553	28,515
Other					4,463	4,548
Total mortgage-backed securities	88,496	89,200	75,016	76,008	63,431	63,483
U.S. Government agencies	27,075	27,029	18,766	18,821	38,062	37,665
Freddie Mac stock	7	5	7	2	7	3
Total	$ 115,578	$ 116,234	$ 93,789	$ 94,831	$ 101,500	$ 101,151

Portfolio Maturities and Yields. The composition and maturities of the debt investment securities portfolio at March 31, 2013 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur.

At March 31, 2013	One Year or Less Amortized Cost	One Year or Less Weighted Average Yield	More Than One Year Through Five Years Amortized Cost	More Than One Year Through Five Years Weighted Average Yield	More Than Five Years Through Ten Years Amortized Cost	More Than Five Years Through Ten Years Weighted Average Yield	More Than Ten Years Amortized Cost	More Than Ten Years Weighted Average Yield	Total Securities Amortized Cost	Total Securities Estimated Fair Value	Total Securities Weighted Average Yield
	(Dollars in thousands)										
Mortgage-backed securities:											
Fannie Mae	$	%	$	%	$ 13,483	2.61%	$ 36,174	2.44%	$ 49,657	$ 49,845	2.49%
Ginnie Mae	16	6.01					11,520	3.00	11,536	11,975	3.01
Freddie Mac			29	6.02	3,046	1.91	24,228	2.43	27,303	27,380	2.38
Total mortgage-backed securities	16	6.01	29	6.02	16,529	2.48	71,922	2.53	88,496	89,200	2.52
U.S. government agencies	1,505	3.22	6,576	1.27	11,999	2.06	6,995	1.90	27,075	27,029	1.89
Total	$ 1,521	3.25%	$ 6,605	1.29%	$ 28,528	2.30%	$ 78,917	2.47%	$ 115,571	$ 116,229	2.36%

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Sources of Funds

General. Deposits, scheduled amortization and prepayments of loan principal, maturities and calls of securities and funds provided by operations are our primary sources of funds for use in lending, investing and for other general purposes. We historically have not used Federal Home Loan Bank advances to fund our operations, and we had no such advances as of March 31, 2013 or 2012.

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

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

The flow of deposits is influenced significantly by general economic conditions, changes in money market and other prevailing interest rates and competition. Our deposits are primarily obtained from areas surrounding our branch offices. In order to attract and retain deposits we rely on paying competitive interest rates and providing quality service. Based on experience, we believe that our deposits are relatively stable. However, the ability to attract and maintain deposits and the rates paid on these deposits, has been and will continue to be significantly affected by market conditions. At March 31, 2013, $196 million, or 75.4% of our total deposit accounts were certificates of deposit, of which $112.6 million had maturities of one year or less.

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

	For the Years Ended March 31,								
	2013			2012			2011		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)								
Deposit type:									
Certificates of deposit	$ 208,204	75.8%	1.30%	$ 229,460	79.8%	1.62%	$ 242,621	82.6%	2.08%
Money market	27,694	10.1	0.24	25,434	8.9	0.47	22,978	7.8	0.72
Statement savings	15,210	5.5	0.14	15,572	5.4	0.21	15,339	5.2	0.47
Noninterest bearing demand	15,967	5.8	0.00	9,280	3.2	0.00	6,169	2.1	0.00
NOW accounts	7,684	2.8	0.05	7,617	2.7	0.08	6,550	2.3	0.20
Total deposits	$ 274,759	100.0%	1.02%	$ 287,363	100.0%	1.35%	$ 293,657	100.0%	1.80%

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

	At March 31,		
	2013	2012	2011
	(In thousands)		
Interest Rate:			
Less than 2.00%	$ 164,194	$ 177,657	$ 193,275
2.00% to 2.99%	22,876	24,486	21,737
3.00% to 3.99%	4,487	4,747	7,956
4.00% to 4.99%	4,411	10,982	12,485
5.00% and above	50	1,518	7,776
Total	$ 196,018	$ 219,390	$ 243,229

