

ORRSTOWN FINANCIAL SERVICES INC

Form 424B3

February 15, 2019

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**Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-229178**

Dear Stockholder:

**Your vote is very important.**

You are invited to attend a special meeting of stockholders (the special meeting ) of Hamilton Bancorp, Inc. ( Hamilton Bancorp ) to be held on March 20, 2019, at 4:00 p.m., local time, at the administrative offices of Hamilton Bank, located at 501 Fairmount Avenue, Suite 200, Towson, Maryland 21286. The special meeting is being held to approve, among other things, the merger of Hamilton Bancorp, Inc. with and into Orrstown Financial Services, Inc. (the merger ) pursuant to the Agreement and Plan of Merger (the merger agreement ) by and between Orrstown Financial Services, Inc. and Hamilton Bancorp, Inc. dated as of October 23, 2018. In connection with the merger agreement, Hamilton Bancorp will be merged with and into Orrstown Financial Services and its subsidiary, Hamilton Bank, will be merged with and into Orrstown Bank, a subsidiary of Orrstown Financial Services.

Pursuant to the merger agreement, if the merger agreement is approved by the holders of at least a majority of the shares of common stock, \$0.01 par value per share, of Hamilton Bancorp, Inc. ( Hamilton Bancorp common stock ) outstanding and entitled to vote at the special meeting and the merger is subsequently completed, each outstanding share of Hamilton Bancorp common stock will be converted into the right to receive (1) 0.54 shares of common stock, no par value per share, of Orrstown Financial Services ( Orrstown Financial Services common stock ) and (2) \$4.10 in cash, without interest, subject to possible reduction as set forth in the merger agreement. Orrstown Financial Services common stock is traded on NASDAQ under the symbol ORRF.

No fractional shares of Orrstown Financial Services common stock will be issued in connection with the merger. Instead, each Hamilton Bancorp stockholder will receive an amount of cash, in lieu of any fractional share, based on the average daily closing price of Orrstown Financial Services common stock as reported on NASDAQ for the ten consecutive trading day period ending on the fifth business day prior to the closing date of the merger, rounded to the nearest whole cent.

As of the date of the merger agreement, based on the closing price of Orrstown Financial Services common stock of \$23.10 and assuming no reduction in the cash consideration, Hamilton Bancorp stockholders would have received Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$16.57. Based on the closing price of Orrstown Financial Services common stock of \$18.96 per share on February 4, 2019, the most recent practicable date prior to the mailing of this proxy statement/prospectus, Hamilton Bancorp stockholders would receive Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$14.34.

After careful consideration, our board of directors unanimously approved the merger agreement and determined that the transactions provided for in the merger agreement are advisable to, and in the best interests of, Hamilton Bancorp. Our board of directors unanimously recommends that you vote **FOR** approval of the merger agreement, **FOR** the proposal to approve, on a non-binding, advisory basis, the compensation that may become payable to Hamilton Bancorp's named executive officers relating to the merger, and **FOR** the adjournment proposal, if necessary, as discussed in the attached proxy statement/prospectus.

**Your vote is important, regardless of the number of shares of Hamilton Bancorp common stock you own. We cannot complete the merger unless the merger agreement is approved by the affirmative vote of the holders of at least a majority of the shares of Hamilton Bancorp common stock outstanding and entitled to vote at the special meeting.**

**The attached proxy statement/prospectus provides you with detailed information about the special meeting, the merger agreement and the merger. A copy of the merger agreement is attached as *Annex A* to the proxy statement/prospectus. We encourage you to read the proxy statement/prospectus and the merger agreement carefully and in their entirety, including the section titled Risk Factors, beginning on page 21. Whether or not you expect to attend the special meeting in person, we urge you to submit a completed proxy as promptly as possible. You may submit your completed proxy by voting online at [www.investorvote.com/HBK](http://www.investorvote.com/HBK), by mailing in the enclosed postage-paid envelope, or by voting by telephone at 1-800-652-8683. If your shares are held in the name of a broker, bank or other nominee, please follow the instructions on the voting instruction form furnished to you by your broker, bank or other nominee. Do not send your stock certificates with the proxy card. You will receive a transmittal form with instructions for delivering your stock certificates in exchange for the merger consideration under separate cover.**

On behalf of our board of directors, thank you for your continued support and interest in Hamilton Bancorp. We look forward to seeing you at the special meeting.

Sincerely,

Robert A. DeAlmeida

*President and Chief Executive Officer*

Hamilton Bancorp, Inc.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger, the issuance of the Orrstown Financial Services common stock in connection with the merger or the other transactions described in this proxy statement/prospectus, or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.**

**The securities to be issued in connection with the merger are not savings accounts, deposits or other obligations of any bank or savings association and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.**

The proxy statement/prospectus is dated February 8, 2019, and is first being mailed to stockholders of Hamilton Bancorp on or about February 15, 2019.

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**HAMILTON BANCORP, INC.**

**501 Fairmount Avenue, Suite 200**

**Towson, Maryland 21286**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON MARCH 20, 2019**

To the Stockholders of Hamilton Bancorp, Inc.:

A special meeting of stockholders of Hamilton Bancorp, Inc. ( Hamilton Bancorp ) will be held at the administrative offices of Hamilton Bank, located at 501 Fairmount Avenue, Suite 200, Towson, Maryland 21286, on March 20, 2019 at 4:00 p.m., local time, for the following purposes:

1. To consider and vote upon a proposal to approve the Agreement and Plan of Merger by and between Orrstown Financial Services, Inc. and Hamilton Bancorp, Inc. dated as of October 23, 2018 (the merger agreement ), pursuant to which Hamilton Bancorp will merge with and into Orrstown Financial Services, whereupon the separate corporate existence of Hamilton Bancorp will cease (the merger );
2. To consider and vote upon a proposal to approve, on a non-binding, advisory basis, the compensation that may become payable to Hamilton Bancorp s named executive officers that is based on or otherwise relates to the merger; and
3. To consider and vote upon a proposal to approve one or more adjournments of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting, or at any adjournment or postponement of that meeting, to approve the merger agreement.

The merger agreement and the proposed merger of Hamilton Bancorp with and into Orrstown Financial Services is more fully described in the attached proxy statement/prospectus, which you should read carefully and in its entirety before voting. A copy of the merger agreement is included as *Annex A* to the attached proxy statement/prospectus.

Hamilton Bancorp has established February 1, 2019 as the record date for determining the stockholders entitled to notice of and to vote at the Hamilton Bancorp special meeting. Only record holders of Hamilton Bancorp common stock as of the close of business on that date will be entitled to vote at the Hamilton Bancorp special meeting or any adjournment or postponement of that meeting. The affirmative vote of the holders of at least a majority of the shares of Hamilton Bancorp common stock outstanding and entitled to vote at the special meeting is required to approve the merger agreement.

**Hamilton Bancorp s board of directors unanimously recommends that you vote FOR approval of the merger agreement and, FOR the proposal to approve, on a non-binding, advisory basis, the compensation that may become payable to Hamilton Bancorp s named executive officers relating to the merger, FOR the adjournment proposal, if necessary, as described above.**

All Hamilton Bancorp stockholders are cordially invited to attend the Hamilton Bancorp special meeting. **To ensure your representation at the Hamilton Bancorp special meeting, please follow the voting procedures described in the accompanying proxy statement/prospectus and on the enclosed proxy card.** Following these voting procedures will not prevent you from voting in person, but it will help to secure a quorum and allow your shares to be voted should anything prevent your attendance in person. Your proxy may be revoked at any time before it is voted.

BY ORDER OF THE BOARD OF  
DIRECTORS

Robin L. Thiess  
*Secretary*

February 8, 2019

**YOUR VOTE IS IMPORTANT!**

**Whether or not you expect to attend the Hamilton Bancorp special meeting in person, Hamilton Bancorp urges you to submit a completed proxy as promptly as possible. You may submit your completed proxy by mailing in the enclosed postage-paid envelope or by voting either online at [www.investorvote.com/HBK](http://www.investorvote.com/HBK) or by telephone at 1-800-652-8683. If your shares are held in the name of a broker, bank or other nominee, please follow the instructions on the voting instruction form furnished to you by your broker, bank or other nominee. Do not send your stock certificates with the proxy card. You will receive a transmittal form with instructions for delivering your stock certificates in exchange for the merger consideration under separate cover.**

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**ADDITIONAL INFORMATION**

The accompanying proxy statement/prospectus incorporates by reference important business and financial information about Orrstown Financial Services from documents that are not included in or delivered with the proxy statement/prospectus. This information is publicly available at the Securities and Exchange Commission's (SEC) EDGAR website at [www.sec.gov](http://www.sec.gov) and will be made available to you without charge upon your written or oral request. You can obtain the documents incorporated by reference in the proxy statement/prospectus free of charge by requesting them in writing or by telephone from Orrstown Financial Services at the following address and telephone number:

Orrstown Financial Services, Inc.

77 East King Street

Shippensburg, PA 17257

(888) 677-7869

Attn: Investor Relations

**If you would like to request documents, please do so by March 15, 2019 in order to receive them before the special meeting of Hamilton Bancorp stockholders.**

For a more detailed description of the information incorporated by reference in the accompanying proxy statement/prospectus and how you may obtain it, see the section of the proxy statement/prospectus titled "Where You Can Find More Information" beginning on page 173.

The accompanying proxy statement/prospectus provides a detailed description of the merger and the merger agreement. We urge you to read the proxy statement/prospectus, including any documents incorporated by reference into the proxy statement/prospectus, and its annexes carefully and in their entirety. If you have any questions concerning the merger, the other meeting matters or the proxy statement/prospectus, or need assistance voting your shares, please contact Robert A. DeAlmeida, President and Chief Executive Officer of Hamilton Bancorp, at (410) 823-4510.

**Please do not send your Hamilton Bancorp stock certificates at this time. You will be sent separate instructions regarding the surrender of your Hamilton Bancorp stock certificates.**

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**QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETING**

The following questions and answers are intended to address briefly some commonly asked questions regarding the merger and the special meeting. These questions and answers may not address all questions that may be important to you as a stockholder. To more fully understand the merger and the special meeting, you should read this entire proxy statement/prospectus, including the materials attached as annexes, as well as the documents that have been incorporated by reference into this proxy statement/prospectus.

Unless the context otherwise requires, throughout this proxy statement/prospectus, we, us and our refer collectively to Hamilton Bancorp, Hamilton Bank, Orrstown Financial Services, and Orrstown Bank. Also, we refer to the merger of Hamilton Bancorp and Orrstown Financial Services, as the merger ; and the Agreement and Plan of Merger, dated as of October 23, 2018, by and between Orrstown Financial Services and Hamilton Bancorp, as the merger agreement.

**Q: Why am I receiving this proxy statement/prospectus?**

A: Orrstown Financial Services and Hamilton Bancorp have agreed to the merger of Hamilton Bancorp with and into Orrstown Financial Services under the terms of a merger agreement that is described in this proxy statement/prospectus. A copy of the merger agreement is attached to this proxy statement/prospectus as *Annex A*. In order to complete the merger, Hamilton Bancorp stockholders must vote to approve the merger agreement. Hamilton Bancorp will hold a special meeting of stockholders to obtain this required approval. This proxy statement/prospectus contains important information about the merger, the merger agreement, the Hamilton Bancorp special meeting, and other related matters, and you should read it carefully. The enclosed proxy materials for the Hamilton Bancorp special meeting allow you to vote your shares of Hamilton Bancorp common stock without attending the special meeting of Hamilton Bancorp.

We are delivering this proxy statement/prospectus to you as the proxy statement for the special meeting of stockholders of Hamilton Bancorp and the prospectus for the shares of Orrstown Financial Services common stock to be issued in connection with the merger. It is a proxy statement because the Hamilton Bancorp board of directors is soliciting proxies from stockholders to vote on the approval of the merger agreement and your proxy will be used at the special meeting or at any adjournment or postponement of the special meeting. It is a prospectus because Orrstown Financial Services will issue Orrstown Financial Services common stock to the Hamilton Bancorp stockholders as part of the merger consideration, and this prospectus contains information about Orrstown Financial Services common stock.

**Q: Why are Orrstown Financial Services and Hamilton Bancorp proposing this transaction? (pages 37 and 50)**

A: The Orrstown Financial Services and Hamilton Bancorp boards of directors have each approved the merger agreement and have determined that the merger agreement and the transactions provided for thereunder, including the merger, are advisable and in the best interests of the companies. In reaching these decisions, the Orrstown Financial Services and Hamilton Bancorp boards of directors considered the terms and conditions of the merger agreement and the ancillary agreements, as well as a number of other factors.

**Q: What will happen in the merger? (page 33)**

A: In the proposed merger, Hamilton Bancorp will merge with and into Orrstown Financial Services. The surviving corporation in the merger will be Orrstown Financial Services. It is anticipated that Hamilton Bank will merge with and into Orrstown Bank, with Orrstown Bank continuing as the surviving bank, immediately following the merger.

**Q: What will Hamilton Bancorp stockholders receive in the merger? (page 33)**

A: Pursuant to the merger agreement, if the merger agreement is approved by the holders of at least a majority of the shares of Hamilton Bancorp common stock outstanding and entitled to vote at the special meeting and the merger is subsequently completed, each outstanding share of Hamilton Bancorp common stock will be converted into the right to receive (1) 0.54 shares of common stock, no par value per share, of Orrstown Financial Services ( Orrstown Financial Services common stock ) and (2) \$4.10 in cash, without interest, subject to possible reduction of the cash portion of the consideration as set forth in the merger agreement based on potential losses, write-downs, or reserves related to certain identified loans of Hamilton Bank. The maximum possible reduction to the cash consideration is \$1,000,000, or

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approximately \$0.27 per share, based on 3,416,039 shares of Hamilton Bancorp common stock and 262,704 stock options outstanding as of the record date. The stock portion of the consideration will not be adjusted. Orrstown Financial Services common stock is traded on NASDAQ under the symbol ORRF.

As of the date of the merger agreement, based on the closing price of Orrstown Financial Services common stock of \$23.10 and assuming no reduction in the cash consideration, Hamilton Bancorp stockholders would have received Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$16.57. Based on the closing price of Orrstown Financial Services common stock of \$18.96 per share on February 4, 2019, the most recent practicable date prior to the mailing of this proxy statement/prospectus, Hamilton Bancorp stockholders would receive Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$14.34. The following table presents the implied value per share to be received in exchange for each share of Hamilton Bancorp common stock if the stock price of Orrstown Financial Services common stock at the closing of the merger is equal to the prices set forth in the table.

Illustrative		Implied Value Per Share of	
Orrstown Financial Services		Hamilton Bancorp	
Stock Price at Closing	Exchange Ratio	Cash Consideration	common stock
\$23.50	0.54	\$4.10	\$16.79
\$23.00	0.54	\$4.10	\$16.52
\$22.50	0.54	\$4.10	\$16.25
\$22.00	0.54	\$4.10	\$15.98
\$21.50	0.54	\$4.10	\$15.71
\$21.00	0.54	\$4.10	\$15.44
\$20.50	0.54	\$4.10	\$15.17
\$20.00	0.54	\$4.10	\$14.90
\$19.50	0.54	\$4.10	\$14.63
\$19.00	0.54	\$4.10	\$14.36
\$18.96	0.54	\$4.10	\$14.34
\$18.50	0.54	\$4.10	\$14.09
\$18.00	0.54	\$4.10	\$13.82
\$17.50	0.54	\$4.10	\$13.55

Hamilton Bancorp has the right to terminate the merger agreement if the volume weighted average stock price of Orrstown Financial Services common stock as reported on NASDAQ for the 15 consecutive trading days immediately preceding the date on which all required regulatory and stockholder approvals have been obtained (the determination date) (1) is less than \$20.1535 per share and (2) underperforms the volume weighted average price of the NASDAQ Bank Index for the 15 consecutive trading days immediately preceding the determination date by more than 15%. If Hamilton Bancorp exercises this termination right, Orrstown Financial Services will have the option to increase the exchange ratio or the cash consideration to be provided to Hamilton Bancorp stockholders to an amount which would compensate Hamilton Bancorp stockholders for the extent of the decrease in the price of Orrstown Financial Services common stock below the minimum implied value that would have avoided triggering the termination right described above. If Orrstown Financial Services elects to increase the merger consideration pursuant to the preceding sentence, no termination will occur. See the section of this proxy statement/prospectus titled "The Merger Agreement Termination" beginning on page 64.

**Q: How many shares of Orrstown Financial Services common stock will be issued to Hamilton Bancorp stockholders in the merger? (page 33)**

A: Subject to the terms of the merger agreement, each share of Hamilton Bancorp common stock will be converted into the right to receive (1) 0.54 shares of Orrstown Financial Services common stock and (2) \$4.10 in cash, without interest, subject to possible reduction of the cash portion of the merger consideration as set forth in the merger agreement based on potential losses, write-downs, or reserves related to certain identified loans of Hamilton Bank. As of February 1, 2019, there were 3,416,039 shares of Hamilton Bancorp common stock issued and outstanding. Based upon these numbers, approximately 1,844,661 shares of Orrstown Financial Services common stock will be issued to Hamilton Bancorp stockholders in the merger. This will result in current Orrstown Financial Services stockholders owning approximately 83.7% of the combined company and Hamilton Bancorp stockholders owning approximately 16.3% of the combined company.

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**Q: Will Hamilton Bancorp stockholders receive any fractional share of Orrstown Financial Services common stock as part of the merger consideration? (page 33)**

A: No. Orrstown Financial Services will not issue any fractional shares of Orrstown Financial Services common stock in the merger. Instead, Orrstown Financial Services will pay you the cash value of a fractional share measured by the average daily closing price of Orrstown Financial Services common stock as reported on NASDAQ for the ten consecutive trading day period ending on the fifth business day prior to the closing date, rounded to the nearest whole cent.

**Q: What will happen to shares of Orrstown Financial Services common stock in the merger?**

A: Nothing. Each share of Orrstown Financial Services common stock outstanding will remain outstanding as a share of Orrstown Financial Services common stock.

**Q. How will the merger affect Hamilton Bancorp equity awards? (page 62)**

A. The Hamilton Bancorp equity awards will be affected as follows:

**Stock Options:** Each stock option granted by Hamilton Bancorp will become fully vested immediately prior to the effective time of the merger. Hamilton Bancorp stock options will be canceled upon consummation of the merger, and each option holder will receive a cash payment upon cancellation of the Hamilton Bancorp stock option equal to the product of (i) the number of shares of Hamilton Bancorp common stock provided for by such stock option and (ii) the excess, if any, of \$16.90 (subject to adjustment to the extent there is any reduction to the merger consideration as set forth in the merger agreement) over the exercise price of such stock option.

**Restricted Stock:** Each share of restricted stock of Hamilton Bancorp common stock will become fully vested immediately prior to the effective time of the merger. All restricted shares of Hamilton Bancorp common stock will be treated as outstanding shares of Hamilton Bancorp common stock for all purposes under the merger agreement, and each holder will have the right to receive the merger consideration.

**Q. How will the merger affect the Hamilton Bank ESOP?**

A. The Hamilton Bank Employee Stock Ownership Plan (the Hamilton Bank ESOP ) will be terminated immediately prior to the effective time of the merger. As a result of the merger, Hamilton Bancorp shares held in each participant account will be exchanged for the merger consideration. In 2012, the Hamilton Bank ESOP was funded through a 20-year loan to purchase Hamilton Bancorp stock, which is allocated to eligible participants pro rata as the loan is repaid. The unallocated shares are held in a separate unallocated stock fund within the Hamilton Bank ESOP. Following the repayment of the Hamilton Bank ESOP loan in full, first with cash held within the unallocated stock fund and then with shares held within the unallocated stock fund having a value equal to the merger consideration, the remaining merger consideration and other assets, if any, in the unallocated stock fund will be allocated on a pro rata basis to all active participants with an account balance under the

Hamilton Bank ESOP based on the size of each active participant's account balance on the termination date. The amount allocated to the participants will be determined based on the value of the merger consideration at closing. Pursuant to the terms of the Hamilton Bank ESOP, all participants with an account balance in the Hamilton Bank ESOP at the termination date will become fully vested upon the termination of the Hamilton Bank ESOP. If you are a participant in the Hamilton Bank ESOP, you will receive separate instructions about how to receive your account balance, including the merger consideration and your share of the unallocated stock fund.

**Q. Are Hamilton Bancorp's stockholders or Orrstown Financial Services' stockholders entitled to dissenters rights?**

A. No. Under the provisions of the Maryland General Corporation Law, as amended, Hamilton Bancorp stockholders are not entitled to dissenters' rights in the merger.

**Q: What are the material federal income tax consequences of the merger to Hamilton Bancorp stockholders? (page 78)**

A: The merger is intended to qualify, and the obligations of the parties to complete the merger are conditioned upon the receipt of a legal opinion from their respective counsel to the effect that the merger will qualify, as a reorganization



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within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended (the Code). Hamilton Bancorp's stockholders should not recognize gain or loss with respect to the Orrstown Financial Services common stock that they receive in the merger, except with respect to any cash they receive in lieu of receiving a fractional share of Orrstown Financial Services common stock, and will generally recognize gain (but not loss) with respect to the cash portion of the merger consideration that they receive. Generally, any gain recognized upon the exchange will be capital gain, and any such capital gain will be long-term capital gain if you have established a holding period of more than one year for your shares of Hamilton Bancorp common stock. Depending on certain facts specific to you, any gain could instead be characterized as ordinary dividend income.

**Please carefully review the information set forth in the section titled Material Federal Income Tax Consequences beginning on page 81 for a description of the material federal income tax consequences of the merger. This tax treatment may not apply to all Hamilton Bancorp stockholders. We strongly urge you to consult your own tax advisor for a full understanding of the tax consequences of the merger to you, as the tax consequences will depend upon each stockholder's own situation.**

**Q: What are the conditions to completion of the merger? (page 62)**

A: The obligations of Orrstown Financial Services and Hamilton Bancorp to complete the merger are subject to the satisfaction or waiver of certain closing conditions contained in the merger agreement, including the receipt of required regulatory approvals, tax opinions and the requisite approval by Hamilton Bancorp stockholders.

**Q: When do you expect the merger to be completed? (page 60)**

A: We will complete the merger when all of the conditions to completion contained in the merger agreement are satisfied or waived. Some of these conditions, such as the receipt of required regulatory approvals, are not entirely within our control. We currently expect to complete the merger in the second quarter of 2019; however, because the merger is subject to these conditions, we cannot predict the actual timing.

**Q: What Hamilton Bancorp stockholder approvals are required to complete the merger? (page 27)**

A: The affirmative vote of the holders of at least a majority of the shares of Hamilton Bancorp common stock outstanding and entitled to vote at the special meeting is required to approve the merger agreement.

**Q: What are the interests of Hamilton Bancorp's executive officers and directors in the merger, if any? (page 53)**

A: Some of the directors and executive officers of Hamilton Bancorp have financial interests in the merger that are different from, or in addition to, the interests of Hamilton Bancorp's other stockholders generally. These interests include, among other things, rights of executive officers under their existing employment agreements and change in control agreements; continued employment and rights under employment and change in control agreements

with Orrstown Financial Services and Orrstown Bank executed in connection with the merger agreement; rights under Hamilton Bancorp's equity-based benefit programs and awards, including the acceleration of vesting of stock options and restricted stock; rights under the Hamilton Bank ESOP; and rights to continued indemnification and insurance coverage by Orrstown Financial Services after the merger for acts and omissions occurring before the merger. In addition, as of the effective time of the merger, Orrstown Financial Services will elect, from among those directors serving on Hamilton Bancorp's board of directors as of the date of the merger agreement, one individual to become a director of Orrstown Financial Services and Orrstown Bank. The boards of directors of Hamilton Bancorp and Orrstown Financial Services were aware of these interests and considered them, among other matters, in approving the merger agreement and related transactions.

**Q: Are there any Hamilton Bancorp stockholders already committed to voting in favor of the merger agreement? (page 77)**

A: Yes. Hamilton Bancorp's directors and certain executive officers as of the date of the merger agreement entered into voting agreements with Orrstown Financial Services requiring them to vote all of their shares in favor of approval of the merger agreement. These stockholders collectively held approximately 4.3% of the outstanding shares of Hamilton Bancorp common stock on the record date.

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**Q: When and where is the special meeting? (page 27)**

A: The special meeting of Hamilton Bancorp stockholders will be held on March 20, 2019 at the administrative offices of Hamilton Bank, located at 501 Fairmount Avenue, Suite 200, Towson, Maryland 21286 at 4:00 p.m., local time.

**Q: What will happen at the special meeting? (page 27)**

A: At the Hamilton Bancorp special meeting, Hamilton Bancorp stockholders will consider and vote upon a proposal to approve the merger agreement and a proposal to approve, on a non-binding, advisory basis, the compensation that may become payable to Hamilton Bancorp's named executive officers relating to the merger. If, at the time of the special meeting, there are not sufficient votes to approve the merger agreement, we may ask you to consider and vote upon a proposal to adjourn the special meeting, so that we can solicit additional proxies.

**Q: Who can vote at the special meeting? (page 27)**

A: Holders of record of Hamilton Bancorp common stock at the close of business on February 1, 2019, which is the record date for the Hamilton Bancorp special meeting, are entitled to vote at the Hamilton Bancorp special meeting.

**Q: Does the Hamilton Bancorp board of directors recommend voting in favor of the merger agreement?**

A: Yes. After careful consideration, the Hamilton Bancorp board of directors unanimously recommends that Hamilton Bancorp stockholders vote **FOR** approval of the merger agreement, **FOR** the proposal to approve, on a non-binding, advisory basis, the compensation that may become payable to Hamilton Bancorp's named executive officers relating to the merger, and **FOR** the adjournment proposal, if necessary.

**Q: Are there any risks that stockholders should consider in deciding whether to vote for approval of the proposals?**

A: Yes. You should read and carefully consider the risk factors set forth in the section of this proxy statement/prospectus titled "Risk Factors" beginning on page 21 as well as the other information contained in or incorporated by reference into this proxy statement/prospectus, including the matters addressed in the section of this proxy statement/prospectus titled "Special Note Regarding Forward-Looking Statements" on page 26.

**Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner of shares held in street name ?**

A. If your shares are registered directly in your name with our transfer agent, Computershare, you are considered the stockholder of record with respect to those shares. As a stockholder of record, you may vote at the special meeting or vote by proxy by one of the methods described below. If your shares are held in an account by a broker, bank or other nominee (the record holder of your shares), then you are the beneficial owner of shares held in street name. As the beneficial owner, you have the right to direct your record holder how to vote your shares of common stock, and the record holder is required to vote your shares of common stock in accordance with your instructions.

**Q: How may I vote my shares for the special meeting proposals presented in this proxy statement/prospectus? (page 28)**

A: **Shares Held of Record:** Holders of record of Hamilton Bancorp common stock may vote:

**Over the Internet.** You may vote online by going to the website of our tabulator, Computershare, at [www.investorvote.com/GBK](http://www.investorvote.com/GBK). Have your proxy card in hand when you access the website and follow the instructions to vote your shares. You must submit your Internet proxy before 1:00 a.m., Eastern Time, on March 20, 2019, the day of the special meeting, for your proxy to be valid and your vote to count.

**By Mail.** You may vote by completing, signing, dating and returning the proxy card in the enclosed postage-paid envelope. Computershare must receive your mailed proxy before 1:00 a.m., Eastern Time, on March 20, 2019, the day of the special meeting, for your proxy to be valid and your vote to count.