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

	At March 31, 2013 Period to Maturity					
	Less Than or Equal to One Year	More Than One to Two Years	More Than Two to Three Years	More Than Three Years	Total	Percent of Total
	(Dollars in thousands)					
Interest Rate Range:						
Less than 2.00%	$ 102,540	$ 34,555	$ 15,485	$ 11,614	$ 164,194	83.8%
2.00% to 2.99%	1,341	7,422	6,611	7,502	22,876	11.7
3.00% to 3.99%	4,311	176			4,487	2.3
4.00% to 4.99%	4,395	16			4,411	2.2
5.00% to 5.99%	50				50	
Total	$ 112,637	$ 42,169	$ 22,096	$ 19,116	$ 196,018	100.0%

As of March 31, 2013, the aggregate amount of outstanding certificates of deposit at Hamilton Bank in amounts greater than or equal to $100,000 was approximately $77.1 million. The following table presents the maturity of these certificates of deposit at such date.

Period to Maturity	**At March 31, 2013 (In thousands)**
Three months or less	$ 10,853
Over three through six months	13,368
Over six months through one year	16,359
Over one year to three years	27,694
Over three years	8,849
Total	$ 77,123

Borrowed Funds. As a member of the Federal Home Loan Bank of Atlanta, Hamilton Bank is eligible to obtain advances upon the security of the Federal Home Loan Bank common stock owned and certain residential mortgage loans, provided certain standards related to credit-worthiness have been met. Federal Home Loan Bank advances are available pursuant to several credit programs, each of which has its own interest rate and range of maturities. At March 31, 2013, based on available collateral, we had the ability to borrow approximately $64.2 million from the Federal Home Loan Bank of Atlanta. However, we historically have not used Federal Home Loan Bank advances to fund our operations, and had no such advances as of March 31, 2013 or 2012.

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

Employees

As of March 31, 2013, we had 56 full-time equivalent employees. Our employees are not represented by any collective bargaining group. Management believes that we have a good working relationship with our employees.

Subsidiary Activities

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

REGULATION AND SUPERVISION

General

Hamilton Bank is examined and supervised by the Office of the Comptroller of the Currency (OCC) and is subject to examination by the Federal Deposit Insurance Corporation (FDIC). This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the Federal Deposit Insurance Corporation s deposit insurance fund and depositors. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. Following completion of its examination, the federal agency critiques the institution s operations and assigns its rating (known as an institution s CAMELS rating). Federal law prohibits an institution from disclosing its CAMELS rating to the public. Hamilton Bank also is a member of and owns stock in the Federal Home Loan Bank of Boston, which is one of the twelve regional banks in the Federal Home Loan Bank System. Hamilton Bank is also regulated to a lesser extent by the Board of Governors of the Federal Reserve System (the Federal Reserve Board) governing reserves to be maintained against deposits and other matters. The Office of the Comptroller of the Currency examines Hamilton Bank and prepares reports for the consideration of its board of directors on any operating deficiencies. Hamilton Bank s relationship with its depositors and borrowers is also regulated to a great extent by federal law and, to a much lesser extent, state law, especially in matters concerning the ownership of deposit accounts and the form and content of Hamilton Bank s mortgage documents.

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

Any change in these laws or regulations, whether by the FDIC, the OCC, the Federal Reserve Board or Congress, could have a material adverse impact on Hamilton Bancorp and Hamilton Bank and their operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) made extensive changes in the regulation of federal savings banks such as Hamilton Bank. Under the Dodd-Frank Act, the Office of Thrift Supervision was eliminated and responsibility for the supervision and regulation of federal savings banks was transferred to the OCC, which is also primarily responsible for the regulation and supervision of national banks. Responsibility for the regulation and supervision of savings and loan holding companies, such as Hamilton Bancorp was transferred to the Federal Reserve Board, which also supervises bank holding companies. Additionally, a new Consumer Financial Protection Bureau was established as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau has assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function previously assigned to prudential regulators, and has authority to impose new requirements. However, institutions of less than $10 billion in assets, such as Hamilton Bank, continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and are subject to the primary enforcement authority of, their primary regulator rather than the Consumer Financial Protection Bureau. The Dodd-Frank Act also, among other things, changed the base for FDIC insurance assessments, provided for originators of certain securitized loans to retain a percentage of the risk for transferred credits, directed the Federal Reserve Board to regulate pricing of certain debit card interchange fees and contained a number of reforms related to mortgage originations.