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***By Telephone.*** You may vote by telephone by calling 1-800-652-8683. Have your proxy card in hand when you call and then follow the instructions to vote your shares. You must submit your telephonic proxy before 1:00 a.m., Eastern Time, on March 20, 2019, the day of the special meeting, for your proxy to be valid and your vote to count.

***Shares Held in Brokerage Accounts:*** If you hold your shares of Hamilton Bancorp common stock in street name (by broker, bank, or other nominee) your broker, bank or other nominee ***will not*** automatically vote your shares unless you provide instructions to your broker, bank or other nominee on how to vote. It is important that you provide timely instruction to your broker, bank or other nominee to ensure that all shares of Hamilton Bancorp common stock are voted at the special meeting. You should follow the voter instruction form sent to you by your broker, bank or other nominee with this proxy statement/prospectus explaining how you can vote.

***Shares Held in the Hamilton Bank 401(k) Plan:*** If you are a participant in the Hamilton Bank 401(k) Profit Sharing Plan (the 401(k) Plan ) and indirectly hold shares of Hamilton Bancorp common stock through the Hamilton Bank 401(k) Plan, you may vote any shares of Hamilton Bancorp common stock held in your Hamilton Bank 401(k) Plan account as of the record date ***only*** by following the separate voting instructions provided by the Hamilton Bank 401(k) Plan trustee. Your 401(k) Plan vote authorization form must be received by 1:00 a.m., Eastern Time, on March 13, 2019. The telephonic and internet voting cutoff for providing your 401(k) Plan vote authorization is 1:00 a.m., Eastern Time, on March 13, 2019. Hamilton Bancorp, as the Hamilton Bank 401(k) Plan administrator, has instructed the Hamilton Bank 401(k) Plan trustee to vote any shares in the Hamilton Bank 401(k) Plan trustee for which participants have not issued timely voting instructions in the same proportion as the votes received on shares that participants have provided voting instructions.

***Shares Held in the Hamilton Bank ESOP Plan:*** If you are a participant in the Hamilton Bank ESOP and indirectly hold shares of Hamilton Bancorp common stock through the Hamilton Bank ESOP, you may vote any shares of Hamilton Bancorp common stock held in your Hamilton Bank ESOP account as of the Hamilton Bancorp record date ***only*** by following the separate voting instructions provided by the Hamilton Bank ESOP trustee. Your ESOP vote authorization form must be received by 1:00 a.m., Eastern Time, on March 13, 2019. The telephonic and internet voting cutoff for providing your ESOP vote authorization is 1:00 a.m., Eastern Time, on March 13, 2019. Under the terms of the Hamilton Bank ESOP, the Hamilton Bank ESOP trustee votes all shares held by the Hamilton Bank ESOP, but each Hamilton Bank ESOP participant may direct the trustee how to vote the shares of Hamilton Bancorp common stock allocated to his or her account. The Hamilton Bank ESOP trustee will vote all unallocated shares of Hamilton Bancorp common stock held by the Hamilton Bank ESOP and allocated shares for which no voting instructions are received in the same proportion as shares for which it has received timely voting instructions, so long as such vote is solely in the interests of participants and beneficiaries and in accordance with the requirements of the Employee Retirement Income Security Act of 1974, as amended.

**Q: What if I fail to submit a proxy or to instruct my broker, bank or other nominee to vote my shares?  
(page 29)**

A: If you fail to submit a proxy or to instruct your broker, bank or other nominee to vote your shares, your shares will not be voted. This will have the same effect as a vote against the proposals.

**Q: What do I need to do now?**

A: You should carefully read and consider the information contained or incorporated by reference into this proxy statement/prospectus, including its annexes. This proxy statement/prospectus contains important information about the merger, the merger agreement, Orrstown Financial Services and Hamilton Bancorp. After you have read and considered this information, Hamilton Bancorp stockholders are requested to submit a proxy by one of the methods described above in advance of the special meeting. Whether or not you plan to attend the special meeting in person, you are encouraged to vote as soon as possible so that your shares of common stock will be represented and voted at the special meeting. The proxy card will instruct the persons named on the proxy card to vote your shares at the special meeting as you direct. If you sign and send in a proxy card and do not indicate how you wish to vote, the proxy will be voted **FOR** all of the special meeting proposals.

**Q: What should I do if I receive more than one set of voting materials?**

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement/prospectus and multiple proxy cards or voting instruction cards. For example, if you hold your Hamilton Bancorp shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold Hamilton Bancorp shares. Please complete, sign, date and return each proxy card and voting instruction card that you receive, or otherwise follow the voting instructions set forth on the proxy card and voting instruction card.

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**Q: Can I attend the special meeting and vote my shares in person? (page 27)**

A: Yes. Although the Hamilton Bancorp board of directors requests that you vote your shares by proxy by one of the methods described above in advance of the special meeting, all Hamilton Bancorp stockholders are invited to attend the Hamilton Bancorp special meeting. Hamilton Bancorp stockholders of record on February 1, 2019 may vote in person at the Hamilton Bancorp special meeting. If your shares are held by a broker, bank or other nominee, then you are not the holder of record and you must contact your broker, bank or other nominee who holds your shares to obtain a broker's proxy card and bring it with you to the special meeting, along with a bank or brokerage statement or a letter from your nominee evidencing your beneficial ownership of our stock and a form of personal identification. A broker's proxy is not the form of proxy enclosed with this proxy statement/prospectus.

**Q: Can I change my vote after I have submitted a proxy? (page 29)**

A: Yes. If you do not hold your shares in street name, there are three ways you can change your vote at any time after you have submitted your proxy and before your proxy is voted at the special meeting:

You may file a written revocation of the proxy with the Secretary of Hamilton Bancorp, Robin L. Thiess, 501 Fairmount Avenue, Suite 200, Towson, Maryland 21286;

You may submit a new signed proxy card by mail bearing a later date, or by submitting a new vote over the Internet or by telephone (any earlier proxies will be revoked automatically); or

You may attend the special meeting and vote in person provided that you are the holder of record of your shares and have filed a written revocation of your grant of proxy with the Secretary of Hamilton Bancorp as indicated above.

If you hold your shares in street name and have instructed a broker, bank or other nominee to vote your shares, you must follow the directions you receive from your broker, bank or other nominee to change your vote.

Participants in the Hamilton Bank 401(k) Plan may revoke their instructions to the Hamilton Bank 401(k) Plan trustee with respect to voting of the shares of Hamilton Bancorp common stock held in their Hamilton Bank 401(k) Plan account by submitting to the Hamilton Bank 401(k) Plan trustee a signed instruction card bearing a later date, provided that such new instruction card must be received by the Hamilton Bank 401(k) Plan trustee on or prior to the last date for submission of such instructions with respect to the Hamilton Bancorp special meeting designated in the separate voting instructions provided by the Hamilton Bank 401(k) Plan trustee.

**Q: What happens if I sell my shares after the record date but before the special meeting?**

A:

The record date for the special meeting is earlier than both the date of the special meeting and the date that the merger is expected to be completed. If you are a Hamilton Bancorp stockholder and you sell or otherwise transfer your Hamilton Bancorp shares after the record date but before the date of the Hamilton Bancorp special meeting, you will retain your right to vote at the Hamilton Bancorp special meeting, but you will transfer the right to receive the merger consideration to the person to whom you transferred your shares. In order to receive the merger consideration, you must hold your shares through completion of the merger.

**Q: Do Hamilton Bancorp stockholders have the right to dissent and obtain the fair market value of their shares?**

A: No. Under Maryland law, Hamilton Bancorp stockholders do not have the right to dissent from the merger agreement and to receive a payment in cash for the fair value of their shares of Hamilton Bancorp common stock.

**Q: Should Hamilton Bancorp stockholders send in their stock certificates now? (page 61)**

A: No. You will receive separate written instructions for surrendering your shares of Hamilton Bancorp common stock in exchange for the merger consideration. In the meantime, you should retain your stock certificate(s) because they are still valid. **Please do not send in your stock certificate(s) with your proxy card.**

**Q: Whom should I call with questions?**

A: If you have questions about the merger or the special meeting, or if you need additional copies of this proxy statement/prospectus or the enclosed proxy card, Hamilton Bancorp stockholders should contact Robert A. DeAlmeida, President and Chief Executive Officer, at (410) 823-4510.

**Q: Where can I find more information about Orrstown Financial Services?**

A: You can find more information about Orrstown Financial Services from the various sources described in the section of this proxy statement/prospectus titled **Where You Can Find More Information** beginning on page 173.



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**SUMMARY**

This summary highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. To more fully understand the merger and for a more complete description of the legal terms of the merger, you should read this entire document, including the materials attached as annexes, as well as the other documents to which we have referred you. See the section of this proxy statement/prospectus titled "Where You Can Find More Information" beginning on page 185. The page references in parentheses included in this summary will direct you to a more detailed description of each topic presented.

**The Companies**

***Orrstown Financial Services, Inc. and Orrstown Bank (page 81)***

Orrstown Financial Services, Inc., a Pennsylvania corporation, is the holding company for its wholly-owned subsidiaries Orrstown Bank and Wheatland Advisors, Inc. Orrstown Financial Services' principal executive offices are located at 77 East King Street, Shippensburg, Pennsylvania 17257, with additional executive and administrative offices at 4750 Lindle Road, Harrisburg, Pennsylvania, 17111. Orrstown Financial Services was organized on November 17, 1987, for the purpose of acquiring Orrstown Bank and such other banks and bank-related activities as are permitted by law and desirable. Orrstown Financial Services provides banking and bank-related services through banking offices located in south-central Pennsylvania, principally in Berks, Cumberland, Dauphin, Franklin, Lancaster, Perry, and York Counties and in Washington County, Maryland. Wheatland Advisors was acquired in December 2016 and provides services as a registered investment advisor through its office in Lancaster County, Pennsylvania. On October 1, 2018, Orrstown Financial Services completed its acquisition of Mercersburg Financial Corporation.

Orrstown Bank was originally organized in 1919 as a state-chartered bank. On March 8, 1988, in a bank holding company reorganization transaction, Orrstown Financial Services acquired 100% ownership of Orrstown Bank.

Orrstown Financial Services' primary activity consists of owning and supervising its subsidiaries, Orrstown Bank and Wheatland Advisors. Day-to-day management is conducted by officers of Orrstown Bank. Orrstown Financial Services has historically derived most of its income through dividends from Orrstown Bank. At September 30, 2018, Orrstown Financial Services had total assets of \$1.7 billion, total loans of \$1.1 billion, total deposits of \$1.4 billion, and total stockholders' equity of \$145.6 million.

Orrstown Financial Services has no employees. Its nine officers are employees of Orrstown Bank. On September 30, 2018, Orrstown Bank and Wheatland combined had 332 full-time and 17 part-time employees.

Orrstown Bank is engaged in commercial banking and trust business as authorized by the Pennsylvania Banking Code of 1965. This involves accepting demand, time and savings deposits, and granting loans. Orrstown Bank holds commercial, residential, consumer and agribusiness loans primarily in its market areas of Cumberland, Dauphin, Franklin, Lancaster and Perry Counties in Pennsylvania and Washington County in Maryland; and in contiguous counties. Orrstown Bank maintains a diversified loan portfolio and evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by Orrstown Bank upon the extension of credit, is based on management's credit evaluation of the customer pursuant to collateral standards established in Orrstown Bank's credit policies and procedures.

Wheatland Advisors was acquired to supplement Orrstown Bank's trust and wealth management group and to provide opportunities for future growth in these areas.

***Hamilton Bancorp, Inc. (page 81)***

Hamilton Bancorp, Inc. is a Maryland corporation incorporated on June 7, 2012 to serve as the stock holding company for Hamilton Bank, then a federally chartered savings bank. On October 10, 2012, in accordance with a Plan of Conversion adopted by its board of directors and approved by its members, Hamilton Bank converted from a mutual savings bank to a stock savings bank and became the wholly owned subsidiary of Hamilton Bancorp. In connection with the conversion, Hamilton Bancorp sold 3,703,000 shares of common stock at a price of \$10.00 per share, through which Hamilton Bancorp

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received net proceeds of approximately \$35,580,000. Hamilton Bancorp's principal business activity is the ownership of Hamilton Bank's capital stock and the management of the offering proceeds it retained in connection with Hamilton Bank's conversion. Hamilton Bancorp does not own or lease any property but instead uses the premises, equipment and other property of Hamilton 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.

On December 17, 2017, Hamilton Bank converted its charter from a federal savings association to a Maryland commercial bank. Founded in 1915 and celebrating over 100 years of service, Hamilton Bank is a community-oriented financial institution, dedicated to serving the financial needs of consumers and businesses within its market area. Its lending market area is considered greater Maryland, southern Pennsylvania, Washington D.C., and northern Virginia. Hamilton Bank offers a variety of deposit and loan products in its market area. Its real estate loans consist primarily of one-to-four family mortgage loans (including owner-occupied and investor loans), as well as commercial real estate loans, and home equity loans and lines of credit. Hamilton Bank also offers commercial term, leases and line of credit loans and, to a limited extent, consumer loans consisting primarily of automobile loans and loans secured by deposits. Hamilton Bank currently operates out of its corporate headquarters in Towson, Maryland and its seven full-service branch offices located in Baltimore City, Cockeysville, Towson, Rosedale, Ellicott City and Pasadena, Maryland. Its market area for deposits is primarily the local counties surrounding its offices.

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

Hamilton Bank offers a variety of deposit accounts, including certificate of deposit accounts, money market accounts, savings accounts, NOW accounts and individual retirement accounts. Over the past two years Hamilton Bank has borrowed funds from the Federal Home Loan Bank of Atlanta ( FHLB ) to meet growing loan demand, including \$11.5 million in advances from the FHLB in March 2017 to assist with the purchase of \$23 million in residential mortgage loan pools. Hamilton Bank has also acquired FHLB advances through its acquisitions of Fraternity Community Bancorp, Inc. and Fairmount Bancorp, Inc. completed in May 2016 and September 2015, respectively. Hamilton Bank is committed to offering alternative banking delivery systems, including ATMs, online banking and remote deposit capture.

At September 30, 2018, Hamilton Bancorp had total consolidated assets of \$502.2 million, total loans of \$375.9 million, total deposits of \$388.5 million and total stockholders' equity of \$55.5 million.

Hamilton Bancorp's principal executive offices are located at 501 Fairmount Avenue, Suite 200, Towson, Maryland 21286, and its telephone number is (410) 823-4510.

## **The Special Meeting**

### ***Date, Time and Place of the Hamilton Bancorp Special Meeting (page 27)***

The special meeting of stockholders of Hamilton Bancorp will be held at the administrative offices of Hamilton Bank, located at 501 Fairmount Avenue, Suite 200, Towson, Maryland 21286, on March 20, 2019 at 4:00 p.m., local time.

### ***Actions to be Taken at the Hamilton Bancorp Special Meeting (page 27)***

At the Hamilton Bancorp special meeting, Hamilton Bancorp's stockholders as of February 1, 2019, the record date, will be asked to vote upon a proposal to approve the merger agreement; a proposal to approve, on a non-binding, advisory basis, the compensation that may become payable to Hamilton Bancorp's named executive officers relating to the merger; and, if necessary, a proposal to approve one or more adjournments of the Hamilton Bancorp special meeting.

***Recommendation of the Hamilton Bancorp Board of Directors (page 37)***

At a meeting on October 23, 2018, the Hamilton Bancorp board of directors unanimously adopted and approved the merger agreement and the transactions contemplated by the merger agreement. The Hamilton Bancorp board of directors

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unanimously recommends that Hamilton Bancorp stockholders vote **FOR** the approval of the merger agreement, **FOR** the proposal to approve, on a non-binding, advisory basis, the compensation that may become payable to Hamilton Bancorp's named executive officers relating to the merger, and **FOR** the adjournment proposal, if necessary.

### ***Record Date; Outstanding Shares; Shares Entitled to Vote (page 27)***

Only holders of record of Hamilton Bancorp common stock at the close of business on the record date of February 1, 2019 are entitled to notice of and to vote at the Hamilton Bancorp special meeting. As of the record date, there were 3,416,039 shares of Hamilton Bancorp common stock outstanding, held of record by approximately 133 stockholders.

### ***Quorum; Vote Required (page 27)***

A quorum of Hamilton Bancorp stockholders is necessary to hold a valid meeting. If the holders of at least a majority of the shares of Hamilton Bancorp common stock entitled to vote are represented in person or by proxy at the special meeting, a quorum will exist. Hamilton Bancorp will include proxies marked as abstentions as present at the meeting in determining the presence of a quorum at the special meeting.

The affirmative vote of the holders of at least a majority of the shares of Hamilton Bancorp common stock outstanding and entitled to vote at the special meeting is required to approve the merger agreement. The affirmative vote of a majority of the shares of Hamilton Bancorp present and voting at the special meeting is required to approve the proposal to approve, on a non-binding, advisory basis, the compensation that may become payable to Hamilton Bancorp's named executive officers relating to the merger and the proposal to adjourn the special meeting.

### ***Share Ownership of Hamilton Bancorp Management; Voting Agreements (page 30)***

In connection with the merger agreement, Hamilton Bancorp's directors and certain executive officers executed voting agreements with Orrstown Financial Services under which they agreed to vote their shares in favor of the merger. As of the record date, there were 146,700 shares of Hamilton Bancorp common stock, or approximately 4.3% of the outstanding shares, subject to the voting agreements.

### ***Proxies, Voting and Revocation (page 29)***

The Hamilton Bancorp board of directors requests that you vote your shares by proxy per the instructions in this proxy statement/prospectus. All proxies properly delivered prior to the Hamilton Bancorp special meeting and not revoked before the vote at the Hamilton Bancorp special meeting will be voted at the Hamilton Bancorp special meeting according to the instructions indicated on the proxies or, if no instructions are given, to approve the merger agreement and the merger and the adjournment proposal. If you abstain, fail to submit a proxy or to vote in person at the Hamilton Bancorp special meeting, or do not provide your broker, bank or other nominee with instructions, as applicable, your shares of Hamilton Bancorp common stock will not be voted on the proposals, which will have the same effect as a vote against the merger proposal but will have no effect on the proposal to approve, on a non-binding, advisory basis, the compensation that may become payable to Hamilton Bancorp's named executive officers relating to the merger or any proposal to adjourn or postpone the special meeting.

You may revoke your proxy at any time by taking any of the following actions before your proxy is voted at the special meeting:

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Filing a written revocation of the proxy with the Secretary of Hamilton Bancorp, Robin L. Thiess, 501 Fairmount Avenue, Suite 200, Towson, Maryland 21286;

Submitting a new signed proxy card by mail bearing a later date, or by submitting a new vote over the Internet or by telephone (any earlier proxies will be revoked automatically); or

Attending and voting in person at the Hamilton Bancorp special meeting provided you are the holder of record of your shares and have filed a written revocation of your grant of proxy with the Secretary of Hamilton Bancorp as indicated above.

**Table of Contents****The Merger*****Structure of the Merger (page 60)***

Orrstown Financial Services and Hamilton Bancorp entered into the merger agreement on October 23, 2018. The merger agreement provides for the merger of Hamilton Bancorp with and into Orrstown Financial Services. The surviving corporation in the merger will be Orrstown Financial Services. It is anticipated that Hamilton Bank will merge with and into Orrstown Bank, with Orrstown Bank continuing as the surviving bank, immediately following the merger.

The proposed merger will occur following approval of the proposal to approve the merger agreement by the stockholders of Hamilton Bancorp, receipt of regulatory approvals, and satisfaction or waiver of all other conditions to the merger. The merger agreement is attached to this document as *Annex A*. We encourage you to read the merger agreement in its entirety because it is the legal document that governs the merger.

***Merger Consideration for Hamilton Bancorp Stockholders (page 60)***

If the merger agreement is approved by the holders of at least a majority of the shares of Hamilton Bancorp common stock outstanding and entitled to vote at the special meeting and the merger is subsequently completed, each outstanding share of Hamilton Bancorp common stock will be converted into the right to receive (1) 0.54 shares of Orrstown Financial Services common stock and (2) \$4.10 in cash, without interest, subject to possible reduction of the cash portion of the merger consideration as set forth in the merger agreement based on potential losses, write-downs or reserves related to certain identified loans of Hamilton Bank. The maximum possible reduction to the cash consideration is \$1,000,000, or approximately \$0.27 per share, based on 3,416,039 shares of Hamilton Bancorp common stock and 262,704 stock options outstanding as of the record date.

No fractional shares of Orrstown Financial Services common stock will be issued in connection with the merger. Instead, each Hamilton Bancorp stockholder will receive an amount of cash, in lieu of any fractional share, based on the average daily closing price of Orrstown Financial Services common stock as reported on NASDAQ for the ten consecutive trading day period ending on the fifth business day prior to the closing date of the merger, rounded to the nearest whole cent.

As of the date of the merger agreement, based on the closing price of Orrstown Financial Services common stock of \$23.10 and assuming no reduction in the cash consideration, Hamilton Bancorp stockholders would have received Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$16.57. Based on the closing price of Orrstown Financial Services common stock of \$18.96 per share on February 4, 2019, the most recent practicable date prior to the mailing of this proxy statement/prospectus, Hamilton Bancorp stockholders would receive Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$14.34. The following table presents the implied value per share to be received in exchange for each share of Hamilton Bancorp common stock if the stock price of Orrstown Financial Services common stock at the closing of the merger is equal to the prices set forth in the table.

Illustrative	Exchange Ratio	Cash Consideration	Implied Value Per Share of
Orrstown Financial Services			Hamilton Bancorp

Stock Price at Closing			common stock
\$23.50	0.54	\$4.10	\$16.79
\$23.00	0.54	\$4.10	\$16.52
\$22.50	0.54	\$4.10	\$16.25
\$22.00	0.54	\$4.10	\$15.98
\$21.50	0.54	\$4.10	\$15.71
\$21.00	0.54	\$4.10	\$15.44
\$20.50	0.54	\$4.10	\$15.17
\$20.00	0.54	\$4.10	\$14.90
\$19.50	0.54	\$4.10	\$14.63
\$19.00	0.54	\$4.10	\$14.36
\$18.96	0.54	\$4.10	\$14.34
\$18.50	0.54	\$4.10	\$14.09
\$18.00	0.54	\$4.10	\$13.82
\$17.50	0.54	\$4.10	\$13.55



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Hamilton Bancorp has the right to terminate the merger agreement if the volume weighted average stock price of Orrstown Financial Services common stock as reported on NASDAQ for the 15 consecutive trading days immediately preceding the determination date (1) is less than \$20.1535 per share and (2) underperforms the volume weighted average price of the NASDAQ Bank Index for the 15 consecutive trading days immediately preceding the determination date by more than 15%. If Hamilton Bancorp exercises this termination right, Orrstown Financial Services will have the option to increase the exchange ratio or the cash consideration to be provided to Hamilton Bancorp stockholders to an amount which would compensate Hamilton Bancorp stockholders for the extent of the decrease in the price of Orrstown Financial Services common stock below the minimum implied value that would have avoided triggering the termination right described above. If Orrstown Financial Services elects to increase the merger consideration pursuant to the preceding sentence, no termination will occur. See the section of this proxy statement/prospectus titled *The Merger Agreement Termination* beginning on page 66.

As of February 1, 2019, there were 3,416,039 shares of Hamilton Bancorp common stock issued and outstanding. Based upon these numbers, approximately 1,844,661 shares of Orrstown Financial Services common stock will be issued to Hamilton Bancorp stockholders in the merger. This will result in current Orrstown Financial Services stockholders owning approximately 83.7% of the combined company and Hamilton Bancorp stockholders owning approximately 16.3% of the combined company.

***Treatment of Hamilton Bancorp Equity Awards (page 62)***

The directors and executive officers of Hamilton Bancorp hold stock options and shares of restricted stock awarded under Hamilton Bancorp's 2013 Equity Incentive Plan.

*Stock Options.* Immediately prior to the effective time of the merger, each option granted under Hamilton Bancorp's 2013 Equity Incentive Plan and any other similar plan or otherwise, which is outstanding immediately prior to the effective time of the merger and which has not been previously exercised or canceled, will be canceled and, promptly thereafter, Hamilton Bancorp shall pay to the holder thereof cash in an amount equal to the product of (i) the number of shares of Hamilton Bancorp common stock underlying such stock option and (ii) the excess, if any, of \$16.90 per share (subject to adjustment to the extent there is any reduction to the merger consideration as set forth in the merger agreement) over the exercise price per share provided for in such stock option, which cash payment shall be made without interest and shall be net of all applicable withholding taxes. At the effective time of the merger, the Hamilton Bancorp 2013 Equity Incentive Plan shall terminate and the provisions of such plan and any other plan, program or arrangement providing for the issuance or grant of any other interest in respect of the capital stock of Hamilton Bancorp shall be of no further force and effect and shall be deemed to be canceled. As of the record date, there were outstanding options to purchase 262,704 shares of Hamilton Bancorp common stock.

*Restricted Stock.* Immediately prior to the effective time of the merger, all outstanding unvested shares of restricted stock awarded under the 2013 Equity Incentive Plan and any other similar plan will become fully vested and will be treated as outstanding shares of Hamilton Bancorp common stock for all purposes under the merger agreement, and be converted into the right to receive merger consideration. As of the record date, there were outstanding 26,561 unvested shares of Hamilton Bancorp restricted stock.

***Opinion of Hamilton Bancorp's Financial Advisor (page 40)***

In connection with the merger, Hamilton Bancorp's financial advisor, Keefe, Bruyette & Woods, Inc. ( KBW ), delivered a written opinion, dated October 23, 2018, to the Hamilton Bancorp board of directors to the effect that, as of such date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW as set forth in its opinion, the merger consideration in the proposed

merger was fair, from a financial point of view, to the holders of Hamilton Bancorp common stock. The full text of the opinion, which describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW in preparing the opinion, is attached as Annex B to this proxy statement/prospectus. **The opinion was for the information of, and was directed to, the Hamilton Bancorp board of directors (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion did not address the underlying business decision of Hamilton Bancorp to engage in the merger or enter into the merger agreement or constitute a**

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**recommendation to the Hamilton Bancorp board of directors in connection with the merger, and it does not constitute a recommendation to any holder of Hamilton Bancorp common stock or any stockholder of any other entity as to how to vote in connection with the merger or any other matter.**

***Interests of Hamilton Bancorp Directors and Executive Officers in the Merger (page 53)***

Some of the members of Hamilton Bancorp's management and board of directors may be deemed to have interests in the merger that are different from, or in addition to, the interests of Hamilton Bancorp stockholders generally. These interests include:

payment of cash severance benefits under the existing employment agreement with Robert A. DeAlmeida and change in control agreement with John P. Marzullo;

accelerated vesting of all unvested stock options and restricted stock awards;

certain rights under the Hamilton Bank ESOP;

continued indemnification and liability insurance coverage for directors and executive officers with respect to acts or omissions occurring before the merger; and

the election of one Hamilton Bancorp director to the board of directors of Orrstown Financial Services and Orrstown Bank immediately following the effective time of the merger.

In addition, upon execution of the merger agreement, Orrstown Financial Services and Orrstown Bank entered into an employment agreement and a change in control agreement with Ellen R. Fish, Executive Vice President of Hamilton Bancorp, to be effective as of the closing date of the merger, whereby Ms. Fish has agreed to serve as Executive Vice President and Senior Lender of Orrstown Bank.