Set forth below is a brief description of certain regulatory requirements that are applicable to Hamilton Bancorp and Hamilton Bank. The description below is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on Hamilton Bancorp and Hamilton Bank.

Federal Banking Regulation

Business Activities. A federal savings bank derives its lending and investment powers from the Home Owners Loan Act, as amended, and the regulations of the OCC. Under these laws and regulations, Hamilton Bank may invest in mortgage loans secured by residential and nonresidential real estate, commercial business loans and consumer loans, certain types of debt securities and certain other assets, subject to applicable limits. Hamilton Bank also may invest, subject to specified limits, in subsidiaries that may engage in activities not otherwise permissible for Hamilton Bank, including real estate investment and securities and insurance brokerage. The Dodd-Frank Act authorized the payment of interest on commercial checking accounts, effective July 21, 2011.

Capital Requirements. OCC regulations require federal savings banks to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% leverage ratio (3% for savings banks receiving the highest rating on the CAMELS rating system) and an 8% risk-based capital ratio.

The risk-based capital standard for federal savings banks requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OCC, based on the risks believed inherent in the type of asset. Core capital is defined as common stockholders equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital. Additionally, a savings bank that retains credit risk in connection with an asset sale may be required to maintain additional regulatory capital because of any recourse of the purchaser to the savings bank. Hamilton Bank does not typically engage in asset sales.

At March 31, 2013, Hamilton Bank s capital exceeded all applicable requirements.

On June 6, 2012, the OCC and the other federal bank regulatory agencies issued a series of proposed rules that would 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. The proposed rules would apply to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more and top-tier savings and loan holding companies. Among other things, the proposed rules establish a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and a higher minimum Tier 1 capital to risk-based assets requirement (6% of risk-weighted assets) and assign higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. The proposed rules also require unrealized gains and losses on certain securities holdings to be included for purposes of calculating regulatory capital requirements. The proposed rules limit a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of a specified amount of common equity Tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The proposed rules indicated that the final rules would become effective on January 1, 2013, and the changes set forth in the final rules will be phased in from January 1, 2013 through January 1, 2019. However, the agencies have indicated that, due to the volume of public comments received, the final rule would be delayed past January 1, 2013.

Loans to One Borrower. Generally, a federal savings bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of March 31, 2013, Hamilton Bank was in compliance with the loans-to-one-borrower limitations.

Qualified Thrift Lender Test. As a federal savings bank, Hamilton Bank must satisfy the qualified thrift lender, or QTL, test. Under the QTL test, Hamilton Bank must maintain at least 65% of its portfolio assets in qualified thrift investments in at least nine months of the most recent 12 months. A savings bank that fails the qualified thrift lender test must operate under specified restrictions. The Dodd-Frank Act made noncompliance with the QTL Test potentially subject to agency enforcement action for a violation of law. At March 31, 2013, Hamilton Bank held 85.1% of its portfolio assets in qualified thrift investments, and satisfied the QTL Test.

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

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

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

The Federal Reserve Board or the OCC may disapprove a notice or application if:

- the savings bank would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation, agreement with a federal banking regulatory agency or condition, imposed in connection with an application or notice.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution may not make any capital distribution if, after making such distribution, the institution would fail to satisfy any applicable regulatory capital requirement.

Liquidity. A federal savings bank is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation.

Community Reinvestment Act and Fair Lending Laws. All savings banks have a responsibility under the Community Reinvestment Act and related regulations of the OCC to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of a federal savings bank, the OCC is required to assess the association s record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An association s failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the Department of Justice. Hamilton Bank received a satisfactory Community Reinvestment Act rating in its most recent federal examination.

Transactions with Related Parties. A federal savings bank s authority to engage in transactions with its affiliates is limited by federal regulations and by Sections 23A and 23B of the Federal Reserve Act and its implementing Regulation W. An affiliate is a company that controls, is controlled by, or is under common control with an insured depository institution such as Hamilton Bank. Hamilton Bancorp is an affiliate of Hamilton Bank.