***Limitations on Considering Other Acquisition Proposals (page 66)***

The merger agreement restricts Hamilton Bancorp's ability to solicit or engage in discussions or negotiations with a third party regarding a proposal to acquire Hamilton Bancorp. However, if Hamilton Bancorp receives a bona fide unsolicited written acquisition proposal from a third party that is, or is reasonably likely to be, more favorable from a financial point of view to Hamilton Bancorp stockholders than the terms of the merger agreement, Hamilton Bancorp may furnish nonpublic information to that third party and engage in negotiations regarding an acquisition proposal with that third party, subject to specified conditions in the merger agreement. In addition, the Hamilton Bancorp board of directors may not:

withdraw, qualify, amend, modify, withhold, or propose to withdraw, qualify, amend, modify, or withhold, in a manner adverse to Orrstown Financial Services in connection with the transactions provided for in the merger agreement (including the merger), its recommendation that Hamilton Bancorp stockholders vote to

approve the merger agreement and the merger;

fail to reaffirm its recommendation that Hamilton Bancorp stockholders vote to approve the merger agreement and the merger within three business days following a request by Orrstown Financial Services;

make any statement, announcement or release, in connection with the special meeting or otherwise, inconsistent with its recommendation that Hamilton Bancorp stockholders vote to approve the merger agreement and the merger (including taking a neutral position or no position with respect to an acquisition proposal);

approve or recommend, or propose to approve or recommend, any acquisition proposal; or

enter into (or cause Hamilton Bancorp, or any of its subsidiaries to enter into) any letter of intent, agreement in principle, acquisition agreement or other agreement:

related to any acquisition transaction (other than a confidentiality agreement entered into in accordance with the no solicitation provisions of the merger agreement); or

requiring Hamilton Bancorp to abandon, terminate or fail to consummate the merger or any other transaction provided for in the merger agreement;

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unless the Hamilton Bancorp board of directors determines in good faith, after consultation with its outside legal counsel and its independent financial advisor, that an acquisition proposal is a superior proposal and, after consultation with such counsel, that it is required to take such action to comply with the fiduciary standard of conduct required of a board of directors under the applicable law and Hamilton Bancorp's bylaws. In that event, Hamilton Bancorp must provide Orrstown Financial Services with notice of such determination and cooperate and negotiate in good faith with Orrstown Financial Services to adjust or modify the terms and conditions of the merger agreement.

***Conditions to the Merger (page 62)***

Orrstown Financial Services and Hamilton Bancorp will not complete the merger unless a number of conditions are satisfied or waived, including:

the stockholders of Hamilton Bancorp must approve the merger agreement;

Orrstown Financial Services and Hamilton Bancorp must have obtained all regulatory approvals required to complete the transactions provided for in the merger agreement, all related statutory waiting periods have expired, and none of the regulatory approvals imposed any term, condition or restriction that Orrstown Financial Services reasonably determines would (a) prohibit or materially limit the ownership or operation by Orrstown Financial Services of all or any material portion of the business or assets of Hamilton Bancorp or Orrstown Bank, (b) compel Orrstown Financial Services to dispose of or hold separate all or any material portion of the business or assets of Hamilton Bancorp or Orrstown Bank or (c) compel Orrstown Financial Services to take any action, or commit to take any action, or agree to any condition or request, if the prohibition, limitation, condition or other requirement described in clauses (a)-(c) of this sentence would have a material adverse effect on the future operation by Orrstown Financial Services of its business, taken as a whole (a burdensome condition );

the absence of any order, decree or injunction in effect, or any law, statute or regulation enacted or adopted, that enjoins, prohibits, materially restricts or makes illegal the completion of the transactions provided for in the merger agreement;

Orrstown Financial Services and Hamilton Bancorp must each receive a legal opinion from their respective counsel, or such other counsel as provided for in the merger agreement, regarding treatment of the merger as a reorganization for federal income tax purposes;

the representations and warranties of each of the parties in the merger agreement must be accurate, subject to exceptions that would not have a material adverse effect;

each of the parties in the merger agreement must have performed in all material respects all obligations required to be performed by it; and

the registration statement becoming effective.

***Termination of the Merger Agreement (page 64)***

The parties can mutually agree to terminate the merger agreement before the merger has been completed, and either company can terminate the merger agreement if:

the merger is not consummated by July 31, 2019, unless the terminating party's failure to comply with the merger agreement was the cause of the failure of the merger to occur on or before this date;

the other party materially breaches any of its representations, warranties, covenants or agreements contained in the merger agreement, the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement, and the breach is not cured within 30 days of written notice;

(1) any regulatory approval required for consummation of the merger and the other transactions provided for in the merger agreement imposes any term, condition or restriction upon Orrstown Financial Services or any of its subsidiaries that Orrstown Financial Services reasonably determines, after consultation with Hamilton Bancorp, is a burdensome condition or has been denied by final nonappealable action, or (2) any governmental entity has issued a final nonappealable order, injunction or decree enjoining or otherwise prohibiting the transactions

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provided in the merger agreement, and the terminating party in either case has used its reasonable best efforts to have the order, injunction or decree lifted or to prevent the burdensome condition from being imposed; or

the required approval of the merger agreement by the Hamilton Bancorp stockholders is not obtained. In addition, Orrstown Financial Services may terminate the merger agreement if:

the Hamilton Bancorp board of directors:

withdraws, qualifies, amends, modifies or withholds its recommendation to the Hamilton Bancorp stockholders to vote in favor of the merger, fails to reaffirm such recommendation within three business days following a request to do so by Orrstown Financial Services, or makes any statement, filing or release that is inconsistent with such recommendation;

materially breaches its obligation to call, give notice of hold and commence the special meeting or to solicit proxies in favor of approval of the merger agreement and the merger;

approves or recommends another acquisition proposal;

enters into, or causes Hamilton Bancorp to enter into, any letter of intent, agreement in principle, acquisition, or other agreement related to an acquisition proposal, or requiring Hamilton Bancorp to abandon, terminate or fail to complete the merger or the transactions contemplated thereby;

resolves or otherwise determines to take, or announces an intention to take, any of the actions listed above; or

Hamilton Bancorp or any of its representatives breaches in any material respect the provisions in the merger agreement prohibiting the solicitation of other offers.

Hamilton Bancorp has the right to terminate the merger agreement if the volume weighted average stock price of Orrstown Financial Services common stock as reported on NASDAQ for the 15 consecutive trading days immediately preceding the determination date (1) is less than \$20.1535 per share and (2) underperforms the volume weighted average price of the NASDAQ Bank Index for the 15 consecutive trading days immediately preceding the determination date by more than 15%. If Hamilton Bancorp exercises this termination right, Orrstown Financial Services will have the option to increase the exchange ratio or the cash consideration to be provided to Hamilton Bancorp stockholders to an amount which would compensate Hamilton Bancorp stockholders for the extent of the decrease in the price of Orrstown Financial Services common stock below the minimum implied value that would have avoided triggering the termination right described above. If Orrstown Financial Services elects to increase the merger consideration pursuant to the preceding sentence, no termination will occur. See the section of this proxy statement/prospectus titled "The Merger Agreement Termination" beginning on page 66.

***Termination Fee (page 65)***

Under the terms of the merger agreement, Hamilton Bancorp must pay Orrstown Financial Services a termination fee of \$2,212,500 if:

Orrstown Financial Services terminates the merger agreement as a result of the Hamilton Bancorp board of directors:

withdrawing, qualifying, amending, modifying or withholding its recommendation to the Hamilton Bancorp stockholders to vote in favor of the merger, failing to reaffirm such recommendation within five business days following a request to do so by Orrstown Financial Services, or making any statement, filing or release that is inconsistent with such recommendation;

materially breaching its obligation to call, give notice of hold and commence the special meeting or to solicit proxies in favor of the merger;

approving or recommending another acquisition proposal;

entering into, causing Hamilton Bancorp to enter into, any letter of intent, agreement in principle, acquisition, or other agreement related to an acquisition proposal, or requiring Hamilton Bancorp to abandon, terminate or fail to complete the merger or the transactions contemplated thereby; or



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resolving or otherwise determining to take, or announcing an intention to take, any of the actions listed above;

Orrstown Financial Services terminates the merger agreement as a result of a material breach by Hamilton Bancorp or any of Hamilton Bancorp's representatives of the provisions in the merger agreement prohibiting the solicitation of other offers;

Orrstown Financial Services or Hamilton Bancorp terminates the merger agreement as a result of:

the failure of the Hamilton Bancorp stockholders to approve the merger agreement and the merger, or the merger not having been consummated by July 31, 2019 due to the failure of the Hamilton Bancorp stockholders to approve the merger agreement, and both

an acquisition proposal with respect to Hamilton Bancorp has been publicly announced, disclosed or otherwise communicated to the Hamilton Bancorp board of directors or senior management of Hamilton Bancorp prior to the Hamilton Bancorp special meeting or July 31, 2019, as applicable; and

within 12 months of termination of the merger agreement, Hamilton Bancorp enters into a definitive agreement with respect to, or consummates, another acquisition transaction; or

Orrstown Financial Services terminates the merger agreement as a result of a breach by Hamilton Bancorp of any of its representations, warranties, covenants or agreements contained in the merger agreement, and both:

an acquisition proposal with respect to Hamilton Bancorp has been publicly announced, disclosed or otherwise communicated to the Hamilton Bancorp board of directors or senior management of Hamilton Bancorp prior to such breach or during the related cure period; and

within 12 months of termination of the merger agreement, Hamilton Bancorp enters into a definitive agreement with respect to, or consummates, another acquisition transaction.

***Effective Time of the Merger (page 60)***

We expect that the merger will be completed as soon as practicable following the satisfaction or waiver of all closing conditions, including approval of the merger agreement and the merger by the Hamilton Bancorp stockholders and receipt of all regulatory approvals. The parties cannot be certain whether or when any of the conditions to the merger will be satisfied or waived, where permissible. We currently expect to complete the merger during the second quarter of 2019; however, because the merger is subject to conditions beyond our control, we cannot predict the actual timing of the closing.

***Material Federal Income Tax Consequences for Hamilton Bancorp Stockholders (page 78)***

The merger is intended to qualify, and the obligations of the parties to complete the merger are conditioned upon the receipt of a legal opinion from their respective counsel to the effect that the merger will qualify, as a reorganization within the meaning of Section 368 of the Code. Hamilton Bancorp's stockholders should not recognize gain or loss with respect to the Orrstown Financial Services common stock that they receive in the merger, except with respect to any cash they receive in lieu of receiving a fractional share of Orrstown Financial Services common stock, and will generally recognize gain (but not loss) with respect to the cash portion of the merger consideration they receive. Each of Orrstown Financial Services and Hamilton Bancorp's obligations to complete the merger are conditioned on its receipt of this opinion, dated as of the effective date of the merger, regarding certain federal income tax consequences of the merger.

Tax matters are complicated, and the tax consequences of the merger to you will depend upon the facts of your particular situation. In addition, you may be subject to state, local or foreign tax laws that are not discussed in this proxy statement/prospectus. **Accordingly, we strongly urge you to consult your own tax advisor for a full understanding of the tax consequences to you of the merger.**

***Required Regulatory Approvals (page 74)***

To complete the merger, Orrstown Financial Services and Orrstown Bank need the prior approval of the Board of Governors of the Federal Reserve System, the Pennsylvania Department of Banking and Securities, and the Maryland Commissioner of Financial Regulation. The United States Department of Justice is able to provide input into the approval process of federal banking agencies to challenge the approval on antitrust grounds. Orrstown Financial Services and Orrstown Bank have filed all necessary applications and notices with the applicable regulatory authorities. Orrstown

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Financial Services and Orrstown Bank cannot predict, however, whether or when the required regulatory approvals will be obtained or whether any such approvals will impose any burdensome condition upon Orrstown Financial Services or Orrstown Bank.

### ***Accounting Treatment (page 52)***

The merger will be accounted for using the acquisition method of accounting with Orrstown Financial Services treated as the acquiror. Under this method of accounting, Hamilton Bancorp's assets and liabilities will be recorded by Orrstown Financial Services at their respective fair values as of the closing date of the merger and added to those of Orrstown Financial Services. Any excess of purchase price over the net fair values of Hamilton Bancorp's assets and liabilities will be recorded as goodwill. Any excess of the fair value of Hamilton Bancorp's net assets over the purchase price will be recognized in earnings by Orrstown Financial Services on the closing date of the merger. Financial statements of Orrstown Financial Services issued after the merger will reflect these values, but will not be restated retroactively to reflect the historical financial position or results of operations of Hamilton Bancorp prior to the merger. The results of operations of Hamilton Bancorp will be included in the results of operations of Orrstown Financial Services beginning on the day after the effective date of the merger.

### ***Listing of Orrstown Financial Services Common Stock to be Issued in the Merger (page 52)***

Orrstown Financial Services' common stock is quoted on NASDAQ under the trading symbol ORRF. Under the terms of the merger agreement, Orrstown Financial Services will file a notice of additional listing of shares with NASDAQ with respect to the shares of Orrstown Financial Services common stock to be issued to the holders of Hamilton Bancorp common stock in the merger so that these shares will be listed and traded on NASDAQ following the merger.

### ***Differences Between Rights of Holders of Orrstown Financial Services and Hamilton Bancorp Stock (page 151)***

The rights of Hamilton Bancorp stockholders currently are governed by Hamilton Bancorp's articles of incorporation and bylaws, and by the Maryland General Corporation Law. After the merger is completed, Hamilton Bancorp stockholders who receive Orrstown Financial Services common stock in the merger will become stockholders of Orrstown Financial Services, and, therefore, their rights as stockholders of Orrstown Financial Services will be governed by Orrstown Financial Services' articles of incorporation and bylaws, and by the Pennsylvania Business Corporation Law. This means that, as a result of the merger, Hamilton Bancorp stockholders will have different rights when they become holders of Orrstown Financial Services common stock than they currently have as holders of Hamilton Bancorp common stock.

### ***Dividend Policy of Orrstown Financial Services; Dividends from Hamilton Bancorp (see page 20)***

The holders of Orrstown Financial Services common stock receive dividends as and when declared by Orrstown Financial Services' board of directors. Orrstown Financial Services declared cash dividends of \$0.13 per share of common stock in the second and third quarters of 2018. After completion of the merger, the timing and amount of the payment of dividends will be at the discretion of Orrstown Financial Services' board of directors and will be determined after consideration of various factors, including level of earnings, cash requirements and financial condition.

Prior to completion of the merger, Hamilton Bancorp's stockholders will continue to receive any regular quarterly dividends declared and paid by Hamilton Bancorp, at a rate not to exceed \$0.20 per share of Hamilton Bancorp common stock.

***Dissenters' Rights of Appraisal***

Dissenters' rights are statutory rights that, if applicable under law, enable stockholders to dissent from an extraordinary transaction, such as a merger, and to demand that the corporation pay the fair value for their shares in cash as determined by a court in a judicial proceeding instead of receiving the consideration offered to stockholders in connection with the extraordinary transaction. Dissenters' rights are not available in all circumstances, and exceptions to these rights are provided under the Maryland General Corporation Law, as amended. Under the provisions of the Maryland General Corporation Law, Hamilton Bancorp stockholders are not entitled to dissenters' rights in the merger.

**Table of Contents****COMPARATIVE HISTORICAL AND UNAUDITED PRO FORMA PER SHARE DATA**

The following table summarizes selected share and per share information about Orrstown Financial Services and Hamilton Bancorp giving effect to the merger, which is referred to as pro forma information. The data in the table should be read together with the financial information and the financial statements of Hamilton Bancorp, which are included in this proxy statement/prospectus, and Orrstown Financial Services, which are incorporated in this proxy statement/prospectus by reference. The data does not necessarily indicate the combined financial position per share or combined results of earnings per share that would have been reported if the merger had occurred when indicated, nor is the data a forecast of the combined financial position or combined results of operations for any future period.

The unaudited pro forma and pro forma per equivalent share information gives effect to the merger as if the merger had been effective on December 31, 2017 or September 30, 2018 in the case of the book value data, and as if the merger had been effective as of January 1, 2017 in the case of the earnings per share and the cash dividends data. The unaudited pro forma data combines the historical results of Hamilton Bancorp into Orrstown Financial Services consolidated statement of income. While certain adjustments were made for the estimated impact of fair value adjustments and other acquisition-related activity, they are not indicative of what could have occurred had the acquisition taken place on January 1, 2017.

The information about book value per share and shares outstanding assumes that the merger took place as of the dates presented and is based on the assumptions set forth in the preceding unaudited pro forma combined consolidated statements of financial condition. The information about dividends and earnings per share assumes that the merger took place as of the periods presented and is based on the assumptions set forth in the preceding unaudited pro forma combined consolidated statements of income. No pro forma adjustments have been included in these statements of income which reflect potential effects of the merger related to integration expenses, cost savings or operational synergies which are expected to be obtained by combining the operations of Orrstown Financial Services and Hamilton Bancorp, or the costs of combining the companies and their operations.

	<b>Orrstown Financial Services Pro Forma Combined with Orrstown      Mercersburg Financial Services      Financial      Hamilton Bancorp      Pro Forma Historical      Corporation<sup>(1)(2)(3)(4)</sup>      Historical<sup>(5)</sup>      Combined<sup>(2)(3)(4)</sup></b>					<b>Per Equivalent Hamilton Bancorp Share<sup>(6)</sup></b>				
<b>Per share data for the year ended December 31, 2017:</b>										
Basic earnings per share	\$	1.00	\$	0.82	\$	(0.66)	\$	0.48	\$	0.26
Diluted earnings per share		0.98		0.80		(0.66)		0.47		0.25
Cash dividends declared		0.42		0.42				0.42		0.23
<b>Weighted average shares outstanding (in thousands):</b>										
Basic		8,070		9,123		3,186		10,968		
Diluted		8,226		9,279		3,186		11,124		

**Per share data for the  
nine months ended  
September 30, 2018:**

Basic earnings per share	\$	1.44	\$	1.19	\$	(1.06)	\$	0.69	\$	0.37
Diluted earnings per share		1.41		1.16		(1.06)		0.67		0.36
Cash dividends declared		0.38		0.38				0.38		0.21
Weighted average shares outstanding (in thousands):										
Basic		8,092		9,145		3,203		10,990		
Diluted		8,274		9,327		3,203		11,172		
<b>Book value per share as of September 30, 2018</b>	\$	17.36	\$	17.80	\$	16.23	\$	18.27		

- (1) Includes the pro forma effect of a subordinated debt issuance by Orrstown Financial Services on December 19, 2018. See the unaudited pro forma combined consolidated financial information beginning on page 159 for additional information.

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- (2) The pro forma book value per share of Orrstown Financial Services common stock is based on the pro forma common stockholders' equity divided by total pro forma common shares.
- (3) Pro forma cash dividends declared per share represent Orrstown Financial Services' historical dividends per share.
- (4) The pro forma net income per share of Orrstown Financial Services common stock is based on the pro forma net income for the merged entities divided by total pro forma diluted common shares of the combined entities.
- (5) Hamilton Bancorp's fiscal year end is March 31. Per share data has been conformed to the periods presented.
- (6) Represents the pro forma combined information multiplied by the 0.54 exchange ratio.

**Table of Contents****COMPARATIVE MARKET PRICE AND DIVIDEND INFORMATION**

The following tables show the high and low sales price per share for Orrstown Financial Services common stock and Hamilton Bancorp common stock by quarter, as reported by the NASDAQ Capital Market, for the periods indicated. The tables also provide information as to dividends declared per share of Orrstown Financial Services common stock. Hamilton Bancorp has not paid any dividends to its stockholders to date.

**Orrstown Financial Services Common Stock by Quarter**

	Market Prices		Dividend Paid Per Share
	High	Low	
<b>Fiscal Year Ending December 31, 2019</b>			
First Quarter (through February 4, 2019)	\$20.94	\$17.30	\$0.15
<b>Fiscal Year Ended December 31, 2018</b>			
First Quarter	\$ 26.65	\$ 23.40	\$ 0.12
Second Quarter	\$ 27.05	\$ 23.60	\$ 0.13
Third Quarter	\$ 27.00	\$ 23.00	\$ 0.13
Fourth Quarter	\$ 25.28	\$ 18.10	\$ 0.13
<b>Fiscal Year Ended December 31, 2017</b>			
First Quarter	\$ 23.40	\$ 20.00	\$ 0.10
Second Quarter	\$ 23.00	\$ 19.05	\$ 0.10
Third Quarter	\$ 26.55	\$ 22.15	\$ 0.10
Fourth Quarter	\$ 26.95	\$ 24.15	\$ 0.12

**Hamilton Bancorp Common Stock by Quarter**

	Market Prices		Dividend Paid Per Share
	High	Low	
<b>Fiscal Year Ending March 31, 2019</b>			
First Quarter	\$ 16.15	\$ 14.00	
Second Quarter	\$ 15.70	\$ 13.50	
Third Quarter	\$ 15.40	\$ 13.70	
Fourth Quarter (through February 4, 2019)	\$14.50	\$13.90	
<b>Fiscal Year Ended March 31, 2018</b>			
First Quarter	\$ 15.25	\$ 14.45	
Second Quarter	\$ 15.05	\$ 14.05	
Third Quarter	\$ 15.40	\$ 14.25	
Fourth Quarter	\$ 15.87	\$ 14.25	
<b>Fiscal Year Ended March 31, 2017</b>			
First Quarter	\$ 14.25	\$ 13.30	
Second Quarter	\$ 14.19	\$ 13.33	
Third Quarter	\$ 14.50	\$ 13.50	
Fourth Quarter	\$ 14.55	\$ 14.28	



On October 23, 2018, the last full trading day immediately preceding the public announcement of the merger, and on February 4, 2019, the most recent practicable date prior to the mailing of this proxy statement/prospectus, the last reported sales prices of Orrstown Financial Services common stock, as reported by the NASDAQ Capital Market, were \$23.10 per share and \$18.96 per share, respectively. The market price of Orrstown Financial Services common stock is likely to fluctuate prior to the effective time of the merger. You are encouraged to obtain current trading prices for Orrstown Financial Services common stock in considering whether to vote on the matters being considered at the special meeting and in completing your transmittal form and instructions to submit your stock certificates in exchange for the merger consideration.

Orrstown Financial Services expects that after the completion of the merger, subject to approval and declaration by the Orrstown Financial Services board of directors, it will continue to declare quarterly cash dividends on shares of its common stock consistent with past practices. The actual payment of dividends is subject to numerous factors, and no assurance can be given that Orrstown Financial Services will pay dividends following the completion of the merger or that dividends will not be reduced in the future. The current annualized rate of distributions on the shares of Orrstown Financial Services common stock is \$0.60 per share.

As of February 1, 2019, there were 9,485,176 shares of Orrstown Financial Services common stock issued and outstanding and approximately 2,991 holders of record. As of February 1, 2019, there were 3,416,039 shares of Hamilton Bancorp common stock issued and outstanding and approximately 133 holders of record.

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**RISK FACTORS**

In addition to the other information contained in or incorporated by reference into this proxy statement/prospectus, including the matters addressed in the section of this proxy statement/prospectus titled *Special Note Regarding Forward-Looking Statements* on page 26, you should carefully consider the risk factors described below in deciding how to vote. You should also read and consider the risk factors associated with the business of Orrstown Financial Services because these risk factors may affect the operations and financial results of the combined company. These risk factors may be found in the Orrstown Financial Services Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

**Risks Relating to the Merger**

***The value of the merger consideration that Hamilton Bancorp stockholders receive will vary with changes in Orrstown Financial Services stock price.***

Upon completion of the merger, each share of Hamilton Bancorp common stock outstanding immediately prior to the effective time of the merger will be converted into shares of Orrstown Financial Services common stock and cash. The exchange ratio for the stock portion of the merger consideration is fixed. Accordingly, the dollar value of Orrstown Financial Services common stock that Hamilton Bancorp stockholders will receive upon completion of the merger will depend upon the market value of Orrstown Financial Services common stock at the time of completion of the merger, which may be lower or higher than the closing price of Orrstown Financial Services common stock on the last full trading day preceding public announcement of the merger or the dates of the special meeting. Thus, at the time of the special meeting, you will not know or be able to determine the dollar value of the stock consideration to be received in the merger. See the section of this proxy statement/prospectus titled *The Merger Agreement Merger Consideration* beginning on page 60.

***The \$4.10 per share cash portion of the merger consideration is subject to possible adjustment downward by as much as \$0.27 per share, to \$3.83 per share.***

Pursuant to the merger agreement, if the merger is completed, each outstanding share of Hamilton Bancorp common stock will be converted into the right to receive (1) 0.54 shares of common stock, no par value per share, of Orrstown Financial Services and (2) \$4.10 in cash, without interest, subject to possible reduction of the cash portion of the merger consideration based on potential losses, write-downs, or reserves related to certain identified loans of Hamilton Bank. The maximum reduction to the cash consideration is approximately \$0.27 per share. There can be no assurance as to whether there will be any losses, write-downs, or reserves related to the subject loans at or prior to the time the merger is completed, and the amount of cash consideration you receive may be reduced to as low as \$3.83 per share.

***The fairness opinion rendered to the board of directors of Hamilton Bancorp by Hamilton Bancorp's financial advisor prior to the signing of the merger agreement does not reflect changes in events or circumstances occurring after the date of the opinion.***

The opinion of KBW, financial advisor to Hamilton Bancorp, was delivered on and dated October 23, 2018. The opinion does not reflect changes that may occur or may have occurred after the date on which it was delivered, including changes to the operations and prospects of Hamilton Bancorp or Orrstown Financial Services, changes in general market and economic conditions or other changes. Any of these changes may alter the relative value of Hamilton Bancorp or Orrstown Financial Services or the prices of shares of Hamilton Bancorp common stock or Orrstown Financial Services common stock by the time the merger is completed. The opinion does not speak as of the date the merger will be completed or as of any date other than the date of the opinion. For a description of the opinion

of Hamilton Bancorp's financial advisor, please see *Opinion of Hamilton Bancorp's Financial Advisor* beginning on page 40.

***There is no assurance when or even if the merger will be completed.***

The merger agreement is subject to a number of conditions which must be fulfilled in order to complete the merger. Those conditions include:

approval of the merger agreement and the merger by Hamilton Bancorp stockholders;

the receipt of required regulatory approvals;

absence of orders prohibiting the completion of the merger;

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effectiveness of the registration statement of which this proxy statement/prospectus is a part;

the continued accuracy of the representations and warranties by both parties and the performance by both parties of their covenants and agreements; and

the receipt by both parties of legal opinions from their respective tax counsels.

There can be no assurance that the parties will be able to satisfy the closing conditions or that closing conditions beyond their control will be satisfied or waived.

***The merger agreement may be terminated in accordance with its terms and the merger may not be completed.***

The parties can agree at any time to terminate the merger agreement even after Hamilton Bancorp's stockholders have provided their approval. The parties can also terminate the merger agreement under other specified circumstances. See The Merger Agreement Termination on page 66. In addition, Hamilton Bancorp may choose to terminate the merger agreement if the volume weighted average stock price of Orrstown Financial Services' common stock as reported on NASDAQ during the 15 trading day period ending on the determination date is less than \$20.1535 per share and Orrstown Financial Services' common stock underperforms the NASDAQ Bank Index by more than 15% between October 23, 2018 and the determination date. Any such termination would be subject to the right of Orrstown Financial Services to increase the amount of merger consideration to be provided to Hamilton Bancorp stockholders pursuant to the formula prescribed in the merger agreement. See the section of this proxy statement/prospectus titled The Merger Agreement Termination beginning on page 66 for a more complete discussion of the circumstances under which the merger agreement could be terminated.

***Regulatory approvals may not be received or may take longer than expected in order to be obtained.***

Orrstown Financial Services and Orrstown Bank are required to obtain the approvals of the Board of Governors of the Federal Reserve System, the Pennsylvania Department of Banking and Securities, and the Maryland Commissioner of Financial Regulation prior to completing the merger. Obtaining the approval of these regulatory agencies may delay the date of completion of the merger. In addition, you should be aware that, as in any transaction, it is possible that, among other things, restrictions on the combined operations of the two companies may be sought by governmental agencies as a condition to obtaining the required regulatory approvals. This may diminish the benefits of the merger to Orrstown Financial Services or have an adverse effect on Orrstown Financial Services following the merger and prevent it from achieving the expected benefits of the merger. Orrstown Financial Services has the right to terminate the merger agreement if the approval of any governmental authority required for consummation of the merger and the other transactions provided for in the merger agreement, imposes any term, condition or restriction upon Orrstown Financial Services or any of its subsidiaries that Orrstown Financial Services reasonably determines would (a) prohibit or materially limit the ownership or operation by Orrstown Financial Services of any material portion of Hamilton Bancorp's business or assets, (b) compel Orrstown Financial Services to dispose or hold separate any material portion of Hamilton Bancorp's assets or (c) compel Orrstown Financial Services to take any action, or commit to take any action, or agree to any condition or request, if the prohibition, limitation, condition or other requirement described in clauses (a)-(c) of this sentence would have a material adverse effect on the future operation by Orrstown Financial Services of its business, taken as a whole.

***If the merger is not completed, Hamilton Bancorp will have incurred substantial expenses without their stockholders realizing the expected benefits.***

Hamilton Bancorp has incurred, and will continue to incur, substantial expenses in connection with the transactions described in this proxy statement/prospectus. If the merger is not completed, these expenses may have a material adverse impact on the operating results of Hamilton Bancorp.

***Hamilton Bancorp's directors and executive officers have financial interests in the merger that may be different from, or in addition to, the interests of Hamilton Bancorp stockholders.***

In considering the information contained in this proxy statement/prospectus, you should be aware that Hamilton Bancorp's executive officers and directors have financial interests in the merger that are different from, or in addition to, the interests of Hamilton Bancorp stockholders generally. These interests include, among other things:

payment of cash severance benefits under existing employment or change in control agreements with Robert A. DeAlmeida and John P. Marzullo;

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accelerated vesting of all unvested stock options and restricted stock awards;

certain rights under the Hamilton Bank ESOP;

continued indemnification and liability insurance coverage for directors and executive officers with respect to acts or omissions occurring before the merger; and

the election of one Hamilton Bancorp director to the board of directors of Orrstown Financial Services and Orrstown Bank immediately following the effective time of the merger.

In addition, upon execution of the merger agreement, Orrstown Financial Services and Orrstown Bank entered into an employment agreement and a change in control agreement with Ellen R. Fish, Executive Vice President of Hamilton Bancorp, to be effective as of the closing date of the merger. See the section of this proxy statement/prospectus entitled "Interests of Hamilton Bancorp Directors and Executive Officers in the Merger" beginning on page 53 for a discussion of these interests.

***Goodwill incurred in the merger may negatively affect Orrstown Financial Services' financial condition.***

To the extent that the merger consideration, consisting of the cash and the number of shares of Orrstown Financial Services common stock issued or to be issued in the merger, exceeds the fair value of the net assets, including identifiable intangibles, of Hamilton Bancorp, that amount will be reported as goodwill by Orrstown Financial Services. In accordance with current accounting guidance, goodwill will not be amortized but will be evaluated for impairment annually or more frequently if events or circumstances warrant. A failure to realize expected benefits of the merger could adversely impact the carrying value of the goodwill recognized in the merger and, in turn, negatively affect Orrstown Financial Services' financial results.

***The termination fee and the restrictions on solicitation contained in the merger agreement may discourage other companies from trying to acquire Hamilton Bancorp.***

Until the completion of the merger, Hamilton Bancorp is restricted from soliciting, initiating, encouraging, or with some exceptions, considering any inquiries or proposals that may lead to a proposal or offer for a merger or other business combination transaction with any person other than Orrstown Financial Services except in connection with a superior proposal as provided in the merger agreement. In addition, Hamilton Bancorp has agreed to pay a termination fee of \$2,212,500 to Orrstown Financial Services in specified circumstances to terminate the merger agreement. These provisions could discourage other companies from trying to acquire Hamilton Bancorp even though those other companies might be willing to offer greater value to Hamilton Bancorp stockholders than Orrstown Financial Services has offered in the merger.

***Orrstown Financial Services may be unable to successfully integrate Hamilton Bancorp's operations.***

The merger involves the integration of two companies that previously operated independently. The difficulties of combining the companies' operations include:

integrating personnel with diverse business backgrounds;

integrating departments, systems, operating procedures and information technologies;

combining different corporate cultures;

retaining existing customers and attracting new customers; and

retaining key employees.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of one or more of the combined company's businesses and the loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with the merger and the integration of the two companies' operations could have a material adverse effect on the business and results of operations of the combined company.

The success of the merger will depend, in part, on Orrstown Financial Services' ability to realize the anticipated benefits and cost savings from combining the business of Orrstown Financial Services with Hamilton Bancorp. If Orrstown Financial Services is unable to successfully integrate Hamilton Bancorp, the anticipated benefits and cost savings of the merger may

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not be realized fully or may take longer to realize than expected. For example, Orrstown Financial Services may fail to realize the anticipated increase in earnings and cost savings anticipated to be derived from the acquisition. In addition, as with regard to any merger, a significant change in interest rates or economic conditions or decline in asset valuations may also cause Orrstown Financial Services not to realize expected benefits and result in the merger not being as accretive as expected.

### ***Unanticipated costs relating to the merger could reduce Orrstown Financial Services' future earnings per share.***

Orrstown Financial Services believes that it has reasonably estimated the likely costs of integrating the operations of Orrstown Financial Services and Hamilton Bancorp, and the incremental costs of operating as a combined company. However, it is possible that Orrstown Financial Services could incur unexpected transaction costs such as taxes, fees or professional expenses or unexpected future operating expenses such as increased personnel costs or increased taxes, which could result in the merger not being as accretive as expected or having a dilutive effect on the combined company's earnings per share.

### ***Former Hamilton Bancorp stockholders will have limited ability to influence Orrstown Financial Services' actions and decisions following the merger.***

Following the merger, former Hamilton Bancorp stockholders are expected to hold approximately 16.3% of the outstanding shares of Orrstown Financial Services common stock. As a result, former Hamilton Bancorp stockholders will have limited ability to influence Orrstown Financial Services' business. Former Hamilton Bancorp stockholders will not have separate approval rights with respect to any actions or decisions of Orrstown Financial Services or have separate representation on Orrstown Financial Services' board of directors.

### ***The shares of Orrstown Financial Services common stock to be received by Hamilton Bancorp stockholders as a result of the merger will have different rights from shares of Hamilton Bancorp common stock.***

Following completion of the merger, Hamilton Bancorp stockholders will no longer be stockholders of Hamilton Bancorp and will instead be stockholders of Orrstown Financial Services. There will be important differences between your current rights as a Hamilton Bancorp stockholder and the rights to which you will be entitled as an Orrstown Financial Services stockholder. See the section of this proxy statement/prospectus titled "Comparison of Stockholder Rights" beginning on page 151 for a discussion of the different rights associated with Orrstown Financial Services common stock and Hamilton Bancorp common stock.

### ***The market price of Orrstown Financial Services common stock after the merger may be affected by factors different from those affecting the shares of Orrstown Financial Services or Hamilton Bancorp currently.***

The businesses of Orrstown Financial Services and Hamilton Bancorp differ and, accordingly, the results of operations of the combined company and the market price of the combined company's shares of common stock may be affected by factors different from those currently affecting the independent results of operations and market prices of common stock of each of Orrstown Financial Services and Hamilton Bancorp. The market value of Orrstown Financial Services common stock fluctuates based upon various factors, including changes in the business, operations or prospects of Orrstown Financial Services, market assessments of the merger, regulatory considerations, market and economic considerations, and other factors. Further, the market price of Orrstown Financial Services common stock after the merger may be affected by factors different from those currently affecting the common stock of Orrstown Financial Services or Hamilton Bancorp. For a discussion of the businesses of Hamilton Bancorp and Orrstown Financial Services and of certain factors to consider in connection with those businesses, see the section of this proxy statement/prospectus titled "The Companies' Orrstown Financial Services and Hamilton Bancorp" and the documents



incorporated by reference in this proxy statement/prospectus and referred to under [Where You Can Find More Information](#) beginning on page 173.

***Pending litigation and legal proceedings and the impact of any finding of liability or damages could adversely impact Orrstown Financial Services and its financial condition and results of operations.***

Pending litigation and legal proceedings, and the impact of any finding of liability or damages, could adversely impact Orrstown Financial Services and its financial condition and results of operations. On May 25, 2012, the Southeastern Pennsylvania Transportation Authority ( SEPTA ) filed a putative class action complaint in the U.S. District Court for the

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Middle District of Pennsylvania against Orrstown Financial Services, Orrstown Bank, and certain of its current and former directors and executive officers alleging, among other things, that Orrstown Financial Services issued materially false and misleading statements regarding its lending practices and financial results, and did not publicly disclose certain alleged failures of internal controls over loan underwriting, risk management, and financial reporting, in violation of the federal securities laws. Following briefing on defendants' motions to dismiss, the Court dismissed SEPTA's first amended complaint in its entirety. SEPTA then filed a second amended complaint which, after a second round of motions, the Court dismissed in part.

SEPTA's second amended complaint disclosed the existence of a confidential, non-public, fact-finding inquiry regarding the Company conducted by the Securities and Exchange Commission (the "SEC"). On September 27, 2016, without admitting or denying any of the Commission's findings, Orrstown Financial Services entered into a settlement agreement with the SEC resolving the investigation of accounting and related matters. As part of the settlement agreement, Orrstown Financial Services agreed to pay a civil money penalty of \$1 million.

On January 31, 2017, the District Court entered a revised Case Management Order in the SEPTA case establishing the schedule for litigation of the surviving claims against the remaining defendants. The Case Management Order, among other things, set the deadlines for the completion of discovery, the filing of motions, and various pre-trial conferences. A class has not yet been certified. While trial had been scheduled to begin on January 7, 2019, on February 28, 2018, the Court issued an Order continuing all case management deadlines until further order of the Court. Discovery in the case is ongoing.

Orrstown Financial Services believes that the allegations of SEPTA's second amended complaint are without merit and intends to vigorously defend itself against those claims. It is not possible at this time to estimate reasonably possible losses, or even a range of reasonably possible losses, in connection with the litigation. See the section of this proxy statement/prospectus titled "The Merger: Hamilton Bancorp's Reasons for the Merger; Board Recommendation" beginning on page 37.

### ***Hamilton Bancorp will be subject to business uncertainties and contractual restrictions while the merger is pending.***

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on Hamilton Bancorp. These uncertainties may impair Hamilton Bancorp's ability to attract, retain and motivate key personnel until the merger is completed, and could cause customers and others who deal with Hamilton Bancorp to seek to change existing business relationships with Hamilton Bancorp. Hamilton Bancorp employee retention and recruitment may be particularly challenging prior to the effective time of the merger, as employees and prospective employees may experience uncertainty about their future roles with the combined company.

The pursuit of the merger and the preparation for the integration may place a significant burden on management and internal resources. Any significant diversion of management attention away from ongoing business and any difficulties encountered in the transition and integration process could affect Hamilton Bancorp's financial results. In addition, the merger agreement requires that Hamilton Bancorp operate in the usual, regular and ordinary course of business and restricts Hamilton Bancorp from taking certain actions prior to the effective time of the merger or termination of the merger agreement without Orrstown Financial Services' consent. These restrictions may prevent Hamilton Bancorp from pursuing attractive business opportunities that may arise prior to the completion of the merger.

### ***Hamilton Bancorp stockholders will not have dissenters' rights in the merger.***

Dissenters' rights are statutory rights that, if applicable under law, enable stockholders to dissent from an extraordinary transaction, such as a merger, and to demand that the corporation pay the fair value for their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to stockholders in connection with the extraordinary transaction. Under the Maryland General Corporation Law, a stockholder may not dissent from a merger as to shares that are listed on a national securities exchange at the record date fixed to determine the stockholders entitled to receive notice of the meeting of stockholders to vote upon the agreement of merger or consolidation.

Because Hamilton Bancorp common stock is listed on the NASDAQ Capital Market, a national securities exchange, and is expected to continue to be so listed on the record date, and because the merger otherwise satisfies the foregoing requirements of the Maryland General Corporation Law, holders of Hamilton Bancorp common stock will not be entitled to dissenters' rights in the merger with respect to their shares of Hamilton Bancorp common stock.

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*Orrstown Financial Services will be able to issue additional shares of its common stock in the future, which may adversely affect the market price of Orrstown Financial Services common stock and dilute the holdings of existing stockholders.*

In the future, Orrstown Financial Services may issue additional shares of Orrstown Financial Services common stock in connection with another acquisition, to increase its capital resources or if Orrstown Financial Services or Orrstown Bank's capital ratios fall below or near the Basel III regulatory required minimums. Additional common stock offerings may dilute the holdings of Orrstown Financial Services existing stockholders or reduce the market price of Orrstown Financial Services common stock, or both. Orrstown Financial Services may also issue shares of Orrstown Financial Services preferred stock, which may be viewed as having adverse effects upon the holders of common stock.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This proxy statement/prospectus, including the information incorporated by reference, contains statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements, which are based on certain current assumptions, can generally be identified by the use of the words may, will, should, could, would, plan, potential, estimate, project, believe, intend, anticipate, expect, target and similar expressions. Orrstown Services and Hamilton Bancorp intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of complying with these safe harbor provisions. You should read statements that contain these words carefully because they discuss the relevant company's future expectations, contain projections of the relevant company's future results of operations or financial condition, or state other forward-looking information.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

failure of the parties to satisfy the conditions to complete the proposed merger in a timely manner or at all;

failure of the stockholders of Hamilton Bancorp to approve the merger agreement and the merger;

failure to obtain governmental approvals or the imposition of adverse regulatory conditions in connection with such approvals;

disruptions to the parties' businesses as a result of the announcement and pendency of the merger;

difficulties in achieving cost savings as a result of the merger or in achieving such cost savings within the projected timeframe;

difficulties related to the integration of the businesses following the merger;

changes in general, national or regional economic conditions;

volatility in the securities markets generally or in the market price of Orrstown Financial Services common stock specifically;

changes in loan default and charge-off rates;

changes in the financial performance and/or condition of borrowers;

changes in customer borrowing and savings habits;

changes in interest rates;

changes in regulations applicable to the financial services industry;

changes in accounting or regulatory guidance applicable to banks; and

competition.

Additional factors that could cause Orrstown Financial Services' results to differ materially from those described in the forward-looking statements can be found in Orrstown Financial Services' filings with the SEC, including Orrstown Financial Services' Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this proxy statement/prospectus or the date of any document incorporated by reference in this proxy statement/prospectus. All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this proxy statement/prospectus and attributable to Orrstown Financial Services or Hamilton Bancorp or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, Orrstown Financial Services and Hamilton Bancorp undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this proxy statement/prospectus or to reflect the occurrence of unanticipated events.

## **THE SPECIAL MEETING OF HAMILTON BANCORP STOCKHOLDERS**

### **Date, Time and Place of the Special Meeting of Hamilton Bancorp Stockholders**

The special meeting of stockholders of Hamilton Bancorp will be held at the administrative offices of Hamilton Bank, located at 501 Fairmount Avenue, Suite 200, Towson, Maryland 21286, on March 20, 2019 at 4:00 p.m., local time.

### **Actions to be Taken at the Special Meeting**

At the special meeting, Hamilton Bancorp stockholders as of the record date will be asked to consider and vote on the following proposals:

1. To consider and vote upon a proposal to approve the merger agreement;
2. To consider and vote upon a proposal to approve, on a non-binding, advisory basis, the compensation that may become payable to Hamilton Bancorp's named executive officers that is based on or otherwise relates to the merger, as disclosed in *Interests of Hamilton Bancorp's Directors and Executive Officers in the Merger*; and
3. To consider and vote upon a proposal to approve one or more adjournments of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting, or at any adjournment or postponement of that meeting, to approve the merger agreement.

### **Votes Required to Transact Business at the Special Meeting**

A quorum of Hamilton Bancorp stockholders is necessary to hold a valid meeting. If the holders of at least a majority of the shares of Hamilton Bancorp common stock entitled to be cast are present in person or represented by proxy at the special meeting, a quorum will exist. Hamilton Bancorp will include proxies marked as abstentions as present at the meeting in determining whether a quorum is present.

### **Record Date; Outstanding Shares; Shares Entitled to Vote**

You can vote at the special meeting if you owned Hamilton Bancorp common stock at the close of business on February 1, 2019, the record date for the special meeting. As of the close of business on the record date, there were 3,416,039 shares of Hamilton Bancorp common stock outstanding. Each holder of Hamilton Bancorp common stock

is entitled to one vote for each share of Hamilton Bancorp common stock owned as of the record date.

### **Vote Required to Approve Each Proposal**

*Approval of the Merger.* Approval of this proposal requires the affirmative vote of holders of at least a majority of the outstanding shares of Hamilton Bancorp common stock entitled to vote at the special meeting. If you abstain or do not vote, it will have the same effect as voting **AGAINST** approval of the merger agreement and the merger.

*Approval of Merger-Related Executive Compensation.* Approval of this proposal requires the affirmative vote of a majority of the votes cast at the special meeting. If you do not vote, either in person or by proxy, it will have no effect on the outcome of the proposal. Proxies marked abstentions will have the same effect as a vote **AGAINST** this proposal.

*Approval of Adjournments of the Special Meeting.* Approval of this proposal requires the affirmative vote of a majority of the votes cast at the special meeting. If you do not vote, either in person or by proxy, it will have no effect on the outcome of the proposal. Proxies marked abstentions will have the same effect as a vote **AGAINST** this proposal.

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### **How to Vote Shares Held Directly by the Stockholder**

If you are the record holder of your shares, you may vote your shares by:

***Over the Internet.*** You may vote online by going to the website of Computershare at [www.investorvote.com/HBK](http://www.investorvote.com/HBK). Have your proxy card in hand when you access the website and follow the instructions to vote your shares. You must submit your Internet proxy before 1:00 a.m., Eastern Time, on March 20, 2019, the day of the special meeting, for your proxy to be valid and your vote to count.

***By Mail.*** You may vote by completing, signing, dating and returning the proxy card in the enclosed postage-paid envelope. Computershare, our tabulator, must receive your mailed proxy before 1:00 a.m., Eastern Time, on March 20, 2019, the day of the special meeting, for your proxy to be valid and your vote to count.

***By Telephone.*** You may vote by telephone by calling 1-800-652-8683. Have your proxy card in hand when you call and then follow the instructions to vote your shares. You must submit your telephonic proxy before 1:00 a.m., Eastern Time, on March 20, 2019, the day of the special meeting, for your proxy to be valid and your vote to count.

### **How to Vote Shares Held by a Broker, Bank or Other Nominee**

If your shares are held through a broker, bank or other nominee, you may vote your shares by following the voting instructions provided by your broker, bank or other nominee. To be able to vote shares not registered in your own name in person at the special meeting, contact your broker, bank or other nominee who holds your shares to obtain a broker's proxy card and bring it with you to the special meeting, along with a bank or brokerage statement or a letter from your nominee evidencing your beneficial ownership of our stock and a form of personal identification. A broker's proxy is not the form of proxy enclosed with this proxy statement/prospectus.

### **How to Vote Shares Held in the Hamilton Bank 401(k) Plan**

If you are a participant in the Hamilton Bank 401(k) Plan and indirectly hold shares of Hamilton Bancorp common stock through the Hamilton Bank 401(k) Plan, you may vote any shares of Hamilton Bancorp common stock held in your Hamilton Bank 401(k) Plan account as of the record date ***only*** by following the separate voting instructions provided by the Hamilton Bank 401(k) Plan trustee. Your 401(k) Plan vote authorization form must be received by 1:00 a.m., Eastern Time, on March 13, 2019. The telephonic and internet voting cutoff for providing your 401(k) Plan vote authorization is 1:00 a.m., Eastern Time, on March 13, 2019. Hamilton Bancorp, as the Hamilton Bank 401(k) Plan administrator, has instructed the Hamilton Bank 401(k) Plan trustee to vote any shares in the Hamilton Bank 401(k) Plan trustee for which participants have not issued timely voting instructions in the same proportion as the votes received on shares that participants have provided voting instructions.

### **How to Vote Shares Held in the Hamilton Bank ESOP Plan**

If you are a participant in the Hamilton Bank ESOP and indirectly hold shares of Hamilton Bancorp common stock through the Hamilton Bank ESOP, you may vote any shares of Hamilton Bancorp common stock held in your Hamilton Bank ESOP account as of the Hamilton Bancorp record date ***only*** by following the separate voting



instructions provided by the Hamilton Bank ESOP trustee. Your ESOP vote authorization form must be received by 1:00 a.m., Eastern Time, on March 13, 2019. The telephonic and internet voting cutoff for providing your ESOP vote authorization is 1:00 a.m., Eastern Time, on March 13, 2019. Under the terms of the Hamilton Bank ESOP, the Hamilton Bank ESOP trustee votes all shares held by the Hamilton Bank ESOP, but each Hamilton Bank ESOP participant may direct the trustee how to vote the shares of Hamilton Bancorp common stock allocated to his or her account. The Hamilton Bank ESOP trustee will vote all unallocated shares of Hamilton Bancorp common stock held by the Hamilton Bank ESOP and allocated shares for which no voting instructions are received in the same proportion as shares for which it has received timely voting instructions, so long as such vote is solely in the interests of participants and beneficiaries and in accordance with the requirements of the Employee Retirement Income Security Act of 1974, as amended.

### **Broker Non-Votes and Abstentions**

If you are the beneficial owner of shares held in street name by a broker, bank or other nominee and you do not give instructions to the broker, bank or other nominee on how to vote your shares at the special meeting, your broker, bank or other nominee *may not* vote your shares with respect to any of the proposals. Proxies submitted by a broker that do not exercise this voting authority are also known as broker non-votes.

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An abstention is a decision by a stockholder to take a neutral position on a proposal being submitted to stockholders at a meeting.

### **Effect of Broker Non-Votes and Abstentions on Quorum and the Votes Required at the Special Meeting**

The affirmative vote of holders of at least a majority of the outstanding shares of Hamilton Bancorp common stock entitled to vote at the special meeting is required to approve the merger agreement, and the affirmative vote of holders of a majority of the votes cast at the special meeting is required to approve the proposal to approve merger-related executive compensation and any adjournment proposal. Because broker non-votes and abstentions are not considered a vote approving any proposal submitted at the special meeting, broker non-votes and abstentions will have the same effect as a vote against the proposal to approve the merger agreement. However, broker non-votes will have no effect on the outcome of the proposal to approve merger-related executive compensation or the adjournment proposal, but abstentions will have the same effect as a vote against the adjournment proposal.

### **How Will Shares be Voted**

All shares represented by valid unrevoked proxies will be voted in accordance with the instructions on the proxy card. If you return a signed proxy card, but make no specification on the card as to how you want your shares voted, your proxy will be voted **FOR** approval of the foregoing proposals. The board of directors of Hamilton Bancorp is presently unaware of any other matter that may be presented for action at the special meeting of stockholders. If any other matter does properly come before the special meeting, the board of directors of Hamilton Bancorp intends that shares represented by properly submitted proxies will be voted, or not voted, by and in accordance with the directions of the Hamilton Bancorp board of directors.

### **Revocation of Proxies**

A proxy may be revoked at any time before it is voted at the special meeting by:

Filing a written revocation of the proxy with the Secretary of Hamilton Bancorp, Robin L. Thiess, 501 Fairmount Avenue, Suite 200, Towson, Maryland 21286;

Submitting a new signed proxy card by mail bearing a later date, or by submitting a new vote over the Internet or by telephone (any earlier proxies will be revoked automatically); or

Attending the special meeting and voting in person provided you are the holder of record of your shares and have filed a written revocation of your grant of proxy with the Secretary of Hamilton Bancorp as indicated above.

If you hold your shares in the name of a broker, bank or other nominee, you will need to contact your nominee in order to revoke your proxy. If you hold your shares in street name through a broker or bank, you may only change your vote in person if you have a legal proxy in your name from Broadridge Financial Solutions or your broker or bank.

Participants in the Hamilton Bank 401(k) Plan may revoke their instructions to the Hamilton Bank 401(k) Plan trustee with respect to voting of the shares of Hamilton Bancorp common stock held in their Hamilton Bank 401(k) Plan

account by submitting to the Hamilton Bank 401(k) Plan trustee a signed instruction card bearing a later date, provided that such new instruction card must be received by the Hamilton Bank 401(k) Plan trustee on or prior to the last date for submission of such instructions with respect to the Hamilton Bancorp special meeting designated in the separate voting instructions provided by the Hamilton Bank 401(k) Plan trustee.

### **Proxy Solicitation**

The board of directors of Hamilton Bancorp is soliciting these proxies. Hamilton Bancorp will pay the expenses of soliciting proxies to be voted at the special meeting. In addition to sending you this proxy statement/prospectus, some of Hamilton Bancorp's directors and officers as well as management and non-management employees may contact you by telephone, mail, e-mail, or in person. In addition, Laurel Hill Advisory Group, LLC, a proxy solicitation firm, will assist Hamilton Bancorp in soliciting proxies for the special meeting. Hamilton Bancorp will pay approximately \$5,500, plus expenses, for these services.

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**Dissenters Rights of Appraisal**

Under the Maryland General Corporation Law, as amended, the holders of Hamilton Bancorp common stock are not entitled to dissenters rights of appraisal in connection with the merger.

**Stock Certificates**

**You should not send in any certificates representing Hamilton Bancorp common stock at this time.** It is expected that you will receive instructions for the exchange of certificates representing Hamilton Bancorp common stock shortly after the completion of the merger. For more information regarding these instructions, please see the section of this proxy statement/prospectus titled The Merger Agreement Exchange of Hamilton Bancorp Stock Certificates for Orrstown Financial Services Common Stock beginning on page 61.

**Share Ownership of Management; Voting Agreements**

In connection with the merger agreement, Hamilton Bancorp's directors and executive officers executed voting agreements with Orrstown Financial Services under which they agreed to vote their shares in favor of the merger. As of the record date, there were 146,700 shares of Hamilton Bancorp common stock, or approximately 4.3% of the outstanding shares, subject to the voting agreements. See the section of this proxy statement/prospectus titled The Voting Agreements beginning on page 80 for further information regarding these voting agreements.

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**PROPOSAL NO. 1 APPROVAL OF THE AGREEMENT AND PLAN OF MERGER**

At the special meeting, stockholders of Hamilton Bancorp will consider and vote on a proposal to approve the merger agreement. Details about the merger, including each party's reasons for the merger, the effect of approval of the merger agreement, and the timing of effectiveness of the merger, are discussed in the section entitled "The Merger" beginning on page 36 of this document.