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In general, loan transactions between an insured depository institution and its affiliate are subject to certain quantitative and collateral requirements. In this regard, transactions between an insured depository institution and its affiliate are limited to 10% of the institution s unimpaired capital and unimpaired surplus for transactions with any one affiliate and 20% of unimpaired capital and unimpaired surplus for transactions in the aggregate with all affiliates. Collateral in specified amounts ranging from 100% to 130% of the amount of the transaction must usually be provided by affiliates in order to receive loans from the insured depository institution. In addition, federal regulations prohibit a savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates. The OCC requires savings banks to maintain detailed records of all transactions with affiliates.

Hamilton Bank s authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features (subject to an exception for bank-wide lending programs available to all employees), and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Hamilton Bank s capital. In addition, extensions of credit in excess of certain limits must be approved by Hamilton Bank s board of directors. Extensions of credit to executive officers are subject to additional restrictions, including limits on various types of loans.

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

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under federal law. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate risk exposure, asset growth, compensation, fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan.

Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the OCC is required and authorized to take supervisory actions against undercapitalized savings banks. For this purpose, a savings bank is placed in one of the following five categories based on the savings bank s capital:

well-capitalized at least 5% leverage capital, 6% Tier 1 risk-based capital and 10% total risk-based capital;

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adequately capitalized   at least 4% leverage capital (3% for savings banks with a composite examination rating of 1), 4% Tier 1 risk-based capital and 8% total risk-based capital;

undercapitalized   less than 4% leverage capital (less than 3% for savings banks with a composite examination rating of 1), 4% Tier 1 risk-based capital or 8% total risk-based capital;

significantly undercapitalized   less than 6% total risk-based capital, 3% Tier 1 risk-based capital or 3% leverage capital; or

critically undercapitalized   less than 2% tangible capital.

Generally, the OCC is required to appoint a receiver or conservator for a savings bank that is   critically undercapitalized   within specific time frames. The regulations also provide that a capital restoration plan must be filed with the OCC within 45 days of the date a savings bank receives notice that it is   undercapitalized,   significantly undercapitalized   or   critically undercapitalized.   The criteria for an acceptable capital restoration plan include, among other things, the establishment of the methodology and assumptions for attaining adequately capitalized status on an annual basis, procedures for ensuring compliance with restrictions imposed by applicable federal regulations, the identification of the types and levels of activities the savings bank will engage in while the capital restoration plan is in effect, and assurances that the capital restoration plan will not appreciably increase the current risk profile of the savings bank. Any holding company for the savings bank required to submit a capital restoration plan must guarantee the lesser of: an amount equal to 5% of a savings bank s assets at the time it was notified or deemed to be undercapitalized by the OCC, or the amount necessary to restore the savings bank to adequately capitalized status. This guarantee remains in place until the OCC notifies the savings bank that it has maintained adequately capitalized status for each of four consecutive calendar quarters, and the OCC has the authority to require payment and collect payment under the guarantee. Failure by a holding company to provide the required guarantee will result in certain operating restrictions on the savings bank, such as restrictions on the ability to declare and pay dividends, pay executive compensation and management fees, and increase assets or expand operations. The OCC may also take any one of a number of discretionary supervisory actions against undercapitalized savings banks, including the issuance of a capital directive and the replacement of senior executive officers and directors.

The recently proposed rules that would increase regulatory capital requirements would adjust the prompt corrective categories accordingly.

At March 31, 2013, Hamilton Bank met the criteria for being considered   well-capitalized.

Insurance of Deposit Accounts. Hamilton Bank s deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Dodd-Frank Act permanently increased the deposit insurance limit to $250,000 per account owner. In addition, certain non-interest-bearing transaction accounts were fully insured, regardless of the dollar amount, until December 31, 2012.