Approval of this proposal requires the affirmative vote of holders of at least a majority of the outstanding shares of Hamilton Bancorp common stock entitled to vote at the special meeting. If you abstain or do not vote, it will have the same effect as voting **AGAINST** approval of the merger agreement and the merger.

**Hamilton Bancorp's board of directors unanimously recommends that you vote **FOR** the approval of the merger agreement.**

**PROPOSAL NO. 2 MERGER-RELATED EXECUTIVE COMPENSATION**

Hamilton Bancorp is providing its stockholders with the opportunity to vote, on a non-binding, advisory basis, to approve the agreements or understandings between Hamilton Bancorp's named executive officers and Hamilton Bancorp, Orrstown Financial Services and/or Orrstown Bank concerning compensation that is based on or otherwise relates to the merger, as required by Section 14A of the Exchange Act and the applicable SEC rules issued thereunder, which were enacted pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. This proposal, commonly known as the "say on golden parachute" vote, gives Hamilton Bancorp stockholders the opportunity to vote on a non-binding, advisory basis on such agreements or understandings and the related compensation that will or may be paid to its named executive officers in connection with the merger. This non-binding, advisory proposal relates only to already existing contractual obligations of Hamilton Bancorp, Orrstown Financial Services and/or Orrstown Bank that may result in a payment or benefit to Hamilton Bancorp's named executive officers in connection with, or following, the consummation of the merger and does not relate to any new compensation or other arrangements that may be entered into after the effective time of the merger between Hamilton Bancorp's named executive officers and Orrstown Financial Services or any of its subsidiaries.

The board of directors of Hamilton Bancorp believes that the compensation payments that Hamilton Bancorp's named executive officers may be entitled to receive in connection with the merger, as summarized in the section entitled *Interests of Hamilton Bancorp's Directors and Executive Officers in the Merger* "Quantification of Potential Payments to Hamilton Bancorp Named Executive Officers in Connection with the Merger," are reasonable and demonstrate that Hamilton Bancorp's executive compensation program was designed appropriately and structured to ensure the retention of talented executives and a strong alignment with the long-term interests of Hamilton Bancorp's stockholders. This vote is not intended to address any specific item of compensation, but rather the overall compensation that may become payable to Hamilton Bancorp's named executive officers in connection with the completion of the merger. The board of directors of Hamilton Bancorp encourages you to carefully review the compensation information disclosed in this proxy statement/prospectus, including in the section referenced above.

The board of directors of Hamilton Bancorp is presenting this proposal, which gives stockholders of Hamilton Bancorp the opportunity to express their views on the "golden parachute" compensation by voting for or against the following resolution:

RESOLVED, that the stockholders of Hamilton Bancorp approve, solely on a non-binding, advisory basis, the agreements or understandings between Hamilton Bancorp's named executive officers and Hamilton Bancorp and the related compensation that will or may be paid to its named executive officers in connection with the merger, as

disclosed pursuant to Item 402(t) of Regulation S-K in the section of the proxy statement/prospectus entitled *Interests of Hamilton Bancorp's Directors and Executive Officers in the Merger Quantification of Potential Payments to Hamilton Bancorp Named Executive Officers in Connection with the Merger*.

The vote on merger-related executive compensation is a vote separate and apart from the vote on the approval of the merger agreement and is not a condition to completion of the merger. Accordingly, you may vote to approve the merger agreement and vote not to approve merger-related executive compensation and vice versa. This proposal is merely an advisory vote and will not be binding on Hamilton Bancorp, Orrstown Financial Services or Orrstown Bank or the board of

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directors of Hamilton Bancorp or the board of directors of Orrstown Financial Services regardless of whether the merger agreement is adopted. Further, the underlying agreements and understandings are contractual in nature and not, by their terms, subject to stockholder approval. Regardless of the outcome of the advisory vote, if the merger is completed, Hamilton Bancorp's named executive officers will be eligible to receive the merger-related executive compensation payments and benefits, in accordance with the terms and conditions applicable to those payments and benefits.

Approval of this proposal requires the affirmative vote of the majority of the votes cast at the special meeting. If you do not vote, either in person or by proxy, it will have no effect on the outcome of this proposal. Proxies marked abstentions will have the same effect as a vote **AGAINST** this proposal.

**Hamilton Bancorp's board of directors unanimously recommends that you vote **FOR** the approval, on a non-binding, advisory basis, of merger-related executive compensation.**

**PROPOSAL NO. 3 ADJOURNMENT OF THE SPECIAL MEETING**

Hamilton Bancorp is also submitting a proposal for consideration at the special meeting to authorize the named proxies to approve one or more adjournments of the special meeting if there are not sufficient votes to approve the merger agreement and the merger at the time of the special meeting. Even though a quorum may be present at the special meeting, it is possible that Hamilton Bancorp may not have received sufficient votes to approve the merger agreement and the merger by the time of the special meeting. In that event, Hamilton Bancorp would need to adjourn the special meeting in order to solicit additional proxies.

To allow the proxies that have been received by Hamilton Bancorp at the time of the special meeting to be voted for an adjournment, if necessary, Hamilton Bancorp is submitting a proposal to approve one or more adjournments, and only under those circumstances, to you for consideration. If the new date, time and place are announced at the special meeting before the adjournment, Hamilton Bancorp is not required to give notice of the time and place of the adjourned meeting, unless the board of directors fixes a new record date for the special meeting.

The adjournment proposal relates only to an adjournment of the special meeting occurring for purposes of soliciting additional proxies for approval of the merger agreement and the merger in the event that there are insufficient votes to approve that proposal. The Hamilton Bancorp board of directors retains full authority to the extent set forth in the Hamilton Bancorp bylaws and applicable law to adjourn the special meeting for any other purpose, or to postpone the special meeting before it is convened, without the consent of any Hamilton Bancorp stockholders.

Approval of this proposal requires the affirmative vote of a majority of the votes cast at the special meeting. If you do not vote, either in person or by proxy, it will have no effect on the outcome of the proposal. Proxies marked abstentions will have the same effect as a vote **AGAINST** this proposal.

**Hamilton Bancorp's board of directors unanimously recommends that you vote **FOR** the proposal to adjourn the special meeting, if necessary.**

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**THE MERGER**

**General**

Under the terms and conditions set forth in the merger agreement, Hamilton Bancorp will merge with and into Orrstown Financial Services. The surviving corporation in the merger will be Orrstown Financial Services. Pursuant to the merger agreement, if the merger agreement is approved by the holders of at least a majority of the shares of Hamilton Bancorp common stock outstanding and entitled to vote at the special meeting and the merger is subsequently completed, each outstanding share of Hamilton Bancorp common stock will be converted into the right to receive (1) 0.54 shares of Orrstown Financial Services common stock and (2) \$4.10 in cash, without interest, subject to possible reduction as set forth in the merger agreement based on potential losses, write-downs, or reserves related to certain identified loans of Hamilton Bank. The maximum possible reduction to the cash consideration is \$1,000,000, or approximately \$0.27 per share, based on 3,416,039 shares of Hamilton Bancorp common stock and 262,704 stock options outstanding as of the record date.

No fractional shares of Orrstown Financial Services common stock will be issued in connection with the merger. Instead, each Hamilton Bancorp stockholder will receive an amount of cash, in lieu of any fractional share, based on the average daily closing price of Orrstown Financial Services common stock as reported on NASDAQ for the ten consecutive trading day period ending on the fifth business day prior to the closing date of the merger, rounded to the nearest whole cent.

As of the date of the merger agreement, based on the closing price of Orrstown Financial Services common stock of \$23.10 and assuming no reduction in the cash consideration, Hamilton Bancorp stockholders would have received Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$16.57. Based on the closing price of Orrstown Financial Services common stock of \$18.96 per share on February 4, 2019, the most recent practicable date prior to the mailing of this proxy statement/prospectus, Hamilton Bancorp stockholders would receive Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$14.34.

Hamilton Bancorp has the right to terminate the merger agreement if the volume weighted average stock price of Orrstown Financial Services common stock as reported on NASDAQ for the 15 consecutive trading days immediately preceding the determination date (1) is less than \$20.1535 per share and (2) underperforms the volume weighted average price of the NASDAQ Bank Index for the 15 consecutive trading days immediately preceding the determination date by more than 15%. If Hamilton Bancorp exercises this termination right, Orrstown Financial Services will have the option to increase the exchange ratio or the cash consideration to be provided to Hamilton Bancorp stockholders to an amount which would compensate Hamilton Bancorp stockholders for the extent of the decrease in the price of Orrstown Financial Services common stock below the minimum implied value that would have avoided triggering the termination right described above. If Orrstown Financial Services elects to increase the merger consideration pursuant to the preceding sentence, no termination will occur. See the section of this proxy statement/prospectus titled **The Merger Agreement Termination** beginning on page 66.

**Background of the Merger**

Hamilton Bancorp was established to become Hamilton Bank's holding company in connection with Hamilton Bank's mutual-to-stock conversion in October 2012. Since that time, Hamilton Bancorp has sought to deploy its capital and increase stockholder value by creating sustainable and profitable growth through both organic growth and through acquisitions. As part of this strategy, Hamilton Bancorp acquired Fairmount Bancorp, Inc. in September 2015, and Fraternity Community Bancorp, Inc. in May 2016. Since these acquisitions, Hamilton Bancorp's board of directors and



management have continued to periodically review strategic opportunities, as well as the challenges faced in profitably growing a publicly-traded community financial institution under existing economic and competitive conditions.

At Hamilton Bancorp's November 2017 annual strategic planning session, discussions centered around strategic options for Hamilton Bancorp, including remaining independent, pursuing a strategic merger partner or a sale of Hamilton Bancorp. The meeting was attended by representatives of Hamilton Bank's legal advisor, Luse Gorman, PC, and also representatives of KBW. At this meeting, KBW provided input to the Hamilton Bancorp board of directors regarding the prospects of Hamilton Bancorp as an independent entity, including scenarios involving additional growth and potential capital raising transactions. KBW also discussed Hamilton Bancorp pursuing a merger or sale and potential merger partners for Hamilton Bancorp for the board of directors to consider if the board of directors were to decide to move forward with a merger or sale

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strategy. The Hamilton Bancorp board of directors did not make any determination as to a possible merger or sale transaction at the November 2017 planning session. The Board requested that management continue to assess the business prospects of Hamilton Bancorp on a stand-alone basis and the prospects of implementing improvements and enhancements to the Hamilton Bancorp operations to increase earnings in both the short and long term.

At a January 16, 2018 meeting of the Hamilton Bancorp board of directors, KBW provided an update regarding strategic alternatives and further discussed the state of the market for financial institution mergers and acquisitions. Mr. DeAlmeida provided an overview and update on Hamilton Bancorp's operations, expected budget for the upcoming year and an analysis regarding the prospects for improvements and enhancements to Hamilton Bancorp's operations. The board of directors then discussed the ability of Hamilton Bancorp to improve its earnings performance and the steps necessary and the likelihood of successfully implementing those improvements in the short and long term and the strategic direction of Hamilton Bancorp that would be in the best interests of its stockholders. After further discussion, the board of directors determined that it may be in the best interest of stockholders, customers, employees and other constituents, to pursue a merger transaction with the right partner. The Board discussed with KBW the process for assessing the market for Hamilton Bancorp and selecting a merger partner, and established a Strategic Committee (the Strategic Committee) to assist the board in continuing to explore a possible merger transaction and to work with management and Hamilton Bancorp's advisors on such exploration. The Strategic Committee was authorized to, with the assistance of management, KBW and Luse Gorman, formulate a merger solicitation strategy and prepare a list of potential interested parties that would be solicited as part of any merger solicitation strategy.

At a February 2, 2018 meeting of the Strategic Committee, the merger solicitation and transaction process was discussed. At this meeting, KBW reviewed with the Strategic Committee several possible merger partners, which included financial institutions that had previously expressed an interest in, and others that might have an interest in, a merger transaction with Hamilton Bancorp. Possible merger partners were identified based on, among other factors, their apparent financial capacity to pay, regulatory standing, geographic location, presence and market share of the financial institutions. The Strategic Committee also discussed and approved the engagement of KBW to act as financial advisor to Hamilton Bancorp in connection with a possible merger transaction and solicitation process.

Between March and June 2018, Hamilton Bancorp, with the assistance of KBW, prepared for the merger candidate solicitation process. The Hamilton Bancorp board of directors reviewed and approved a confidential information memorandum containing relevant information about Hamilton Bancorp (the Confidential Memorandum). Beginning in May 2018, KBW contacted the 11 potential merger partners approved by the Hamilton Bancorp board of directors and a virtual data room containing the Confidential Memorandum and additional information about Hamilton Bancorp was opened at such time to those parties who entered into a non-disclosure agreement and expressed an interest in receiving additional information regarding a transaction with Hamilton Bancorp. Interested potential partners were asked to provide preliminary non-binding indications of interest by July 16, 2018.

In addition to the 11 parties solicited by KBW, an additional party which had not been among the possible merger partners discussed by KBW with the Hamilton Bancorp board contacted KBW directly through a financial advisor on July 3, 2018 expressing an interest in participating in the process. After consulting with representatives of KBW and Luse Gorman regarding this inbound outreach, the Hamilton Bancorp board approved KBW providing this party with a non-disclosure agreement and providing it with access to the virtual data room.

The Hamilton Bancorp board of directors held a special meeting on July 21, 2018, in which KBW and Luse Gorman participated. Luse Gorman discussed with directors their fiduciary duties in the context of a merger transaction. KBW updated the board of directors on the results of the solicitation of interest in a merger transaction. Of the 12 institutions which had been contacted by, or which had contacted, KBW, eight requested the Confidential Memorandum and were

granted access to the virtual data room and two of these financial institutions, Orrstown Financial Services and Company A had submitted written non-binding indications of interest. One additional financial institution had expressed a verbal interest at a low valuation level, but did not submit a written non-binding indication of interest and was not invited to conduct additional due diligence.

The Orrstown Financial Services indication of interest included proposed merger consideration of between \$16.50 and \$17.50 per share of Hamilton Bancorp common stock, payable in a mix of stock and cash to be determined upon mutual agreement, while the Company A indication of interest included proposed merger consideration of \$16.12 per share of Hamilton Bancorp common stock, payable 85% in stock and 15% in cash.

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After reviewing the indications of interest and the information regarding the operations of Orrstown Financial Services and Company A, the Hamilton Bancorp board of directors unanimously agreed to ask that both bidders complete additional due diligence both in-person and through additional information uploaded into the virtual data room and submit a revised indication of interest with their best offer.

During the weekend of August 4<sup>th</sup> and 5<sup>th</sup>, Company A conducted its in-person due diligence including a detailed review of Hamilton Bancorp's loan portfolio. Orrstown Financial services conducted its in-person due diligence, including a review of Hamilton Bancorp's loan portfolio, over the days of August 6<sup>th</sup> through 8<sup>th</sup>.

On August 9, 2018, following the completion of on-site due diligence by both bidders, both Orrstown Financial Services and Company A were invited to submit final indications of interest by August 16, 2018.

The board of directors of Hamilton Bancorp held a special meeting on August 20, 2018 to consider the revised indications of interest submitted by Orrstown Financial Services and Company A. The revised indication of interest of Orrstown Financial Services included merger consideration of \$17.50 per share of Hamilton Bancorp common stock, payable in up to 80% in stock and 20% in cash and subject to a fixed exchange ratio which would be set upon a mutually agreed upon methodology prior to the execution of a definitive agreement. The revised indication of interest of Company A included merger consideration of \$17.02 per share of Hamilton Bancorp common stock, payable 85% in stock and 15% in cash and subject to a fixed exchange ratio that would be based upon a 10-day average price for Company A's common stock prior the signing of a definitive agreement. Further, the financial advisor to Company A called KBW unsolicited on the morning of August 20, 2018 and verbally expressed an ability for Company A to revise its indication of interest to \$17.10 per share.

KBW reviewed the two proposals with the board of directors, including the differences in the pricing, structures and key elements of both proposals. KBW also reviewed with the board of directors the operations of both Orrstown Financial Services and Company A, and the current market for, and trading history of, the common stock of each party. KBW also compared financial aspects of each proposal. At this meeting the Hamilton Bancorp board of directors decided to move forward with a merger transaction with Orrstown Financial Services based on the superior price offered by Orrstown Financial Services and a determination by the board of directors and management that a merger with Orrstown Financial Services would provide greater value to stockholders and be a better cultural and operational fit with Hamilton Bancorp as compared to Company A. Hamilton Bancorp accepted and executed the Orrstown Financial Services indication of interest on August 27, 2018, which included an exclusivity period expiring on October 11, 2018.

On September 12, 2018, Hamilton Bancorp's management and Luse Gorman conducted reverse due diligence on Orrstown Financial Services. On that same date, Goodwin Procter LLP, counsel for Orrstown Financial Services, provided an initial draft of the merger agreement to Luse Gorman.

On September 18, 2018, Hamilton Bancorp's management and Luse Gorman provided to the Hamilton Bancorp board of directors a summary of the reverse due diligence conducted on Orrstown Financial Services. At that meeting, the Hamilton Bancorp board of directors and management also discussed the draft merger agreement. The Hamilton Bancorp board of directors expressed concern regarding the outstanding litigation of Orrstown Financial Services. Due in part to concerns regarding such litigation, the board of directors requested that Luse Gorman include in the merger agreement pricing protection in the form of a double trigger walkaway provision, which provision had not been included in Orrstown Financial Services' indication of interest or in the draft merger agreement. This provision would give Hamilton Bancorp the right to terminate the merger agreement if the price of Orrstown Financial Services common stock were to fall by more than a specified percentage compared to both its initial value and the Nasdaq Bank Index.

On September 19, 2018, representatives of Hovde Group, LLC, financial advisor to Orrstown Financial Services, called KBW to propose fixing the exchange ratio at that point as a result of declines in the market price for Orrstown Financial Services common stock after submission of the indication of interest on August 16, 2018. Hovde informed KBW that Orrstown Financial Services was proposing that the merger consideration be set at \$3.50 in cash and 0.5500 shares of Orrstown Financial Services common stock for each share of Hamilton Bancorp common stock. Based on the closing price of Orrstown Financial Services common stock of \$23.65 per share on September 19, 2018, the implied merger consideration to Hamilton Bancorp's stockholders as of that day would have been \$16.74 per share.

On September 20, 2018, the Hamilton Bancorp board of directors held a meeting to discuss whether to proceed with the negotiation of a merger agreement based on the revised pricing being offered by Orrstown Financial Services.  
KBW

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participated in the meeting and discussed the rationale provided by Orrstown Financial Services for the determination of the revised merger consideration. With the participation of KBW and Luse Gorman, the board of directors evaluated its options, including whether to re-engage negotiations with Company A to determine if Company A's offer from August 16, 2018 was still available or to continue negotiations with Orrstown Financial Services. It was noted that Orrstown Financial Services' counsel had conveyed to Luse Gorman that Orrstown Financial Services would terminate negotiations if Hamilton Bancorp pursued negotiations with other parties. Following this meeting, the board of directors instructed KBW to make a counter proposal on September 21, 2018 for an increased merger consideration, either by increasing the stock portion of the consideration or by increasing the cash portion, based upon the preference of Orrstown Financial Services, but to also inform Orrstown Financial Services and its advisor specifically that their proposed exchange ratio was not acceptable. Based on the closing price of Orrstown Financial Services common stock of \$24.05 per share on September 20, 2018, the approximate value of the merger consideration requested by the Hamilton Bancorp board through an increase in either cash or stock consideration was \$17.21 per share of Hamilton Bancorp common stock.

On September 28, 2018, Orrstown Financial Services proposed revised merger consideration of \$4.10 in cash and 0.5400 shares of Orrstown Financial Services common stock, per share of Hamilton Bancorp common stock. Based on the closing price of Orrstown Financial Services common stock of \$23.80 per share on September 29, 2018 (when the board considered the offer), the implied merger consideration to Hamilton Bancorp's stockholders as of that day would have been \$16.95 per share of Hamilton Bancorp stock.

On September 29, 2018, members of the Hamilton Bancorp board of directors and management, and representatives of KBW and Luse Gorman discussed the proposed revised merger consideration. At this meeting, the board of directors determined to accept the revised offer of \$4.10 in cash and 0.5400 shares of Orrstown Financial Services common stock per share of Hamilton Bancorp common stock, subject to the favorable resolution of all remaining unresolved issues in the merger agreement.

On October 1 through October 5, 2018, negotiations regarding the terms of the merger agreement continued. On October 5, 2018, Hamilton Bancorp provided additional information to Orrstown Financial Services regarding a group of construction loans made to separate borrowers using the same home builder. Hamilton Bancorp had recently been informed that the home builder will not be able to complete construction of the homes underlying the construction loan. Orrstown Financial Services indicated that it required more information regarding these loans before it would continue to negotiate the merger agreement.

On October 9, 2018, the parties executed an extension of the exclusivity period contained in the indication of interest, which extended the exclusivity period until October 25, 2018.

After gathering additional diligence regarding the potential problem home construction loans, on October 21, 2018, the parties agreed to a provision in the merger agreement by which the cash portion of the merger consideration would be subject to an adjustment downward of the cash consideration of up to \$0.27 per share, to a minimum of \$3.83 cash per share, based on future losses, write-downs or reserves related to two of the subject construction loans. The stock portion of the exchange ratio would not be affected by any adjustment, and would remain at 0.5400 shares of Orrstown Financial Services common stock per share of Hamilton Bancorp common stock.

On October 23, 2018, the board of directors of Hamilton Bancorp held a special meeting to review the proposed merger agreement and merger with representatives of KBW and Luse Gorman. The board of directors was informed of and discussed the new merger agreement provision establishing a potential reduction in the merger consideration for future losses associated with the two construction loans. KBW then reviewed with the board the financial aspects of the proposed merger and, at the request of the board, rendered to the board of directors of Hamilton Bancorp a

written opinion to the effect that, as of such date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW as set forth in its written opinion, the merger consideration in the proposed merger was fair, from a financial point of view, to the holders of Hamilton Bancorp common stock. Luse Gorman again reviewed the board's fiduciary duties as directors of Hamilton Bancorp in connection with its consideration of the proposed merger.

The Hamilton Bancorp board of directors and Luse Gorman then reviewed in detail the terms of the ancillary documents, including the voting agreements to be entered into by the directors and executive officers. The Hamilton Bancorp board of directors also reviewed and discussed the employment agreement by and among Ellen Fish, Hamilton Bancorp's Executive Vice President, under which Ms. Fish will join Orrstown Bank as Executive Vice President and Senior Lender

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effective upon consummation of the merger agreement. Luse Gorman also discussed the proposed resolutions that the board would be requested to approve. Following these presentations and discussion among the members of the Hamilton Bancorp board of directors, including consideration of the factors described under Hamilton Bancorp's Reasons for the Merger; Board Recommendation, the Hamilton Bancorp board of directors determined that the merger agreement and the transactions contemplated thereby were advisable and in the best interests of Hamilton Bancorp and its stockholders. The Hamilton Bancorp directors unanimously voted to adopt and approve the merger agreement and the transactions contemplated thereby and recommended that Hamilton Bancorp's stockholders approve the merger agreement.

On October 23, 2018, the board of directors of Orrstown Financial Services held a special meeting, at which representatives of Hovde Group, LLC and Goodwin Procter LLP participated. Goodwin Procter updated the board on the final revisions to the merger agreement since the last time the board met on October 2, 2018, and conveyed to the board that all remaining negotiating issues on the merger agreement had been resolved. Goodwin Procter once again summarized the directors' fiduciary duties in the context of an acquiror in a merger transaction, and responded to numerous questions from directors. Hovde Group, LLC then provided an updated analysis of the financial aspects of the proposed merger. Following further discussion among the directors, Orrstown Financial Services' board of directors unanimously approved the merger agreement as presented at the meeting and authorized the execution of the merger agreement and all related documents.

Following the completion of the Hamilton Bancorp and Orrstown Financial Services board meetings, Hamilton Bancorp and Orrstown Financial Services executed the merger agreement and the Hamilton Bancorp directors and executive officers executed the voting agreement on October 23, 2018. Orrstown Financial Services and Hamilton Bancorp issued a joint press release announcing the execution of the merger agreement following the close of business on October 23, 2018.

On October 23, 2018, Hamilton Bancorp executed the definitive merger agreement and, together with Orrstown Financial Services, issued a joint press release announcing the transaction.

## **Hamilton Bancorp's Reasons for the Merger; Board Recommendation**

Hamilton Bancorp's board of directors unanimously recommends that Hamilton Bancorp stockholders vote for adoption and approval of the merger pursuant to the merger agreement. The board's recommendation follows its determination that the merger and the merger agreement were fair to and in the best interest of Hamilton Bancorp and its stockholders. In making its determination and recommendation in authorizing and approving the merger and in approving and adopting the merger agreement, Hamilton Bancorp's board of directors evaluated the merger and the merger agreement in consultation with members of Hamilton Bancorp's management, and with representatives of KBW and Luse Gorman, and also considered a number of factors that the Hamilton Bancorp board of directors viewed as relevant to its decisions, including, without limitation, the following:

the challenges facing Hamilton Bancorp's management to grow Hamilton Bancorp's franchise and enhance stockholder value given current market conditions, including the challenges involved with increasing its efficiencies and raising the capital necessary to fund growth, and expected increased operating costs resulting from such growth plans and from increased regulatory and compliance mandates;



management's assessment of the execution risks involved in attaining the performance levels assumed by the business projections relating to Hamilton Bancorp;

the increased need for scale to absorb the growing costs of operations, cyber security and compliance with banking regulations;

conditions and activity in the mergers and acquisition market providing an opportunity for Hamilton Bancorp to deliver accelerated and enhanced stockholder value, as compared to organic growth;

the understanding of Hamilton Bancorp's board of directors of the strategic options available to Hamilton Bancorp and the board of directors' assessment of those options and the likelihood of Hamilton Bancorp's execution of its business plan as an independent entity, and the board's determination that execution of the business plan was not more likely to create greater present value for Hamilton Bancorp's stockholders than the value to be paid by Orrstown Financial Services;

the results of the solicitation process conducted by Hamilton Bancorp, with the assistance of its advisors;

information concerning the business, earnings, operations, financial condition, asset quality and prospects of Hamilton Bancorp and Orrstown Financial Services, both individually and as a combined company;

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the complementary nature of and potential synergies related to Hamilton Bancorp's and Orrstown Financial Services' business;

the geographic fit and increased customer convenience of the expanded branch network of the combined bank;

the purchase price per share to be paid by Orrstown Financial Services and the resulting valuation multiples;

that approximately 75% of the merger consideration (as calculated at the time of entering into the merger agreement and assuming no downward adjustment of the cash merger consideration) would be in stock of Orrstown Financial Services, which would allow Hamilton Bancorp stockholders to participate in the future performance of the combined company;

the compatibility of the business cultures of Hamilton Bancorp and Orrstown Financial Services;

the stock component of the merger consideration, including the exchange ratio, and the potential for the price of Orrstown Financial Services common stock to increase after the signing of the merger agreement;

the financial presentation, dated October 23, 2018, of KBW to the Hamilton Bancorp board of directors and the opinion, dated October 23, 2018, of KBW to the Hamilton Bancorp board of directors as to the fairness, from a financial point of view and as of the date of the opinion, to the holders of Hamilton Bancorp common stock of the merger consideration in the proposed merger, as more fully described below under *Opinion of Hamilton Bancorp's Financial Advisor* ;

the legal analyses as to the structure of the merger, the merger agreement, the fiduciary and legal obligations applicable to directors when considering a sale or merger of a company, and the process that Hamilton Bancorp (including its board of directors) employed in considering potential strategic alternatives, including the merger with Orrstown Financial Services;

the results of the solicitation process conducted by Hamilton Bancorp, with the advice and assistance of its advisors;

the terms of the merger agreement, including the large proportion of stock consideration and the expected tax treatment of the merger as a reorganization for United States federal income tax purposes;

certain structural protections included in the merger agreement, including:

that the merger agreement does not preclude a third party from making an unsolicited acquisition proposal to Hamilton Bancorp and that, under certain circumstances more fully described under *The Merger Agreement No Solicitation; Acquisition Proposals*, Hamilton Bancorp may furnish non-public information to, and enter into discussions with, such a third party regarding an acquisition proposal;

the ability of the Hamilton Bancorp board of directors to submit the merger agreement to stockholders without recommendation, in which event the board of directors may communicate the basis for its lack of a recommendation;

the ability of Hamilton Bancorp to terminate the merger agreement if the price of Orrstown Financial Services common stock drops more than 15% relative to both its price before public announcement of the transaction and the Nasdaq Bank Index;

the ability of Hamilton Bancorp to terminate the merger agreement to enter into a definitive agreement for a superior proposal if certain requirements are met, in each case subject to the payment of a termination fee by Hamilton Bancorp of \$2,212,500, an amount that was negotiated at arm's-length and was determined by the Hamilton Bancorp board of directors to be reasonable under the circumstances and generally comparable to termination fees in other similar transactions;

the covenant of Orrstown Financial Services to use its reasonable best efforts to obtain regulatory approval; and

the continued participation of one Hamilton Bancorp director in the combined company;

the anticipated effect of the merger on Hamilton Bancorp's employees (including that Hamilton Bancorp employees who do not continue as employees of Orrstown Financial Services will be entitled to severance benefits);

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that Orrstown Financial Services will establish a Baltimore Regional Advisory Board and add the current Hamilton Bancorp directors that are not chosen to join the Orrstown Financial Services board of directors, and certain mutually agreed to members of the current Hamilton Bancorp advisory board of directors; and

the ability of Orrstown Financial Services to complete the merger, from a business, financial, and regulatory perspective.