Under the FDIC s risk-based assessment system, insured institutions are assigned a risk category based on supervisory evaluations, regulatory capital levels and certain other factors. An institution s assessment rate depends upon the category to which it is assigned, and certain adjustments specified by FDIC regulations. Institutions deemed less risky pay lower assessments. The FDIC may adjust the scale uniformly, except that no adjustment can deviate more than two basis points from the base scale without notice and comment. No institution may pay a dividend if in default of the federal deposit insurance assessment.

The Dodd-Frank Act required the FDIC to revise its procedures to base its assessments upon each insured institution s total assets less tangible equity instead of deposits. The FDIC finalized a rule, effective April 1, 2011, that set the assessment range at 2.5 to 45 basis points of total assets less tangible equity.

The FDIC imposed on all insured institutions a special emergency assessment of five basis points of total assets minus Tier 1 capital (as of June 30, 2009), capped at ten basis points of an institution s deposit assessment base, in order to cover losses to the Deposit Insurance Fund. That special assessment was collected on September 30,

2009. The FDIC provided for similar assessments during the final two quarters of 2009, if deemed necessary. In lieu of further special assessments, however, the FDIC required insured institutions to prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 through the fourth quarter of 2012. The estimated assessments, which included an assumed annual assessment base increase of 5%, were recorded as a prepaid expense asset as of December 30, 2009. As of December 31, 2009, and each quarter thereafter, a charge to earnings has been recorded for each regular assessment with an offsetting credit to the prepaid asset.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. That payment is established quarterly and during the quarter ended March 31, 2013 equaled .64 basis points of total assets less tangible capital.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC and the FDIC has recently exercised that discretion by establishing a long range fund ratio of 2%.

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

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

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

Federal Home Loan Bank System. Hamilton Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the Federal Home Loan Bank of Boston, Hamilton Bank is required to acquire and hold shares of capital stock in the Federal Home Loan Bank. As of March 31, 2013, Hamilton Bank was in compliance with this requirement.

Federal Reserve System

Federal Reserve Board regulations require savings banks to maintain noninterest-earning reserves against their transaction accounts, such as negotiable order of withdrawal and regular checking accounts. At March 31, 2013, Hamilton Bank was in compliance with these reserve requirements.

Other Regulations

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

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

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

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

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

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

Truth in Savings Act; and

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

The operations of Hamilton Bank also are subject to the:

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

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

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

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

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

Holding Company Regulation

Hamilton Bancorp is a unitary savings and loan holding company, subject to regulation and supervision by the Federal Reserve Board. The Federal Reserve Board has enforcement authority over Hamilton Bancorp and its non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a risk to Hamilton Bank.

Activities. The activities of a savings and loan holding company, such as Hamilton Bancorp, are limited to those activities permissible for financial holding companies or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance, incidental to financial activities or complementary to a financial activity. The Dodd-Frank Act added that any savings and loan holding company that engages in activities permissible for a financial holding

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company must meet the qualitative requirements for a bank holding company to be a financial holding company and conduct the activities in accordance with the requirements that would apply to a financial holding company s conduct of the activity. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the Federal Reserve Board, and certain additional activities authorized by Federal Reserve Board regulations.

Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of the voting shares of another savings institution or savings and loan holding company, without prior written approval of the Federal Reserve Board. It also generally prohibits the acquisition or retention of more than 5% of the voting shares of a company engaged in activities that are not closely related to banking or financial in nature or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board must consider factors such as the financial and managerial resources and future prospects of the savings institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive effects.

Capital Requirements. Savings and loan holding companies have not historically been subjected to consolidated regulatory capital requirements. However, the Dodd-Frank Act requires the Federal Reserve Board to set, for all savings and loan holding companies, minimum consolidated capital levels that are as stringent as those required for their insured depository institution subsidiaries. The components of Tier 1 capital would be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. That would exclude instruments such as trust preferred securities and cumulative preferred stock that are currently permitted for bank holding companies. The Dodd-Frank Act provides that instruments issued before May 19, 2010 will be grandfathered for companies of consolidated assets of $15 billion or less. The Dodd-Frank Act further provides that holding companies that were not regulated by the Federal Reserve Board as of May 19, 2010 (which would include most savings and loan holding companies) are subject to a five-year transition period from the July 21, 2010 date of enactment of the Dodd-Frank Act before such capital requirements apply. The proposed capital rules discussed earlier would implement the consolidated capital requirements for savings and loan holding companies. However, the proposed rules did not incorporate the referenced grandfather for instruments issued before May 19, 2010 or the transition period, notwithstanding the Dodd-Frank statutory language. Similarly, the proposed rule did not extend to savings and loan holding companies the existing exemption applicable for bank holding companies of less than $500 million in consolidated assets. It is uncertain whether any final rule will do any of these things.

Source of Strength. The Dodd-Frank Act extended to savings and loan holding companies the Federal Reserve Board s source of strength doctrine, which has long applied to bank holding companies. The regulatory agencies must promulgate regulations implementing the source of strength policy, which requires holding companies to act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

Capital Distributions. The Federal Reserve Board has issued a policy statement regarding capital distributions by bank holding companies that it has suggested is applicable to savings and loan holding companies as well. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization s capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the company s net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company s overall rate of earnings retention is inconsistent with the company s capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary depository institution becomes undercapitalized. These regulatory policies could affect the ability of Hamilton Bancorp to pay dividends or otherwise engage in capital distributions.

Federal Securities Laws

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

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Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. Our Chief Executive Officer and Chief Financial Officer are required to certify, among other things, that our quarterly and annual reports do not contain any untrue statement of a material fact.

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ITEM 1A. RISK FACTORS

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

We have significantly increased our origination of commercial real estate and commercial business loans during the last four years, and we intend to continue to grow our portfolios of such loans in the near term, subject to market conditions. At March 31, 2013, commercial real estate loans totaled $36.2 million, or 22.5% of total loans, compared to $6.9 million, or 4.4% of total loans, at March 31, 2009. At March 31, 2013, commercial business loans and lines of credit outstanding totaled $26.9 million, or 16.7% of total loans, compared to $1.3 million, or 0.8% of total loans, at March 31, 2009.

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

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

Beginning in 2009, we changed our business strategy to become less reliant upon one- to four-family lending and emphasize commercial business and commercial real estate lending. To support this strategy, we have hired three commercial real estate and commercial loan officers with commercial lending experience (one in fiscal 2010, another in fiscal 2012, and a third in the last quarter of fiscal year 2013) and we have entered into arrangements with third parties to conduct the underwriting analysis of such loans. We have also purchased whole commercial business and commercial real estate loans from other institutions and participated in commercial business and commercial real estate loans originated by other institutions.

Beginning in 2011, the level of our delinquent and non-performing commercial and commercial real estate loans began to increase, particularly in our portfolio of loan participations and purchased loans. During fiscal 2012, nonperforming loans increased $5.8 million, or 354%, to $7.4 million at March 31, 2012 from $1.6 million at March 31, 2011. Included in such amount were nonperforming commercial business loans and commercial real estate loans which increased $4.1 million, or 478%, from $860,000 to $5.0 million during fiscal 2012. Our commercial business and commercial real estate loan (including commercial construction loan) purchases and participations, which totaled $11.1 million at March 31, 2012, contributed $5.2 million of the $5.8 million increase in non-performing loans during the year ended March 31, 2012, and comprised $5.2 million of our $7.4 million of non-performing loans at March 31, 2012. During fiscal 2013, we had charge-offs of $3.2 million, including $2.9 million of commercial business and commercial real estate loans (including commercial construction loans). At March 31, 2013 we had $5.1 million of nonperforming loans, including $1.3 million and $2.4 million of nonperforming commercial business loans and commercial real estate loans (including commercial construction loans), respectively.

Given our recent emphasis on commercial business and commercial real estate lending, and that our portfolio of commercial business loans and commercial real estate loans is not seasoned, we have a limited loss history with which to measure the level of risk in our commercial real estate and commercial business loan portfolios. In addition, as our outsourcing of the underwriting function with respect to commercial business loans and commercial real estate loans is relatively new, we have a limited history on which to assess the effectiveness of our commercial business and commercial real estate loan underwriting processes and personnel. Delinquencies and loan losses related to our commercial real estate loans and commercial business loans could increase more than we have provided for in our allowance for loan losses as we continue to emphasize this type of lending activity.