The Hamilton Bancorp board of directors also considered a number of potential risks and uncertainties in connection with its consideration of the proposed merger, including, without limitation, the following:

the challenges of integrating Hamilton Bancorp's business, operations and employees with those of Orrstown Financial Services;

that Orrstown Financial Services had recently completed the acquisition of another financial institution and the challenges of integrating two different institutions with Orrstown Financial Services' operations in a short period of time;

the potential risk of diverting management attention and resources from the operation of Hamilton Bancorp's business and towards the completion of the merger;

the risks and costs associated with entering into the Merger Agreement, including a potential downward price adjustment of the cash portion of the merger consideration of up to \$0.27 per share (to as low as \$3.83 per share) based on potential losses, write-downs or reserves related to two construction loans identified in the merger agreement;

the restrictions on the conduct of Hamilton Bancorp's business before the completion of the merger, which are customary for public company merger agreements involving financial institutions, but which, subject to specific exceptions, could delay or prevent Hamilton Bancorp from undertaking business opportunities that may arise or any other action it would otherwise take with respect to the operations of Hamilton Bancorp absent the pending merger;

that the interests of certain of Hamilton Bancorp's directors and officers may be different from, or in addition to, the interests of Hamilton Bancorp's other stockholders as described under the heading *Interests of Hamilton Bancorp's Directors and Executive Officers in the Merger*;

the risk of potential employee attrition and/or adverse effects on business and customer relationships as a result of the pending merger;

the need to and likelihood of obtaining approval by stockholders of Hamilton Bancorp and bank regulators to complete the transaction;

the possibility of a reduction in the trading price of Orrstown Financial Services common stock following the announcement of the merger agreement and prior to completion of the merger;

that a termination fee in the amount of \$2,212,500 would have to be paid to Orrstown Financial Services if Hamilton Bancorp determined to terminate the merger agreement to accept a superior proposal and under certain other circumstances described under *The Merger Agreement Termination*;

the impact that provisions of the merger agreement relating to payment of a termination fee by Hamilton Bancorp may have on Hamilton Bancorp receiving an alternative proposal;

the possibility of an adverse development in Orrstown Financial Services outstanding litigation; and

the possibility of litigation in connection with the merger.

This discussion of the information and factors considered by Hamilton Bancorp's board of directors in reaching its conclusions and recommendation includes the factors identified above, but is not intended to be exhaustive and may not include all of the factors considered by the Hamilton Bancorp board of directors. In view of the wide variety of factors considered in connection with its evaluation of the merger and the other transactions contemplated by the merger agreement, and the complexity of these matters, the Hamilton Bancorp board of directors did not find it useful and did not attempt to quantify, rank or assign any relative or specific weights to the various factors that it considered in reaching its determination to approve the merger and the other transactions contemplated by the merger agreement, and to make its recommendation to Hamilton Bancorp stockholders. Rather, the Hamilton Bancorp board of directors viewed its decisions as being based on the totality of the information presented to it and the factors it considered. In addition, individual members of the Hamilton Bancorp board of directors may have assigned different weights to different factors.

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Certain of Hamilton Bancorp's directors and executive officers have financial interests in the merger that are different from, or in addition to, those of Hamilton Bancorp's stockholders generally. The Hamilton Bancorp board of directors was aware of and considered these potential interests, among other matters, in evaluating the merger and in making its recommendation to Hamilton Bancorp stockholders. For a discussion of these interests, see *Interests of Hamilton Bancorp Directors and Executive Officers in the Merger*.

**For the reasons set forth above, Hamilton Bancorp's board of directors has unanimously approved the merger pursuant to the merger agreement, has determined that the merger agreement and the transactions contemplated thereby, including the merger and merger consideration, as may be adjusted, are advisable and in the best interests of Hamilton Bancorp and its stockholders, and unanimously recommends that Hamilton Bancorp stockholders vote FOR the proposal to approve and adopt the merger agreement and the merger, FOR approval of the Merger-Related Executive Compensation Proposal, and FOR the Adjournment Proposal.**

The foregoing discussion of the factors considered by the Hamilton Bancorp board of directors in evaluating the transaction is not intended to be exhaustive, but, rather, includes all material factors considered by the Hamilton Bancorp board of directors. In reaching its decision to approve the transaction, the Hamilton Bancorp board of directors did not quantify or assign relative weights to the factors considered, and individual directors may have given different weights to different factors. The Hamilton Bancorp board of directors evaluated the factors described above and determined that the transaction was in the best interests of Hamilton Bancorp. It should be noted that this explanation of the reasoning of Hamilton Bancorp's board of directors and all other information in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading *Special Note Regarding Forward-Looking Statements* on page 26.

## **Opinion of Hamilton Bancorp's Financial Advisor**

Hamilton Bancorp engaged KBW to render financial advisory and investment banking services to Hamilton Bancorp, including an opinion to the Hamilton Bancorp board of directors dated October 23, 2018 as to the fairness, from a financial point of view, to the holders of Hamilton Bancorp common stock of the merger consideration to be received by such stockholders in the proposed merger of Hamilton Bancorp with and into Orrstown Financial Services. Hamilton Bancorp selected KBW because KBW is a nationally recognized investment banking firm with substantial experience in transactions similar to the merger. As part of its investment banking business, KBW is continually engaged in the valuation of financial services businesses and their securities in connection with mergers and acquisitions.

As part of its engagement, representatives of KBW participated telephonically in the meeting of the Hamilton Bancorp board held on October 23, 2018, at which the Hamilton Bancorp board evaluated the proposed merger. At this meeting, KBW reviewed the financial aspects of the proposed merger with the Hamilton Bancorp board and rendered to the Hamilton Bancorp board an opinion to the effect that, as of such date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW as set forth in its opinion, the merger consideration in the proposed merger was fair, from a financial point of view, to the holders of Hamilton Bancorp common stock. The Hamilton Bancorp board approved the merger agreement at this meeting.

The description of the opinion set forth herein is qualified in its entirety by reference to the full text of the opinion, which is attached as Annex B to this document and is incorporated herein by reference, and describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW in preparing the opinion.

**KBW's opinion speaks only as of the date of the opinion. The opinion was for the information of, and was directed to, the Hamilton Bancorp board (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion addressed only the fairness, from a financial point of view, of the merger consideration in the merger to the holders of Hamilton Bancorp common stock. It did not address the underlying business decision of Hamilton Bancorp to engage in the merger or enter into the merger agreement or constitute a recommendation to the Hamilton Bancorp board in connection with the merger, and it does not constitute a recommendation to any holder of Hamilton Bancorp common stock or any stockholder of any other entity as to how to vote in connection with the merger or any other matter, nor does it constitute a recommendation regarding whether or not any such stockholder should enter into a voting, stockholders', or affiliates' agreement with respect to the merger.**

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KBW's opinion was reviewed and approved by KBW's Fairness Opinion Committee in conformity with its policies and procedures established under the requirements of Rule 5150 of the Financial Industry Regulatory Authority.

In connection with the opinion, KBW reviewed, analyzed and relied upon material bearing upon the financial and operating condition of Hamilton Bancorp and Orrstown Financial Services and bearing upon the merger, including, among other things:

an execution copy of the merger agreement dated as of October 23, 2018;

the audited financial statements and the Annual Reports on Form 10-K for the three fiscal years ended March 31, 2018 of Hamilton Bancorp;

the unaudited quarterly financial statements and Quarterly Reports on Form 10-Q for the fiscal quarter ended June 30, 2018 of Hamilton Bancorp;

certain draft and unaudited quarterly financial results for the quarter ended September 30, 2018 of Hamilton Bancorp (provided by Hamilton Bancorp);

the audited financial statements and Annual Reports on Form 10-K for the three fiscal years ended December 31, 2017 of Orrstown Financial Services;

the unaudited quarterly financial statements and Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2018 and June 30, 2018 of Orrstown Financial Services;

certain unaudited quarterly financial results for the quarter ended September 30, 2018 of Orrstown Financial Services (contained in the Current Report on Form 8-K filed by Orrstown Financial Services with the Securities and Exchange Commission on October 17, 2018);

certain regulatory filings of Hamilton Bancorp and Orrstown Financial Services and their respective subsidiaries, including the quarterly call reports filed with respect to each quarter during the three-year period ended December 31, 2017 as well as the quarters ended March 31, 2018 and June 30, 2018;

certain other interim reports and other communications of Hamilton Bancorp and Orrstown Financial Services to their respective stockholders; and

other financial information concerning the businesses and operations of Hamilton Bancorp and Orrstown Financial Services that was furnished to KBW by Hamilton Bancorp and Orrstown Financial Services or



which KBW was otherwise directed to use for purposes of KBW's analyses.

KBW's consideration of financial information and other factors that it deemed appropriate under the circumstances or relevant to its analyses included, among others, the following:

the historical and current financial position and results of operations of Hamilton Bancorp and Orrstown Financial Services;

the assets and liabilities of Hamilton Bancorp and Orrstown Financial Services;

the nature and terms of certain other merger transactions and business combinations in the banking industry;

a comparison of certain financial and stock market information for Hamilton Bancorp and Orrstown Financial Services with similar information for certain other companies the securities of which were publicly traded;

financial and operating forecasts and projections of Hamilton Bancorp that were prepared by, and provided to KBW and discussed with KBW by, Hamilton Bancorp management and that were used and relied upon by KBW at the direction of such management and with the consent of the Hamilton Bancorp board;

financial and operating forecasts and projections of Orrstown Financial Services that were prepared by, and provided to KBW and discussed with KBW by, Orrstown Financial Services management and used and relied upon by KBW based on such discussions, at the direction of Hamilton Bancorp management and with the consent of the Hamilton Bancorp board;

pro forma balance sheet and capital data of Orrstown Financial Services as of September 30, 2018, giving effect to Orrstown Financial Services' recently completed acquisition of Mercersburg Financial Corporation, that was prepared by Orrstown Financial Services management, provided to and discussed with KBW by such management and used and relied upon by KBW based on such discussions, at the direction of Hamilton Bancorp management and with the consent of the Hamilton Bancorp board; and

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estimates regarding certain pro forma financial effects of the merger on Orrstown Financial Services (including, without limitation, the cost savings and related expenses expected to result or be derived from the merger) that were prepared by, and provided to and discussed with KBW by, the management of Orrstown Financial Services, and used and relied upon by KBW based on such discussions, at the direction of Hamilton Bancorp management and with the consent of the Hamilton Bancorp board.

KBW also performed such other studies and analyses as it considered appropriate and took into account its assessment of general economic, market and financial conditions and its experience in other transactions, as well as its experience in securities valuation and knowledge of the banking industry generally. KBW also participated in discussions with the managements of Hamilton Bancorp and Orrstown Financial Services regarding the past and current business operations, regulatory relations, financial condition and future prospects of their respective companies and such other matters as KBW deemed relevant to its inquiry. **In addition, KBW considered the results of the efforts undertaken, with KBW's assistance, by or on behalf of and at the direction of Hamilton Bancorp, to solicit indications of interest from third parties regarding a potential transaction with Hamilton Bancorp.**

In conducting its review and arriving at its opinion, KBW relied upon and assumed the accuracy and completeness of all of the financial and other information that was provided to KBW or that was publicly available and KBW did not independently verify the accuracy or completeness of any such information or assume any responsibility or liability for such verification, accuracy or completeness. KBW relied upon the management of Hamilton Bancorp as to the reasonableness and achievability of the financial and operating forecasts and projections of Hamilton Bancorp referred to above (and the assumptions and bases therefor), and KBW assumed that such forecasts and projections were reasonably prepared and represented the best currently available estimates and judgments of such management and that such forecasts and projections would be realized in the amounts and in the time periods estimated by such management. KBW further relied, with the consent of Hamilton Bancorp, upon Orrstown Financial Services management as to the reasonableness and achievability of the financial and operating forecasts and projections of Orrstown Financial Services and the estimates regarding certain pro forma financial effects of the merger on Orrstown Financial Services (including, without limitation, the cost savings and related expenses expected to result or be derived from the merger), all as referred to above (and the assumptions and bases for all such information), and KBW assumed that all such information was reasonably prepared and represented the best currently available estimates and judgments of Orrstown Financial Services management and that the forecasts, projections and estimates reflected in such information would be realized in the amounts and in the time periods estimated by such management.

It is understood that the foregoing financial information of Hamilton Bancorp and Orrstown Financial Services that was provided to KBW was not prepared with the expectation of public disclosure and that such information was based on numerous variables and assumptions that are inherently uncertain (including, without limitation, factors related to general economic and competitive conditions) and, accordingly, actual results could vary significantly from those set forth in such information. KBW assumed, based on discussions with the respective managements of Hamilton Bancorp and Orrstown Financial Services and with the consent of the Hamilton Bancorp board, that all such information provided a reasonable basis upon which KBW could form its opinion and KBW expressed no view as to any such information or the assumptions or bases therefor. KBW relied on all such information without independent verification or analysis and did not in any respect assume any responsibility or liability for the accuracy or completeness thereof.

KBW also assumed that there were no material changes in the assets, liabilities, financial condition, results of operations, business or prospects of either Hamilton Bancorp or Orrstown Financial Services since the date of the last financial statements of each such entity that were made available to KBW. KBW is not an expert in the independent verification of the adequacy of allowances for loan and lease losses and KBW assumed, without independent verification and with Hamilton Bancorp's consent, that the aggregate allowances for loan and lease losses for Hamilton Bancorp and Orrstown Financial Services are adequate to cover such losses. In rendering its opinion, KBW did not

make or obtain any evaluations or appraisals or physical inspection of the property, assets or liabilities (contingent or otherwise) of Hamilton Bancorp or Orrstown Financial Services, the collateral securing any of such assets or liabilities, or the collectability of any such assets, nor did KBW examine any individual loan or credit files, nor did it evaluate the solvency, financial capability or fair value of Hamilton Bancorp or Orrstown Financial Services under any state or federal laws, including those relating to bankruptcy, insolvency or other matters. Estimates of values of companies and assets do not purport to be appraisals or necessarily reflect the prices at which companies or assets may actually be sold. Because such estimates are inherently subject to uncertainty, KBW assumed no responsibility or liability for their accuracy. In addition, KBW undertook no independent evaluation of any potential or actual litigation to which Hamilton Bancorp or Orrstown Financial Services was

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or may be a party or was or may be subject. KBW expressed no view or opinion as to the pending federal securities litigation against Orrstown Financial Services and certain current and former officers of Orrstown Financial Services, as to which KBW understood that Orrstown Financial Services and Hamilton Bancorp conducted such diligence and other investigations, and obtained such advice from legal counsel, as they deemed necessary and against which Orrstown Financial Services advised KBW that it intends to vigorously defend itself. With Hamilton Bancorp's consent, KBW did not consider such litigation or any aspect, implication or effect thereof for purposes of its analyses. If the outcome of such litigation had been known or assumed to have a material effect on Orrstown Financial Services, then the conclusion reached in KBW's opinion could have been affected. In addition, at the direction of Hamilton Bancorp, KBW gave no effect to any potential downward adjustment to the cash consideration (as provided in the merger agreement) for purposes of its opinion.

KBW assumed, in all respects material to its analyses:

that the merger and any related transaction (including the bank subsidiary merger) would be completed substantially in accordance with the terms set forth in the merger agreement (the final terms of which KBW assumed would not differ in any respect material to KBW's analyses from the execution copy reviewed and referred to above) with no adjustments to the merger consideration and with no other consideration or payments in respect of the Hamilton Bancorp common stock;

that the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement were true and correct;

that each party to the merger agreement and all related documents would perform all of the covenants and agreements required to be performed by such party under such documents;

that there were no factors that would delay or subject to any adverse conditions, any necessary regulatory or governmental approval for the merger or any related transactions (including the bank subsidiary merger) and that all conditions to the completion of the merger and any related transaction would be satisfied without any waivers or modifications to the merger agreement or any of the related documents; and

that in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger and any related transaction (including the subsidiary bank merger), no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, would be imposed that would have a material adverse effect on the future results of operations or financial condition of Hamilton Bancorp, Orrstown Financial Services or the pro forma entity, or the contemplated benefits of the merger, including without limitation the cost savings and related expenses expected to result or be derived from the merger.

KBW assumed that the merger would be consummated in a manner that complies with the applicable provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and all other applicable federal and state statutes, rules and regulations. KBW was further advised by representatives of Hamilton Bancorp that Hamilton Bancorp relied upon advice from its advisors (other than KBW) or other appropriate sources as to all legal, financial reporting, tax, accounting and regulatory matters with respect to Hamilton Bancorp, Orrstown Financial

Services, the merger and any related transaction (including the subsidiary bank merger), and the merger agreement. KBW did not provide advice with respect to any such matters.

KBW's opinion addressed only the fairness, from a financial point of view, as of the date of the opinion, to the holders of Hamilton Bancorp common stock of the merger consideration to be received by such holders in the merger. KBW expressed no view or opinion as to any other terms or aspects of the merger or any term or aspect of any related transaction (including the subsidiary bank merger and the termination of the Hamilton Bank ESOP prior to the consummation of the merger), including without limitation, the form or structure of the merger (including the form of the merger consideration or the allocation thereof between cash and stock) or any such related transaction, any consequences of the merger or any related transaction to Hamilton Bancorp, its stockholders, creditors or otherwise, or any terms, aspects, merits or implications of any employment, consulting, voting, support, stockholder or other agreements, arrangements or understandings contemplated or entered into in connection with the merger or otherwise. KBW's opinion was necessarily based upon conditions as they existed and could be evaluated on the date of such opinion and the information made available to KBW through such date. Developments subsequent to the date of KBW's opinion may have affected, and may affect, the conclusion reached in KBW's opinion and KBW did not and does not have an obligation to update, revise or reaffirm its opinion. KBW's opinion did not address, and KBW expressed no view or opinion with respect to:

the underlying business decision of Hamilton Bancorp to engage in the merger or enter into the merger agreement;

the relative merits of the merger as compared to any alternative transactions or strategies that are, have been or may be available to or considered by Hamilton Bancorp or the Hamilton Bancorp board;

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the fairness of the amount or nature of any compensation to any of Hamilton Bancorp's officers, directors or employees, or any class of such persons, relative to the compensation to the holders of Hamilton Bancorp common stock;

the effect of the merger or any related transaction on, or the fairness of the consideration to be received by, holders of any class of securities of Hamilton Bancorp (other than the holders of Hamilton Bancorp common stock, solely with respect to the merger consideration, as described in KBW's opinion and not relative to the consideration to be received by holders of any other class of securities) or holders of any class of securities of Orrstown Financial Services or any other party to any transaction contemplated by the merger agreement;

any adjustment (as provided in the merger agreement) to the merger consideration assumed for purposes of KBW's opinion;

whether Orrstown Financial Services has sufficient cash, available lines of credit or other sources of funds to enable it to pay the aggregate cash consideration to the holders of Hamilton Bancorp common stock at the closing of the merger;

the actual value of Orrstown Financial Services common stock to be issued in the merger;

the prices, trading range or volume at which Hamilton Bancorp common stock and Orrstown Financial Services common stock would trade following the public announcement of the merger or the prices, trading range or volume at which Orrstown Financial Services common stock would trade following the consummation of the merger;

any advice or opinions provided by any other advisor to any of the parties to the merger or any other transaction contemplated by the merger agreement; or

any legal, regulatory, accounting, tax or similar matters relating to Hamilton Bancorp, Orrstown Financial Services, their respective stockholders, or relating to or arising out of or as a consequence of the merger or any related transaction (including the subsidiary bank merger), including whether or not the merger would qualify as a tax-free reorganization for United States federal income tax purposes.

In performing its analyses, KBW made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of KBW, Hamilton Bancorp and Orrstown Financial Services. Any estimates contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, KBW's opinion was among several factors taken into consideration by the Hamilton Bancorp board in making its determination to approve the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the Hamilton Bancorp board with respect to the fairness of the merger consideration. The type and amount

of consideration payable in the merger were determined through negotiation between Hamilton Bancorp and Orrstown Financial Services and the decision of Hamilton Bancorp to enter into the merger agreement was solely that of the Hamilton Bancorp board.

The following is a summary of the material financial analyses presented by KBW to the Hamilton Bancorp board in connection with its opinion. The summary is not a complete description of the financial analyses underlying the opinion or the presentation made by KBW to the Hamilton Bancorp board, but summarizes the material analyses performed and presented in connection with such opinion. The financial analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the financial analyses. The preparation of a fairness opinion is a complex analytic process involving various determinations as to appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, KBW did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion.

For purposes of the financial analyses described below, KBW utilized an implied transaction value for the proposed merger of \$16.85 per share of Hamilton Bancorp common stock, or \$56.3 million in the aggregate (inclusive of the implied

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value of in-the-money Hamilton Bancorp stock options), consisting of the sum of (i) the cash consideration of \$4.10 and (ii) the implied value of the stock consideration of 0.54 of a share of Orrstown Financial Services common stock based on the closing price of Orrstown Financial Services common stock on October 22, 2018. In addition to the financial analyses described below, KBW reviewed with the Hamilton Bancorp board of directors for informational purposes, among other things, the implied transaction multiple for the proposed merger (based on the implied transaction value for the proposed merger of \$16.85 per share of Hamilton Bancorp common stock) of 37.5x Hamilton Bancorp's estimated calendar year 2019 earnings per share (EPS) using financial forecasts and projections of Hamilton Bancorp provided by Hamilton Bancorp management.

*Hamilton Bancorp Selected Companies Analysis.* Using publicly available information, KBW compared the financial performance, financial condition and market performance of Hamilton Bancorp to 10 selected major exchange-traded banks and thrifts which were headquartered in the Mid-Atlantic region of the United States and which had total assets between \$250 million and \$900 million. Merger targets and companies which would have total assets in excess of \$900 million as a result of pending acquisitions were excluded from the selected companies.

The selected companies were as follows:

Bancorp of New Jersey, Inc.	Elmira Savings Bank
Severn Bancorp, Inc.	Glen Burnie Bancorp
Carver Bancorp, Inc.	WVS Financial Corp.
MSB Financial Corp.	FSB Bancorp, Inc.
Esquire Financial Holdings, Inc.	HV Bancorp, Inc.

To perform this analysis, KBW used profitability and other financial information for the latest 12 month (LTM) period available or as of the end of such period and market price information as of October 22, 2018. In the case of Hamilton Bancorp, KBW used both the 12-month periods ended June 30, 2018 and September 30, 2018. KBW also used 2018 and 2019 EPS estimates taken from consensus street estimates for one of the selected companies for which consensus street estimates were available. Certain financial data prepared by KBW, and as referenced in the tables presented below, may not correspond to the data presented in Hamilton Bancorp's historical financial statements, as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented.

KBW's analysis showed the following concerning the financial performance of Hamilton Bancorp and the selected companies:

	6/30/2018 Hamilton	9/30/2018 Hamilton	Bottom Quartile	Selected Companies		
				Median	Average	Top Quartile
LTM Core Return on Average Assets <sup>(1)</sup>	0.21% <sup>(3)</sup>	0.24% <sup>(3)</sup>	0.36%	0.62%	0.57%	0.82%
LTM Core Return on Average Equity <sup>(1)</sup>	1.84% <sup>(3)</sup>	2.25% <sup>(3)</sup>	3.47%	6.12%	4.74%	7.36%



LTM Core Return on Average Tangible Common Equity <sup>(1)</sup>	2.18% <sup>(3)</sup>	2.69% <sup>(3)</sup>	3.47%	6.12%	5.10%	7.24%
LTM Net Interest Margin	3.06%	3.09%	2.83%	3.09%	3.13%	3.32%
LTM Fee Income / Revenue Ratio <sup>(2)</sup>	6.9%	6.9%	7.6%	20.0%	17.3%	22.6%
LTM Efficiency Ratio	80.7%	79.5%	85.3%	73.1%	78.0%	65.8%

- (1) Core income excluded extraordinary items, gain/loss on sale of securities, nonrecurring revenue/expenses, and amortization of intangibles as calculated by S&P Global Market Intelligence; further adjusted to exclude one-time charges in the fourth quarter of 2017 related to the revaluation of deferred tax assets or liabilities due to the Tax Cuts and Jobs Act of 2017.
- (2) Excluded gains/losses on sale of securities.
- (3) Reflected core income as calculated in footnote 1 above, adjusted to add back the valuation allowance on Hamilton Bancorp's net deferred tax assets recorded in the fourth quarter of fiscal 2018 that was unrelated to the Tax Cuts and Jobs Act of 2017 and then tax-affected. LTM core profitability ratios included income related to non-recurring purchase accounting accretion and the collection of nonaccrual interest and legal fees on a nonaccrual loan which was repaid during the period.