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

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

The unseasoned nature of much of our commercial real estate loans and commercial business loans increases the risk that our allowance may be insufficient to absorb losses without significant additional provisions. See Our recent emphasis on commercial real estate and commercial business loans has increased our credit risk, and Our entry into commercial real estate and commercial business lending has resulted in higher losses on our loans, above. At March 31, 2013, our allowance for loan losses was $2.1 million, or 40.4% of non-performing loans.

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

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

During the past five years it has been the policy of the Board of Governors of the Federal Reserve System to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of mortgage-backed securities. As a result, yields on securities we have purchased, and to a lesser extent, market rates on the loans we have originated, have been at levels lower than were available prior to 2008. Consequently, the average yield on our interest earning assets has decreased during the recent low interest rate environment. As a general matter, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets, which has resulted in increases in net interest income (the difference between interest income earned on assets and interest expense paid on liabilities) in the short term. However, our ability to lower our interest expense is limited at these interest rate levels, while the average yield on our interest-earning assets may continue to decrease. Our interest rate spread for fiscal 2013 decreased to 2.44% from 2.62% for fiscal 2012.

The Board of Governors of the Federal Reserve System has indicated its intention to maintain low interest rates in the near future. Accordingly, our net interest income may decrease, which may have an adverse affect on our profitability. For information with respect to changes in interest rates, see Changes in interest rates could adversely affect our results of operations and financial condition below.

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

Our profitability depends substantially on our net interest income, which is the difference between the interest income earned on our interest-earning assets and the interest expense paid on our interest-bearing liabilities. Increases in interest rates may decrease loan demand (which would also decrease our ability to generate noninterest income through the sale of loans into the secondary market and related fees for continuing to service those sold loans, particularly SBA loans sold) and make it more difficult for borrowers to repay adjustable-rate loans. In addition, as market interest rates rise, we will have competitive pressures to increase the rates we pay on deposits. Because interest rates we pay on our deposits would be expected to increase more quickly than the increase in the yields we earn on our interest-earning assets, our net interest income would be adversely affected.

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

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We could potentially recognize goodwill impairment charges.

As of March 31, 2013, we had $2.7 million of goodwill related to the acquisition of our Pasadena, Maryland branch office in 2009. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment testing requires that the fair value of Hamilton Bank be compared to the carrying amount of the Bank s net assets, including goodwill. If the fair value of the Bank is less than book value, an expense may be required to write-down the related goodwill to the proper carrying value. We test for impairment of goodwill during February of each year. As a result of impairment testing performed during February 2013, no impairment charge was recorded. However, future declines in our banking franchise value could result in goodwill impairment expense that is material to our earnings.

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

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

A continued weak economic recovery or a return to recessionary conditions could increase our level of nonperforming assets, lower real estate values in our market and reduced demand for loans, which would result in increased loan losses and lower earnings.

Our markets have been adversely impacted by the severe national economic recession of 2008 and 2009, and the weak economic recovery has resulted in continued uncertainty in the financial markets and the expectation of weak general economic conditions continuing through 2013. A continued weak recovery or a return to recessionary conditions would result in higher than expected nonperforming assets, decreased real estate values in our market, and a decrease in demand for our products and services. These negative events would lead to higher loan losses and lower earnings, and could adversely impact our capital, liquidity and financial condition.

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

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

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

We generally sell in the secondary market all residential mortgage loans that we originate with terms over 10 years on a servicing released basis, earning noninterest income in the form of gains on sale. When interest rates rise, the demand for mortgage loans tends to fall and may reduce the number of loans available for sale. In addition to interest rate levels, weak or deteriorating economic conditions also tend to reduce loan demand. Although we sell loans in the secondary market without recourse, we are required to give customary representations and warranties to the buyers. If we breach those representations and warranties, the buyers can require us to repurchase the loans and we may incur a loss on the repurchase. Since 2009, we have outsourced the loan processing and underwriting functions with respect to loans that we intend to sell in the secondary market to a third-party company. While we review each application to ensure compliance with secondary market standards, there may be some additional risk in outsourcing these functions to a third party rather than utilizing our own employees. If our relationship with this third-party loan processor/underwriter were to terminate, we would incur additional costs to undertake such functions using our own employees. In addition, if our current third-party arrangement were to be terminated, we may not be able to process and underwrite the same volume of loans for the secondary market using our own employees, which could result in reduced income.

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

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

We are required by regulatory authorities to maintain adequate levels of capital to support our operations. Regulatory capital requirements and their impact on us may change. See Proposed new federal bank capital rules may affect our future financial condition and earnings, below.

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

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

Proposed new federal bank capital rules may affect our future financial condition and earnings.

On June 12, 2012, the Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (FRB), and the FDIC announced that they are seeking comment on three notices of proposed rulemaking that would revise and replace the agencies current capital rules as these federal agencies move forward with implementing capital requirements consistent with agreements reached by the Basel Committee on Banking Supervision (Basel III). The proposed rules are currently preliminary and we will be assessing the potential impact of the proposed and final rules. For further discussion of bank regulation and capital rules, see Regulation and Supervision in Item I in this Annual Report.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

We conduct our business through our main banking office located in Baltimore City, Maryland, four other full-service branch offices located in Baltimore City and the Maryland counties of Baltimore and Anne Arundel, and our executive and administrative office located in Towson, Maryland, which also serves as a limited service banking office. The aggregate net book value of our premises was $1.9 million at March 31, 2013. Our facilities are adequate and suitable for our operations as conducted by us. The following table sets forth certain information with respect to our offices at March 31, 2013, including lease expiration dates for leased properties.

Location	Leased or Owned	Year Opened/ Acquired	Lease Expiration Date
Main Office:			
5600 Harford Road Baltimore, Maryland 21214	Owned	1937	
Branches:			
19 W. Pennsylvania Ave. Towson, Maryland 21204	Owned	1975	
6301 Belair Road Baltimore, Maryland 21206	Owned	1999	
9 Cranbrook Road Cockeysville, Maryland 21030	Leased	2000	May 1, 2015
8108 Jumpers Hole Road Pasadena, Maryland 21122	Owned	2009	
Executive and Administrative Office (1):			
501 Fairmount Ave. Suite 200 Towson, Maryland 21286	Leased	2011	November 29, 2016

(1) Our executive and administrative office is a limited service banking office.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Market and Dividend Information.

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

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

	High	Low
Fiscal 2013:		
Fourth Quarter	$ 14.33	$ 11.26
Third Quarter (from October 10, 2012)	$ 12.05	$ 11.20

Holders.

As of June 28, 2013, there were approximately 157 holders of record of the Company s common stock.

Dividends.

The Company has not paid any dividends to its stockholders to date. The payment of dividends in the future will depend upon a number of factors, including capital requirements, the Company s financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. In addition, the Company s ability to pay dividends is dependent on dividends received from Hamilton Bank. For more information regarding restrictions on the payment of cash dividends by the Company and by Hamilton Bank, see Business Regulation and Supervision Holding Company Regulation Capital Distributions , Business Regulation and Supervision Federal Savings Institution Regulation Capital Distributions and Note 12 to the Consolidated Financial Statements included in this Annual Report. No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in the future.

Securities Authorized for Issuance under Equity Compensation Plans.

None.

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

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

There were no shares repurchased by the Company in the fourth quarter of fiscal 2013.

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ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected historical financial and other data of Hamilton Bancorp, Inc. for the periods and at the dates indicated. The following is only a summary and you should read it in conjunction with the consolidated financial statements of Hamilton Bancorp, Inc. and notes beginning on page F-1 of this Annual Report. The information at March 31, 2013 and 2012 and for the years then ended is derived in part from the audited consolidated financial statements that appear in this Annual Report. The information at March 31, 2011, 2010 and 2009 and for the years then ended is derived in part from audited financial statements that do not appear in this Annual Report.

			At March 31,		
	2013	**2012**	**2011**	**2010**	**2009**
			(In thousands)		
Selected Financial Condition Data:					
Total assets	$ 331,962	$ 318,468	$ 335,443	$ 320,539	$ 230,121
Cash and cash equivalents	33,969	35,250	39,473		