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KBW's analysis also showed the following concerning the financial condition of Hamilton Bancorp and the selected companies:

	6/30/2018 Hamilton	9/30/2018 Hamilton	Selected Companies			
			Bottom Quartile	Median	Average	Top Quartile
Tangible Common Equity / Tangible Assets	8.87%	9.40%	8.68%	9.75%	10.13%	11.08%
Total Capital Ratio	14.03%	14.80%	13.02%	15.18%	15.08%	16.50%
Time Deposits / Total Deposits	59.3%	60.4%	46.4%	36.0%	33.9%	24.9%
Loans / Deposits	94.2%	96.8%	82.0%	94.4%	93.8%	107.5%
Loan Loss Reserve / Gross Loans	0.74%	0.81%	0.61%	1.01%	0.89%	1.14%
Nonperforming Assets / Loans and OREO	2.95%	2.20%	2.44%	1.37%	1.42%	0.38%
LTM Net Charge-Offs / Average Loans	0.27%	0.27%	0.10%	0.00%	0.05%	0.00%

In addition, KBW's analysis showed the following concerning the market performance of Hamilton Bancorp and, to the extent publicly available, the selected companies (excluding the impact of the LTM EPS multiple for two of the selected companies, which multiples were considered to be not meaningful ( NM ) because they were greater than 30.0x):

	6/30/2018 Hamilton	9/30/2018 Hamilton	Selected Companies			
			Bottom Quartile	Median	Average	Top Quartile
One-Year Stock Price Change	(1.4%)	(1.4%)	2.6%	4.3%	18.0%	24.4%
Year-To-Date Stock Price Change	(6.3%)	(6.3%)	2.0%	4.2%	9.0%	13.4%
Stock Price / Tangible Book Value per Share	1.08x	1.06x	1.01x	1.16x	1.24x	1.44x
Stock Price / LTM Adjusted EPS <sup>(1)</sup>	NM	NM	12.7x	18.8x	17.6x	21.9x
Stock Price / 2018 EPS Estimate			18.2x	18.2x	18.2x	18.2x
Stock Price / 2019 EPS Estimate			13.2x	13.2x	13.2x	13.2x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	1.1%	1.9%
LTM Dividend Payout	0.0%	0.0%	0.0%	0.0%	17.4%	25.1%

(1) Adjusted to exclude one-time charges in the fourth quarter of 2017 related to the revaluation of deferred tax assets or liabilities due to the Tax Cuts and Jobs Act of 2017.

No company used as a comparison in the above selected companies analysis is identical to Hamilton Bancorp. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

*Orrstown Financial Services Selected Companies Analysis.* Using publicly available information, KBW compared the financial performance, financial condition and market performance of Orrstown Financial Services to 13 selected major exchange-traded banks and thrifts which were headquartered in the Mid-Atlantic region of the United States and which had total assets between \$1.5 billion and \$2.5 billion. Merger targets were excluded from the selected

companies.

The selected companies were as follows:

Peoples Financial Services Corp.

SB One Bancorp

Howard Bancorp, Inc.

First Bank

Mid Penn Bancorp, Inc.

ACNB Corporation

Metropolitan Bank Holding Corp.

Penns Woods Bancorp, Inc.

ESSA Bancorp, Inc.

Community Financial Corporation

Codorus Valley Bancorp, Inc.

Unity Bancorp, Inc.

Chemung Financial Corporation

To perform this analysis, KBW used profitability and other financial information for the latest 12-month period available or as of the end of such period (as adjusted, in the case of balance sheet and share count data for Orrstown Financial Services, Mid Penn Bancorp and SB One Bancorp, to reflect pending or recently completed acquisitions) and market price information as of October 22, 2018. KBW also used 2018 and 2019 EPS estimates taken from both consensus street estimates and financial forecasts and projections provided by Orrstown Financial Services management in the case of

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Orrstown Financial Services and from consensus street estimates in the case of the seven selected companies for which consensus street estimates were available. Certain financial data prepared by KBW, and as referenced in the tables presented below, may not correspond to the data presented in Orrstown Financial Services' historical financial statements, as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented.

KBW's analysis showed the following concerning the financial performance of Orrstown Financial Services and the selected companies:

	Selected Companies				
	Orrstown	Bottom Quartile	Median	Average	Top Quartile
LTM Core Return on Average Assets <sup>(1)</sup>	0.87%	0.78%	0.99%	0.96%	1.08%
LTM Core Return on Average Equity <sup>(1)</sup>	9.83%	8.49%	9.56%	9.67%	10.70%
LTM Core Return on Average Tangible Common Equity <sup>(1)</sup>	9.90%	9.86%	10.62%	10.73%	11.30%
LTM Net Interest Margin	3.28%	3.46%	3.59%	3.57%	3.74%
LTM Fee Income / Revenue Ratio <sup>(2)</sup>	30.3%	14.5%	17.0%	17.2%	20.8%
LTM Efficiency Ratio	73.2%	66.9%	61.1%	62.5%	59.5%

(1) Core income excluded extraordinary items, gain/loss on sale of securities, nonrecurring revenue/expenses, and amortization of intangibles as calculated by S&P Global Market Intelligence; further adjusted to exclude one-time charges in the fourth quarter of 2017 related to the revaluation of deferred tax assets or liabilities due to the Tax Cuts and Jobs Act of 2017.

(2) Excluded gain/losses on sale of securities.

KBW's analysis showed the following concerning the financial condition of Orrstown Financial Services and the selected companies:

	Selected Companies				
	Orrstown	Bottom Quartile	Median	Average	Top Quartile
Tangible Common Equity / Tangible Assets	8.24%	8.48%	8.71%	9.01%	9.46%
Total Capital Ratio	13.03%	12.54%	13.25%	13.37%	13.92%
Loans / Deposits	77.7%	97.6%	102.8%	101.1%	103.8%
Loan Loss Reserve / Gross Loans	1.12%	0.83%	0.98%	0.97%	1.12%
Nonperforming Assets / Loans and OREO	0.63%	1.13%	0.93%	1.05%	0.61%
LTM Net Charge-Offs / Average Loans	0.03%	0.18%	0.13%	0.14%	0.06%

In addition, KBW's analysis showed the following concerning the market performance of Orrstown Financial Services and, to the extent publicly available, the selected companies (excluding the impact of the LTM EPS multiple for one of the selected companies, which multiple was considered to be not meaningful because it was negative):

Orrstown	Selected Companies	
	Median	Average

		<b>Bottom Quartile</b>			<b>Top Quartile</b>
One-Year Stock Price Change	(5.4%)	(12.9%)	(10.7%)	(6.2%)	(3.2%)
Year-To-Date Stock Price Change	(6.5%)	(15.3%)	(12.4%)	(7.8%)	3.4%
Stock Price / Tangible Book Value per Share	1.43x	1.35x	1.45x	1.48x	1.58x
Stock Price / LTM Adjusted EPS <sup>(1)</sup>	13.7x	13.7x	15.7x	16.0x	18.1x
Stock Price / 2018 EPS Estimate	12.9x /12.7x <sup>(2)</sup>	12.0x	12.8x	13.7x	13.7x
Stock Price / 2019 EPS Estimate	11.7x /12.0x <sup>(2)</sup>	10.3x	11.1x	11.1x	11.4x
Dividend Yield	2.2%	1.2%	2.2%	1.9%	2.5%
LTM Dividend Payout	30.1%	15.2%	31.4%	29.9%	41.9%

- (1) Adjusted to exclude one-time charges in the fourth quarter of 2017 related to the revaluation of deferred tax assets or liabilities due to the Tax Cuts and Jobs Act of 2017.
- (2) Second EPS multiples were calculated using financial forecasts and projections of Orrstown Financial Services provided by Orrstown Financial Services management.

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No company used as a comparison in the above selected companies analysis is identical to Orrstown Financial Services. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

*Selected Transactions Analysis.* KBW reviewed publicly available information related to six selected U.S. whole-bank or thrift transactions announced since date of the 2016 U.S. Presidential election (November 8, 2016) with announced transaction values greater than \$20 million, LTM return on average assets less than 0.35%, and time deposits to total deposits greater than 40%. Terminated transactions were excluded from the selected transactions.

The selected transactions were as follows:

<b>Acquiror</b>	<b>Acquired Company</b>
City Holding Company	Poage Bankshares, Inc.
Forcht Bancorp, Inc.	MW Bancorp, Inc.
Union Savings and Loan Association	Hibernia Bancorp, Inc.
Howard Bancorp, Inc.	1st Mariner Bank
Bank First National Corporation	Waupaca Bancorporation, Inc.
First Guaranty Bancshares, Inc.	Premier Bancshares, Inc.

For each selected transaction, KBW derived the following implied transaction statistics, in each case based on the transaction consideration value paid for the acquired company and using financial data based on the acquired company's then latest publicly available financial statements prior to the announcement of the respective transaction:

Price per common share to tangible book value per share of the acquired company (in the case of selected transactions involving a private acquired company, this transaction statistic was calculated as total transaction consideration divided by total tangible common equity); and

Tangible equity premium to core deposits (total deposits less time deposits greater than \$100,000) of the acquired company, referred to as core deposit premium.

KBW also reviewed the price per common share paid for the acquired company for the three selected transactions involving publicly traded acquired companies as a premium to the closing price of the acquired company one day prior to the announcement of the acquisition (expressed as a percentage and referred to as the one-day market premium). The resulting transaction multiples and premiums for the selected transactions were compared with the corresponding transaction multiples and premiums for the proposed merger based on the implied transaction value for the proposed merger of \$16.85 per share of Hamilton Bancorp common stock and using historical financial information for Hamilton Bancorp as of both June 30, 2018 and September 30, 2018, and the closing price of Hamilton Bancorp common stock on October 22, 2018. LTM EPS multiples for Hamilton Bancorp and the selected transactions were considered to be not meaningful because they were greater than 30.0x or negative.

The results of the analysis are set forth in the following table:

	Orrstown /Hamilton		Bottom Quartile	Selected Transactions		Top Quartile
	June 30, 2018	September 30, 2018		Median	Average	
Price / Tangible Book Value	1.26x	1.24x	1.18x	1.28x	1.32x	1.51x
Core Deposit Premium	3.7%	3.5%	4.2%	7.8%	7.5%	11.6%
One-Day Market Premium	16.7%	16.7%	32.0%	33.5%	41.4%	46.9%

No company or transaction used as a comparison in the above selected transaction analysis is identical to Hamilton Bancorp or the proposed merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

*Relative Contribution Analysis.* KBW analyzed the relative standalone contribution of Orrstown Financial Services and Hamilton Bancorp to various pro forma balance sheet and income statement items and the combined market capitalization of the combined entity. This analysis did not include purchase accounting adjustments, and the relative standalone contribution

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of Orrstown Financial Services and Hamilton Bancorp to 2018 estimated EPS of the combined company was considered to be not meaningful because 2018 estimated EPS of Hamilton Bancorp was negative based on financial forecasts and projections of Hamilton Bancorp provided by Hamilton Bancorp management. To perform this analysis, KBW used (i) balance sheet and income statement data for Orrstown Financial Services (pro forma for the acquisition of Mercersburg Financial Corporation) and Hamilton Bancorp as of or for the period ended September 30, 2018 and (ii) market price data as of October 22, 2018. The results of KBW's analysis are set forth in the following table, which also compares the results of KBW's analysis with the implied pro forma ownership percentages of Orrstown Financial Services and Hamilton Bancorp stockholders in the combined company based on the 0.54x exchange ratio provided for in the merger agreement and also hypothetically assuming 100% stock consideration in the proposed merger for illustrative purposes:

	<b>Orrstown as a % of Total</b>	<b>Hamilton as a % of Total</b>
<b>Ownership</b>		
At 0.54x Merger Exchange Ratio	84%	16%
Assuming 100% stock consideration	80%	20%
<b>Balance Sheet</b>		
Assets	79%	21%
Gross Loans Held for Investment	77%	23%
Deposits	80%	20%
Tangible Common Equity	77%	23%
<b>Income Statement</b>		
LTM Core Net Income <sup>(1)</sup>	92%	8%
<b>Market Capitalization</b>		
	82%	18%

- (1) Core income excluded extraordinary items, gain/loss on sale of securities, nonrecurring revenue/expenses, and amortization of intangibles as calculated by S&P Global Market Intelligence; further adjusted to exclude one-time charges in the fourth quarter of 2017 related to the revaluation of deferred tax assets or liabilities due to the Tax Cuts and Jobs Act of 2017. In the case of Hamilton Bancorp, core income was also adjusted to add back the valuation allowance on Hamilton Bancorp's net deferred tax assets recorded in the fourth quarter of fiscal 2018 that was unrelated to the Tax Cuts and Jobs Act of 2017 and then tax-affected.

*Forecasted Pro Forma Financial Impact Analysis.* KBW performed a pro forma financial impact analysis that combined projected income statement and balance sheet information of Orrstown Financial Services and Hamilton Bancorp. Using (i) closing balance sheet data as of June 30, 2019 for Orrstown Financial Services and Hamilton Bancorp extrapolated from historical data (pro forma, in the case of Orrstown Financial Services, for the impact of its acquisition of Mercersburg Financial Corporation) using growth rates for Orrstown Financial Services and Hamilton Bancorp provided by Orrstown Financial Services management, (ii) financial and operating forecasts and projections of Orrstown Financial Services and Hamilton Bancorp provided by Orrstown Financial Services management, and (iii) pro forma assumptions (including, among other things, the cost savings and related expenses expected to result from the merger and certain accounting adjustments and restructuring charges assumed with respect thereto) provided by Orrstown Financial Services management, KBW analyzed the potential financial impact of the merger on certain projected financial results of Orrstown Financial Services. This analysis indicated the merger could be accretive to Orrstown Financial Services' estimated 2019 EPS (excluding the impact of restructuring charges that might be realized during 2019) and estimated 2020 EPS and dilutive to Orrstown Financial Services' estimated tangible book value per share as of June 30, 2019. Furthermore, the analysis indicated that each of Orrstown Financial Services' tangible



common equity to tangible assets ratio, Leverage Ratio, Common Equity Tier 1 Risk-Based Capital Ratio, Tier 1 Risk-Based Capital Ratio and Total Risk Based Capital Ratio as of June 30, 2019 could be lower. For all of the above analysis, the actual results achieved by Orrstown Financial Services following the merger may vary from the projected results, and the variations may be material.

*Hamilton Bancorp Discounted Cash Flow Analysis.* KBW performed a discounted cash flow analysis of Hamilton Bancorp to estimate a range for the implied equity value of Hamilton Bancorp. In this analysis, KBW used financial and operating forecasts and projections of Hamilton Bancorp provided by Hamilton Bancorp management, and assumed discount rates ranging from 13.0% to 17.0%. The range of values was derived by adding (i) the present value of the estimated excess cash flows that Hamilton Bancorp could generate over the period from June 30, 2019 through December 31, 2023 as a stand-alone company and (ii) the present value of Hamilton Bancorp's implied terminal value at the end of such period. KBW assumed that Hamilton Bancorp would maintain a tangible common equity to tangible asset ratio of 8.00% and would retain sufficient earnings to maintain that level. In calculating the terminal value of Hamilton Bancorp, KBW applied a range of

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13.0x to 17.0x Hamilton Bancorp's estimated 2024 net income. This discounted cash flow analysis resulted in a range of implied values per share of Hamilton Bancorp common stock of \$7.72 per share to \$9.52 per share. Additionally, an implied value per share of Hamilton Bancorp common stock of \$12.26 per share was calculated assuming a terminal value multiple of 1.0x Hamilton Bancorp's estimated tangible book value as of December 31, 2023 and a discount rate of 15%.

The discounted cash flow analysis is a widely used valuation methodology, but the results of such methodology are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates, and discount rates. The foregoing discounted cash flow analyses did not purport to be indicative of the actual values or expected values of Hamilton Bancorp.

*Orrstown Financial Services Discounted Cash Flow Analysis.* KBW performed a discounted cash flow analysis of Orrstown Financial Services to estimate a range for the implied equity value of Orrstown Financial Services. In this analysis, KBW used financial and operating forecasts and projections of Orrstown Financial Services provided by Orrstown Financial Services management, and assumed discount rates ranging from 11.0% to 15.0%. The range of values was derived by adding (i) the present value of the estimated excess cash flows that Orrstown Financial Services could generate over the period from June 30, 2019 through December 31, 2023 as a stand-alone company and (ii) the present value of Orrstown Financial Services' implied terminal value at the end of such period. KBW assumed that Orrstown Financial Services would maintain a tangible common equity to tangible asset ratio of 8.00% and would retain sufficient earnings to maintain that level. In calculating the terminal value of Orrstown Financial Services, KBW applied a range of 13.0x to 17.0x Orrstown Financial Services' estimated 2024 net income. This discounted cash flow analysis resulted in a range of implied values per share of Orrstown Financial Services common stock of \$25.40 per share to \$37.11 per share.

The discounted cash flow analysis is a widely used valuation methodology, but the results of such methodology are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates, and discount rates. The foregoing discounted cash flow analyses did not purport to be indicative of the actual values or expected values of Orrstown Financial Services or the pro forma combined company.

**Miscellaneous.** KBW acted as financial advisor to Hamilton Bancorp and not as an advisor to or agent of any other person. As part of its investment banking business, KBW is continually engaged in the valuation of bank and bank holding company securities in connection with acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for various other purposes. As specialists in the securities of banking companies, KBW has experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of its and their broker-dealer businesses, and further to certain existing sales and trading relationship between a KBW affiliated broker-dealer and Hamilton Bancorp), KBW and its affiliates may from time to time purchase securities from, and sell securities to, Hamilton Bancorp and Orrstown Financial Services. In addition, as a market maker in securities, KBW and its affiliates may from time to time have a long or short position in, and buy or sell, debt or equity securities of Hamilton Bancorp or Orrstown Financial Services for its and their own accounts and for the accounts of its and their respective customers and clients.

Pursuant to the KBW engagement agreement, Hamilton Bancorp agreed to pay KBW a cash fee equal to 1.25% of the aggregate merger consideration, \$200,000 of which became payable with the rendering of KBW's opinion and the balance of which is contingent upon the completion of the merger. Hamilton Bancorp also agreed to reimburse KBW for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify KBW against certain liabilities relating to or arising out of KBW's engagement or KBW's role in connection therewith. Other than in connection with the present engagement, during the two years preceding the date of its opinion, KBW did not provide investment banking and financial advisory services to Hamilton Bancorp. During the two years

preceding the date of its opinion, KBW did not provide investment banking and financial advisory services to Orrstown Financial Services. KBW may in the future provide investment banking and financial advisory services to Hamilton Bancorp or Orrstown Financial Services and receive compensation for such services.

**Orrstown Financial Services Reasons for the Merger**

In the course of its evaluation of the merger and the merger agreement, the board of directors of Orrstown Financial Services consulted with its management, Hovde Group, LLC (its financial advisor) and Goodwin Procter LLP (its legal counsel). The board discussed the proposed merger in a series of meetings between July 25, 2018 and October 23, 2018, when it approved the merger and the merger agreement. In reaching the decision to approve the merger agreement and

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related transactions, the board of directors of Orrstown Financial Services considered a number of factors, including, among others, the following:

information concerning the business, operations, financial condition, earnings and prospects of each of Orrstown Financial Services and Hamilton Bancorp as separate entities and on a combined basis;

their understanding of the current environment in the financial services industry and current financial market conditions;

the compatibility of the businesses, operations and cultures of the two companies;

the prospect of expanding Orrstown Financial Services footprint to include an attractive new market;

the pro forma financial effects of the proposed transaction, including the expected dilution to tangible book value per share, earnings accretion and dividend impacts;

the terms and conditions of the merger agreement, including the financial terms, and the structure of the merger;

the fact that the merger agreement contains restrictions on the ability of Hamilton Bancorp to solicit proposals for alternative transactions or engage in discussions regarding such proposals including the requirement of Hamilton Bancorp to pay a termination fee of \$2,212,500 in certain circumstances to terminate the merger agreement;

the intention for the merger to qualify as a tax free reorganization and thus the shares of Hamilton Bancorp common stock can be exchanged for shares of Orrstown Financial Services common stock on a tax free basis;

the ability to complete the merger, including the conditions to the merger requiring receipt of necessary regulatory approvals in accordance with the terms of the merger agreement;

the possibility of costs and delays resulting from seeking the regulatory approvals necessary to complete the transactions provided for in the merger agreement, the possibility that the banking regulatory authorities may impose restrictions on the combined operations of the two companies (including divestitures) in order to grant the required approvals and thus preventing Orrstown Financial Services from fully realizing the benefits of the merger, the possibility that the merger may not be completed if such approvals are not obtained, and the potential negative impacts on Orrstown Financial Services, its business and the price of

Orrstown Financial Services common stock if such approvals are not obtained or restrictions are imposed;

the challenges of combining the businesses of two corporations;

the fact that the integration of Orrstown Financial Services and Hamilton Bancorp may be complex and time consuming and may require substantial resources and effort, and the risk that if the combined bank is not successfully integrated, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected;

the potential risk of diverting management focus and resources from other strategic opportunities and from operational matters while working to implement the merger;

the transaction costs to be incurred by Orrstown Financial Services in connection with the merger; and

the opinion, dated October 23, 2018, of Hovde Group to the board of directors of Orrstown Financial Services as to the fairness, from a financial point of view as of the date of the opinion, to the holders of Orrstown Financial Services common stock of the merger consideration per share to be paid by Orrstown Financial Services to holders of Hamilton Bancorp common stock.

The foregoing discussion of the information and factors considered by the Orrstown Financial Services board of directors is not intended to be exhaustive, but is believed to include all material factors considered by the board of directors of Orrstown Financial Services. In view of the wide variety of factors it considered, the board did not find it practicable to assign any specific or relative weights to the factors considered. In addition, the board did not reach any specific conclusion on each factor considered, or any aspect of any particular factor, but conducted an overall analysis of these factors. Individual members of the board may have given different weight to different factors. However, after taking into account all of the factors set forth above, the board of directors of Orrstown Financial Services unanimously approved the merger agreement.

**There can be no assurance that the potential synergies or opportunities considered by the boards will be achieved through completion of the merger. See the section of this proxy statement/prospectus titled Risk Factors Risks Relating to the Merger beginning on page 21.**

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### **Accounting Treatment**

The merger will be accounted for using the acquisition method of accounting with Orrstown Financial Services treated as the acquiror. Under this method of accounting, Hamilton Bancorp's assets and liabilities will be recorded by Orrstown Financial Services at their respective fair values as of the closing date of the merger and added to those of Orrstown Financial Services. Any excess of purchase price over the net fair values of Hamilton Bancorp's assets and liabilities will be recorded as goodwill. Any excess of the fair value of Hamilton Bancorp's net assets over the purchase price will be recognized in earnings by Orrstown Financial Services on the closing date of the merger. Financial statements of Orrstown Financial Services issued after the merger will reflect these values, but will not be restated retroactively to reflect the historical financial position or results of operations of Hamilton Bancorp prior to the merger. The results of operations of Hamilton Bancorp will be included in the results of operations of Orrstown Financial Services beginning on the effective date of the merger.

### **Post-Closing Capitalization**

Following the merger, Orrstown Financial Services will have approximately 11,329,837 shares of common stock outstanding. Stockholders of Orrstown Financial Services before the merger will own approximately 83.7% of the total shares outstanding after the merger and Hamilton Bancorp's current stockholders will own approximately 16.3%.

All of the numbers and percentages calculated above are based on the outstanding shares as of the record date.

### **Listing of Orrstown Financial Services Common Stock to be Issued in the Merger**

Orrstown Financial Services common stock is quoted on NASDAQ under the trading symbol ORRF. Under the terms of the merger agreement, Orrstown Financial Services will file a notice of additional listing of shares with NASDAQ with respect to the shares of Orrstown Financial Services common stock to be issued to the holders of Hamilton Bancorp common stock in the merger so that these shares will be listed and traded on the NASDAQ following the merger.

### **Number of Holders of Common Stock and Number of Shares Outstanding**

As of February 1, 2019, there were 2,991 stockholders of record of Orrstown Financial Services common stock and 9,485,176 shares of Orrstown Financial Services common stock outstanding.

As of February 1, 2019, there were 133 stockholders of record of Hamilton Bancorp common stock and 3,416,039 shares of Hamilton Bancorp common stock outstanding.

Orrstown Financial Services' registrar and transfer agent is Continental Stock Transfer & Trust Company. Copies of the governing corporate instruments of Orrstown Financial Services and Hamilton Bancorp are available, without charge, by following the instructions set forth in the section of this proxy statement/prospectus titled "Where You Can Find More Information" beginning on page 185.

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**INTERESTS OF HAMILTON BANCORP DIRECTORS AND EXECUTIVE OFFICERS IN THE MERGER**

Hamilton Bancorp stockholders should be aware that directors and executive officers of Hamilton Bancorp have financial interests in the merger that may be different from, or in addition to, those of Hamilton Bancorp stockholders generally. As described in more detail below, these interests include certain payments and benefits that may be provided to directors and executive officers of Hamilton Bancorp upon completion of the merger or upon termination of their employment under certain circumstances following the merger, including cash severance, continued health, dental, life and accident insurance benefits, and retention bonuses.

**Share Ownership of Hamilton Bancorp Directors and Executive Officers**

As of February 1, 2019, the record date for the special meeting, the directors and executive officers of Hamilton Bancorp may be deemed to be the beneficial owners of 146,700 shares, representing approximately 4.3% of the outstanding shares of Hamilton Bancorp common stock. See the section of this proxy statement/prospectus titled "The Voting Agreements" beginning on page 77 for further information regarding the voting agreements between Orrstown Financial Services and the Hamilton Bancorp directors and executive officers.

**Indemnification**

Under the merger agreement, Orrstown Financial Services has agreed that all rights to indemnification and all limitations of liability existing in favor of any director, officer or employee of Hamilton Bancorp, as provided in the articles of incorporation and bylaws of Hamilton Bancorp or applicable law as in effect on the date of the merger agreement with respect to matters occurring on or prior to the effective time of the merger, will survive the merger.

**Directors and Officers Insurance**

Under the merger agreement, Hamilton Bancorp will purchase an extended reporting period endorsement under its existing directors and officers liability insurance coverage that will provide Hamilton Bancorp directors and officers with coverage for six years following the effective time of the merger of not less than the existing coverage under, and have other terms at least as favorable to, the insured persons as the directors and officers liability insurance coverage presently maintained by Hamilton Bancorp, so long as the aggregate cost is not more than 200% of the annual premium currently paid by Hamilton Bancorp for such insurance. In the event that this premium limit is insufficient for such coverage, Hamilton Bancorp may enter into an agreement to spend up to that amount to purchase such lesser coverage as may be obtained with such amount.

**Change in Control Benefits Under Current Hamilton Bancorp and Hamilton Bank Agreements**

*Employment Agreement with Robert A. DeAlmeida.* On October 10, 2012, Hamilton Bank and Hamilton Bancorp entered into separate employment agreements with Robert A. DeAlmeida. The employment agreements have essentially identical provisions, except that the employment agreement with Hamilton Bancorp: (i) provides for daily, rather than annual, renewal of the term; (ii) obligates Hamilton Bancorp to make payments not made by Hamilton Bank under its agreement with Mr. DeAlmeida (provided that no duplicate payments are made); and (iii) will not require an automatic cut-back of severance benefits payable on termination of employment in connection with a change in control in order to avoid an excess parachute payment under Section 280G of the Code. Under the employment agreements, upon the involuntary termination of Mr. DeAlmeida's employment other than for Cause, Disability or death or voluntary resignation for Good Reason (as such terms are defined in the employment agreements) occurring on or after the effective date of a Change in Control of Hamilton Bancorp or Hamilton Bank (as defined in the employment agreements), Mr. DeAlmeida is entitled to a severance payment equal to three times the

sum of his highest rate of base salary and annual bonus paid to, or earned by, him during the current calendar year of his date of termination or any of the three calendar years immediately preceding his date of termination. Such payment will be payable in a lump sum within 30 days following the date of the termination of Mr. DeAlmeida's employment. It is currently anticipated that Mr. DeAlmeida's employment will be terminated upon the closing of the merger. Because the merger constitutes a Change in Control under the terms of Mr. DeAlmeida's employment agreements and his employment will be terminated at closing, Mr. DeAlmeida will be entitled to receive a lump sum cash payment in the amount of approximately \$1,247,549, less applicable withholding and other taxes, upon the closing of the merger. In addition, upon the closing of the merger, Mr. DeAlmeida will be entitled, at no expense to him, to the continuation of substantially comparable life insurance and non-taxable medical and dental insurance coverage



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until the earlier of: (i) the date which is three years after his date of termination or (ii) the date on which he receives substantially similar benefits from another employer. However, if Hamilton Bancorp or Hamilton Bank cannot provide one or more of the health and welfare benefits set forth in the preceding sentence because Mr. DeAlmeida is no longer an employee, applicable rules and regulations prohibit such benefits or the payment of such benefits in the manner contemplated, or it would subject either of them to penalties, then Hamilton Bank or Hamilton Bancorp shall pay Mr. DeAlmeida a cash lump sum payment reasonably estimated to be equal to the value of such benefits or the value of the remaining benefits at the time of such determination, which shall be made in a lump sum within 30 days after the later of his date of termination or the effective date of the rules or regulations prohibiting such benefits or subjecting Hamilton Bancorp or Hamilton Bank to penalties.

*Change in Control Agreement with John P. Marzullo.* On October 10, 2012, Hamilton Bank entered into a change in control agreement with John P. Marzullo, the Chief Financial Officer of Hamilton Bancorp and Hamilton Bank. Under the change in control agreement, upon the involuntary termination of Mr. Marzullo's employment by Hamilton Bank other than for Cause or upon voluntary resignation for Good Reason (each as defined in the change in control agreement) occurring on or after the effective date of a Change in Control of Hamilton Bancorp or Hamilton Bank (as defined in the change in control agreement), Mr. Marzullo is entitled to a severance payment equal to two times the sum of his highest rate of base salary and annual bonus paid to, or earned by, him during the current calendar year of his date of termination or either of the two calendar years immediately preceding his date of termination. Such payment will be payable in a lump sum within 30 days following the date of termination of Mr. Marzullo's employment. It is currently anticipated that Mr. Marzullo's employment will be terminated upon the closing of the merger. Because the merger constitutes a Change in Control under the terms of Mr. Marzullo's change in control agreement, in the event of Mr. Marzullo's qualifying termination event thereafter, he would be entitled to receive a lump sum cash payment in the amount of approximately \$367,230, less applicable withholding and other taxes, following his date of termination.

In addition, following his qualifying termination of employment following the closing of the merger, Mr. Marzullo will be entitled to the continuation of substantially comparable life insurance and non-taxable medical and dental insurance coverage until the earlier of: (i) the date which is two years after his date of termination or (ii) the date on which he receives substantially similar benefits from another employer. However, if Hamilton Bank cannot provide one or more of the health and welfare benefits set forth in the preceding sentence because Mr. Marzullo is no longer an employee, applicable rules and regulations prohibit such benefits or the payment of such benefits in the manner contemplated, or it would subject either of them to penalties, then Hamilton Bank shall pay Mr. Marzullo a cash lump sum payment reasonably estimated to be equal to the value of such benefits or the value of the remaining benefits at the time of such determination, which shall be made in a lump sum within 30 days after the later of his date of termination or the effective date of the rules or regulations prohibiting such benefits or subjecting Hamilton Bank to penalties.

**Future Services to Orrstown Financial Services**

Upon execution of the merger agreement, Orrstown Financial Services and Orrstown Bank entered into an employment agreement and a change in control agreement, in each case with Ellen R. Fish, Executive Vice President of Hamilton Bancorp (the executive), to be effective as of the closing date of the merger.

The employment agreement provides that the executive shall serve as an Executive Vice President and Senior Lender for the Baltimore region of Orrstown Bank. The executive's initial annual base salary will be \$219,516, which amount may be increased but not decreased during the term of the employment agreement. The employment agreement provides for a term of one year, plus an automatic extension of such term for successive additional one-year terms, unless either party gives at least 60 days' written notice of non-renewal. If the executive is still employed upon

attaining age 65, the executive may provide notice of retirement in which event the executive will receive salary continuation for a period of six months plus a lump sum payment of 150% of the premium cost to maintain the executive's group life insurance benefit for a period of three years. Such retirement may be delayed, upon request of the executive and approval of the board of directors, in one-year increments.

In the event that the executive's employment is terminated on or prior to the first anniversary of the closing date of the merger by Orrstown Financial Services or Orrstown Bank without Cause (as defined in the employment agreement) or by the executive for any reason, then the executive will be paid severance equal to two times the sum of:

(1) executive's highest annual base salary and (2) the highest cash bonus paid to, or earned by, executive during the calendar year of executive's date of termination or either of the two calendar years immediately preceding executive's date of termination, which would

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consider any base salary and cash bonus earned by executive while employed with Hamilton Bancorp or Hamilton Bank. Orrstown Bank will continue to provide executive with life insurance coverage and non-taxable medical and dental insurance coverage substantially comparable (and on substantially the same terms and conditions) to the coverage maintained by Orrstown Bank immediately prior to her termination under the same cost-sharing arrangements that apply for active employees of Orrstown Bank as of executive's date of termination. Such continued coverage shall cease upon the earlier of: (i) the date which is two years from executive's date of termination or (ii) the date on which executive becomes a full-time employee of another employer, provided executive is entitled to benefits that are substantially similar to the health and welfare benefits provided by Orrstown Bank. If Orrstown Bank cannot provide one or more of these benefits because executive is no longer an employee, applicable rules and regulations prohibit such benefits or the payment of such benefits in the manner contemplated, or it would subject Orrstown Bank to penalties, then Orrstown Bank shall pay executive a cash lump sum payment reasonably estimated to be equal to the value of such benefits or the value of the remaining benefits at the time of such determination. Such cash payment shall be made in a lump sum within 35 days after the later of executive's date of termination or the effective date of the rules or regulations prohibiting such benefits or subjecting Orrstown Bank to penalties.

In the event that the executive's employment is terminated after the first anniversary of the closing date of the merger by Orrstown Financial Services or Orrstown Bank without Cause or by the executive for Good Reason (as defined in the employment agreement), then the executive will be paid severance, within 35 days following termination, a lump sum cash payment equal to (i) her base salary for the longer of: (1) six months following such termination, or (2) the remaining duration of term of the employment agreement (whichever is greater) and (ii) an amount equal to the average annual cash bonus earned during the three calendar years preceding the year in which the executive's termination of employment is effective. For one year following the date of termination, Orrstown Bank will continue to provide executive with non-taxable medical and dental insurance coverage substantially comparable (and on substantially the same terms and conditions) to the coverage maintained by Orrstown Bank immediately prior to her termination under the same cost-sharing arrangements that apply for active employees of Orrstown Bank as of executive's date of termination. If Orrstown Bank cannot provide one or more of these benefits because executive is no longer an employee, applicable rules and regulations prohibit such benefits or the payment of such benefits in the manner contemplated, or it would subject Orrstown Bank to penalties, then Orrstown Bank shall pay executive a monthly cash payment equal to the monthly COBRA premium payable by former employees of Orrstown Bank. In addition, the executive will receive a lump sum payment of 150% of the premium cost to maintain the executive's group life insurance benefit for a period of three years.

The executive has agreed in the employment agreement that, for a one year period following termination of employment, the executive will not directly or indirectly engage in business competition with Orrstown Financial Services or Orrstown Bank with respect to its services, products, processes, customers, methods of doing business and similar matters within an agreed upon restricted territory. In addition, during the employment period and for one year thereafter, the executive will not solicit or attempt to solicit, divert or appeal to any employees, customers, clients or referral sources of Orrstown Financial Services, Orrstown Bank or any of their respective subsidiaries.

The change in control agreement becomes effective after the first anniversary of the closing date of the merger and provides that Orrstown Financial Services and Orrstown Bank are to pay to the executive specified amounts of cash compensation and provide specified health and welfare benefits in the event that the executive's employment is terminated by Orrstown Financial Services or Orrstown Bank or any successor, other than for Cause or Disability (each as defined in the employment agreement), within the 90 day period immediately preceding, or the two years following, the occurrence of a Change in Control (as defined in the change in control agreement) or if such termination is initiated by the executive for any reason within six months following a Change in Control. The change in control agreement provides for a term of one year, plus an automatic extension of such term for successive additional one year terms, unless either party gives 60 days' written notice of non-renewal.

Upon a termination described above occurring after the first anniversary of the closing date of the merger, Orrstown Financial Services and Orrstown Bank or any successor are obligated to pay to the executive within 35 days following termination a lump sum cash amount equal to amount equal to two (2) times the sum of (1) her annual base salary immediately prior to the change in control and (2) her highest annual cash bonus and other annual incentive cash compensation awarded over the past three years. The executive will also receive (A) an amount equal to any unvested employer contribution to the executive's 401(k), profit sharing, deferred compensation or other similar individual account plan plus an amount sufficient to pay federal, state and local income taxes on such unvested employer contributions, which shall be paid to her within 35 days following her termination of employment and (B) up to \$10,000 for outplacement

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services. The change in control agreement further provides that, upon a Change in Control, if the plans governing the vesting and exercise rights of stock options, shares of restricted stock and other equity-based compensation units are silent on the subject of Change in Control, all such options, shares and units shall immediately become vested and exercisable as to all or part of the shares and rights covered thereby. In addition, Orrstown Financial Services and Orrstown Bank or any successor are obligated to provide to the executive for a two-year term the life, disability, medical/health insurance and other health and welfare benefits in effect with respect to the executive immediately prior to the termination. The executive, however, will continue to be responsible for the costs of such benefits to the same extent as other similarly situated active employees of Orrstown Bank and the executive's spouse and/or eligible dependents will continue to be covered on the same terms that they were covered prior to the termination of employment.

If the executive's employment is terminated in connection with a Change in Control under the change in control agreement, the noncompetition and nonsolicitation periods referred to above shall be equal to the greater of six months or the one-year period following the Change in Control.

The change in control agreement provides that in the event any benefit or payment from Orrstown Financial Services or Orrstown Bank to the executive shall be deemed to be an excess parachute payment, as defined in Section 280G(b)(1) of the Code, then the aggregate present value of amounts or benefits payable to the executive shall be reduced to the greater of (1) the highest aggregate present value of the amount due under the change in control agreement that can be made without causing any payments or benefits to be an excess parachute payment or (2) the largest portion of the amount due under the change in control agreement that after taking into account all applicable state and federal taxes, including any taxes payable pursuant to Section 4999 of the Code, results in a greater after-tax benefit to the executive than the after-tax benefit to the executive calculated under (1) above.

**Settlement of Executive Officers and Directors Equity-Based Awards**

The directors and executive officers of Hamilton Bancorp hold stock options and shares of restricted stock awarded under Hamilton Bancorp's 2013 Equity Incentive Plan.

*Stock Options.* Immediately prior to the effective time of the merger, each option granted under 2013 Equity Incentive Plan and any other similar plan or otherwise, which is outstanding immediately prior to the effective time of the merger and which has not been previously exercised or canceled, will be canceled and, promptly thereafter, Hamilton Bancorp shall pay to the holder thereof cash in an amount equal to the product of (i) the number of shares of Hamilton Bancorp common stock underlying such stock option and (ii) the excess, if any, of \$16.90 (subject to adjustment to the extent there is any reduction to the merger consideration as set forth in the merger agreement) per share over the exercise price per share provided for in such stock option, which cash payment shall be made without interest and shall be net of all applicable withholding taxes. As of the record date, Hamilton Bancorp's directors and executive officers (as a group) held vested and unvested options to purchase 188,411 shares of Hamilton Bancorp common stock.

*Restricted Stock.* Immediately prior to the effective time of the merger, all outstanding unvested shares of restricted stock awarded under the 2013 Equity Incentive Plan and any other similar plan will become fully vested and will be treated as outstanding shares of Hamilton Bancorp common stock for all purposes under the merger agreement, and be converted into the right to receive merger consideration. As of the record date, Hamilton Bancorp's directors and executive officers (as a group) held 18,179 unvested shares of restricted stock.



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The following table sets forth, for each of Hamilton Bancorp's directors and executive officers, the number of unvested restricted shares of Hamilton Bancorp and outstanding Hamilton Bancorp vested and unvested stock options, held by the director or executive officer as of the record date. Depending on when the closing occurs, certain equity-based awards shown in the table may vest in accordance with their terms prior to closing.

<b>Name</b>	<b>Number of Shares Underlying Vested Stock Options (#)</b>	<b>Number of Shares Underlying Unvested Stock Options (#)</b>	<b>Number of Unvested Restricted Shares (#)</b>
William E. Ballard	7,600	1,900	900
Joseph J. Bouffard	1,900	7,600	600
Carol L. Coughlin	7,600	1,900	1,060
Robert A. DeAlmeida	59,200	18,997	6,815
James R. Farnum, Jr.	7,600	1,900	150
Ellen R. Fish	14,800	7,057	2,602
William W. Furr	7,600	1,900	900
Bobbi R. Macdonald	7,600	1,900	900
John P. Marzullo	14,800	7,057	2,652
Jenny G. Morgan	1,900	7,600	600

**Hamilton Bank Employee Stock Ownership Plan**

The merger agreement provides that the Hamilton Bank ESOP will be terminated immediately prior to the effective time of the merger. In addition, prior to the effective time of the merger, the outstanding balance of the ESOP loan made by Hamilton Bancorp will be repaid in full by the Hamilton Bank ESOP by first using any cash held in the ESOP's unallocated stock fund and then remitting a sufficient number of unallocated shares of Hamilton Bancorp common stock to Hamilton Bancorp as the lender, based on a value equal to the merger consideration. All Hamilton Bancorp common stock in the ESOP, including any unallocated shares remaining in the unallocated stock fund after repayment of the outstanding loan, will be exchanged for the merger consideration. As of the effective time of the merger, the ESOP will be terminated, and all participants' accounts will be fully vested. Any remaining shares and other assets in the unallocated stock fund after the repayment of the ESOP loan will be allocated on a pro-rata basis to all active participants with an account balance under the Hamilton Bank ESOP based on the size of each active participant's account balance on the termination date. The amount allocated to the participants will be determined based on the value of the merger consideration at closing. As a result of the foregoing, assuming that the merger consideration is equal to \$14.38 per share, which represents the average closing market price of Hamilton Bancorp's common stock over the first five business days following the public announcement of the merger agreement, and that the excess assets are allocated to the active participants in the ESOP based on their account balances as of December 31, 2018, the estimated value of the additional benefit that would be payable under the ESOP at the closing of the merger is as follows: Mr. DeAlmeida \$52,100; Ms. Fish \$16,934; and Mr. Marzullo \$19,120.

**Joining Orrstown Financial Services and Orrstown Bank Boards of Directors**

The merger agreement provides that, immediately following the effective time of the merger, one director of Hamilton Bancorp (as mutually agreed by Orrstown Financial Services and Hamilton Bancorp) will be appointed to the board of directors of each of Orrstown Financial Services and Orrstown Bank. The director will be compensated for his or her service on the board of directors of Orrstown Financial Services and Orrstown Bank in accordance with the policies of Orrstown Financial Services and Orrstown Bank applicable generally to their directors.

#### **New Arrangements with Hamilton Bancorp Executive Officers**

Prior to and from time to time since the execution of the merger agreement, Orrstown Financial Services has engaged, and it expects to continue to engage, in discussions with certain executive officers of Hamilton Bancorp about potential roles with the combined company after the consummation of the merger. There is at this time no assurance that those discussions will result in any additional agreements with Orrstown Financial Services or, if so, what the terms and conditions of any such agreements would be.



**Table of Contents****Quantification of Potential Payments to Hamilton Bancorp Named Executive Officers in Connection with the Merger**

In accordance with Item 402(t) of Regulation S-K, the table below sets forth the estimated amounts of compensation that are based on or otherwise relate to the merger that may become payable to each of Hamilton Bancorp's named executive officers, as determined for purposes of Hamilton Bancorp's most recent annual proxy statement, assuming the merger is completed as of March 31, 2019 and, with respect to severance amounts, assuming the executive officer's employment is terminated without cause as of March 31, 2019. The table does not include the value of benefits that the named executive officers are vested in without regard to the occurrence of a change in control.

The estimated amounts below are based on multiple assumptions that may not actually occur, including assumptions described in this proxy statement/prospectus. In addition, certain amounts payable will vary depending on the actual date the merger is completed and the actual date, if any, of a qualifying termination of employment. As a result, the actual amounts, if any, to be received by an executive officer may differ in material respects from the amounts set forth below. The disclosures in the table below and the accompanying footnotes should be read in conjunction with the narrative description of the compensation arrangements set forth above.

Name	Cash <sup>(1)</sup> (\$)	Equity <sup>(2)</sup> (\$)	Perquisites/ Benefits <sup>(3)</sup> (\$)	Other <sup>(4)</sup> (\$)	Total (\$)
Robert A. DeAlmeida	987,171	262,841	72,902	52,100	1,375,014
John P. Marzullo	276,662	86,134	41,527	19,120	423,443
Ellen R. Fish	537,814	97,554	6,999	16,934	659,301

- (1) The cash amount payable to the named executive officers consists of a cash severance payment equal to three times (in the case of Mr. DeAlmeida) or two times (in the case of Mr. Marzullo and Ms. Fish) the sum of (A) the named executive officer's highest rate of annual base salary and (B) the highest annual bonus earned by him or her during the current calendar year of his or her date of termination or any of the three calendar years (in the case of Mr. DeAlmeida) or two calendar years (in the case of Mr. Marzullo and Ms. Fish) immediately preceding the date of termination. The cash severance payment is payable in a lump sum within 30 days (in the case of Messrs. DeAlmeida and Marzullo) or 35 days (in the case of Ms. Fish) of the date of termination. Ms. Fish will not receive any cash severance payments under the terms of her existing change in control agreement with Hamilton Bancorp, but is eligible to receive cash severance payments under the terms of her employment agreement with Orrstown Financial Services and Orrstown Bank discussed above. The cash severance payments to Messrs. DeAlmeida and Marzullo are double trigger benefits due to their contractual right to payment upon an involuntary termination without cause or voluntary termination for Good Reason (as defined in their agreements) following a change in control. The cash severance payment to Ms. Fish would be a modified single trigger benefit due to her contractual right to payment in the event of her termination for any reason or no reason with one year following the change in control.
- (2) The amounts listed in this column represent the aggregate value of stock options and unvested shares of restricted stock. The vesting and settlement of the stock options and shares of restricted stock awarded under the 2013 Equity Incentive Plan will be fully accelerated and paid upon the closing of the merger (i.e., single trigger vesting). The amounts reported in this column for the stock options were calculated based on the difference

between \$16.90 and the exercise price, if any, of the stock option. The amounts reported in this column for the restricted stock were calculated based on a price per share of Hamilton Bancorp common stock of \$14.38, the average closing price per share over the first five business days following the announcement of the merger agreement. The following tables quantify the number and value of the stock options to be settled and unvested restricted stock held by the named executive officers that would accelerate upon a change in control in connection with the merger based on the assumptions described above. These numbers do not forecast any grants, additional issuances, dividends or additional deferrals of equity-based awards following the date of this proxy statement/prospectus. Depending on when the effective time of the merger occurs, certain equity-based awards shown in the table may vest or become forfeited in accordance with their terms. For purposes of the tables below, it is assumed that the merger closes on March 31, 2019.

<b>Name</b>	<b>Shares Underlying Hamilton Bancorp Stock Options that Vest upon a Change in Control (#)</b>	<b>Value of Hamilton Bancorp Stock Options to be Cashed Out upon a Change in Control (\$)</b>
Robert A. DeAlmeida	78,198	236,741
John P. Marzullo	21,857	65,254
Ellen R. Fish	21,857	62,294

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<b>Name</b>	<b>Hamilton Bancorp Restricted Shares that Vest upon a Change in Control (#)</b>	<b>Value of Hamilton Bancorp Restricted Shares that Vest upon a Change in Control (\$)</b>
Robert A. DeAlmeida	1,815	26,100
John P. Marzullo	1,452	20,880
Ellen R. Fish	2,452	35,260

- (3) The amounts listed in this column represents the present value of the cash equivalent of the estimated value of the monthly premium of the continuation, at no cost to the named executive officer, of life insurance and non-taxable medical and dental insurance coverage until the date which is three years (in the case of Mr. DeAlmeida) or two years (in the case of Mr. Marzullo and Ms. Fish) after his or her date of termination. The present value was calculated using a discount rate equal to 120% of the applicable federal rate (compounded semi-annually) for December 2018, as published by the Internal Revenue Service. The continued life insurance and non-taxable medical and dental insurance coverage benefits are double-trigger benefits for Messrs. DeAlmeida and Marzullo and a modified single trigger benefit for Ms. Fish.
- (4) As described above, each named executive officer is entitled to certain payments pursuant to the Hamilton Bank ESOP upon its termination immediately prior to the closing of the merger. Assuming a per share value of Hamilton Bancorp common stock of \$14.38, and account balances as of December 31, 2018, the named executive officers are entitled to the amounts listed in this column as a result of the termination of the Hamilton Bank ESOP and the resulting allocation of shares in the unallocated suspense account within the Hamilton Bank ESOP. This additional benefit under the Hamilton Bank ESOP is a single-trigger benefit.

**Narrative Disclosure to Merger-Related Executive Compensation Table**

For additional information relating to the named executive officers' employment arrangements and the treatment of Hamilton Bancorp equity awards held by the named executive officers, see *Interests of Hamilton Bancorp's Directors and Executive Officers in the Merger* beginning on page 53. Completion of the merger is not conditioned on approval of the proposal to approve merger-related executive compensation.

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**THE MERGER AGREEMENT**

The following is a brief summary of the significant provisions of the merger agreement. The summary is not complete and is qualified in its entirety by reference to the merger agreement, which is attached to this proxy statement/prospectus as *Annex A* and is incorporated into this proxy statement/prospectus by reference. You should read the merger agreement carefully and in its entirety.

**Structure of the Merger**

The merger agreement provides for the merger of Hamilton Bancorp with and into Orrstown Financial Services. The surviving corporation in the merger will be Orrstown Financial Services. It is anticipated that Hamilton Bank will merge with and into Orrstown Bank, with Orrstown Bank continuing as the surviving bank, immediately following the merger.

**Closing of the Merger**

The closing of the merger will occur on a date that is no later than five business days after the satisfaction or waiver of all of the closing conditions described in the merger agreement, unless this date is extended by the mutual agreement of the parties. The merger will become effective upon the filing of articles of merger with the Secretary of the Commonwealth of Pennsylvania and the Maryland Department of Assessments and Taxation.

We currently expect to complete the merger during the second quarter of 2019; however, because the merger is subject to a number of conditions, we cannot predict the actual timing of the closing of the merger.

**Board of Directors of Orrstown Financial Services and Orrstown Bank**

Upon completion of the merger, the board of directors of both Orrstown Financial Services and Orrstown Bank will consist of the current board of directors and one director of Hamilton Bancorp who will be agreed upon by the board of directors of both Orrstown Financial Services and Hamilton Bancorp and appointed to the board of directors of both Orrstown Financial Services and Orrstown Bank at the effective time of the merger.

**Merger Consideration**

If the merger agreement is approved by the holders of at least a majority of the shares of Hamilton Bancorp common stock outstanding and entitled to vote at the special meeting and the merger is subsequently completed, each outstanding share of Hamilton Bancorp common stock will be converted into the right to receive (1) 0.54 shares of Orrstown Financial Services common stock and (2) \$4.10 in cash, without interest, subject to possible reduction based on potential losses, write-downs, or reserves related to certain identified loans of Hamilton Bank. The maximum possible reduction to the cash consideration is \$1,000,000, or approximately \$0.27 per share, based on 3,416,039 shares of Hamilton Bancorp common stock and 262,704 stock options outstanding as of the record date. Orrstown Financial Services common stock is traded on NASDAQ under the symbol ORRF.

No fractional shares of Orrstown Financial Services common stock will be issued in connection with the merger. Instead, each Hamilton Bancorp stockholder will receive an amount of cash, in lieu of any fractional share, based on the average daily closing price of Orrstown Financial Services common stock as reported on NASDAQ for the ten consecutive trading day period ending on the fifth business day prior to the closing date of the merger, rounded to the nearest whole cent.

As of the date of the merger agreement, based on the closing price of Orrstown Financial Services common stock of \$23.10 and assuming no reduction in the cash consideration, Hamilton Bancorp stockholders would have received Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$16.57. Based on the closing price of Orrstown Financial Services common stock of \$18.96 per share on February 4, 2019, the most recent practicable date prior to the mailing of this proxy statement/prospectus, Hamilton Bancorp stockholders would receive Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$14.34. The following table presents the implied value per share to be received in exchange for each

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share of Hamilton Bancorp common stock if the stock price of Orrstown Financial Services common stock at the closing of the merger is equal to the prices set forth in the table.

## Illustrative

Orrstown Financial Services			Implied Value Per Share of Hamilton Bancorp common stock	
Stock Price at Closing	Exchange Ratio	Cash Consideration		
\$ 23.50	0.54	\$ 4.10	\$	16.79
\$ 23.00	0.54	\$ 4.10	\$	16.52
\$ 22.50	0.54	\$ 4.10	\$	16.25
\$ 22.00	0.54	\$ 4.10	\$	15.98
\$ 21.50	0.54	\$ 4.10	\$	15.71
\$ 21.00	0.54	\$ 4.10	\$	15.44
\$ 20.50	0.54	\$ 4.10	\$	15.17
\$ 20.00	0.54	\$ 4.10	\$	14.90
\$ 19.50	0.54	\$ 4.10	\$	14.63
\$ 19.00	0.54	\$ 4.10	\$	14.36
\$18.96	0.54	\$ 4.10	\$	14.34
\$ 18.50	0.54	\$ 4.10	\$	14.09
\$ 18.00	0.54	\$ 4.10	\$	13.82
\$ 17.50	0.54	\$ 4.10	\$	13.55

Hamilton Bancorp has the right to terminate the merger agreement if the volume weighted average stock price of Orrstown Financial Services common stock as reported on NASDAQ for the 15 consecutive trading days immediately preceding the determination date (1) is less than \$20.1535 per share and (2) underperforms the volume weighted average price of the NASDAQ Bank Index for the 15 consecutive trading days immediately preceding the determination date by more than 15%. If Hamilton Bancorp exercises this termination right, Orrstown Financial Services will have the option to increase the exchange ratio or the cash consideration to be provided to Hamilton Bancorp stockholders to an amount which would compensate Hamilton Bancorp stockholders for the extent of the decrease in the price of Orrstown Financial Services common stock below the minimum implied value that would have avoided triggering the termination right described above. If Orrstown Financial Services elects to increase the merger consideration pursuant to the preceding sentence, no termination will occur. See the section of this proxy statement/prospectus titled *The Merger Agreement Termination* beginning on page 66.

As of February 1, 2019, there were 3,416,039 shares of Hamilton Bancorp common stock issued and outstanding. Based upon these numbers, this will result in current Orrstown Financial Services stockholders owning approximately 83.7% of the combined company and Hamilton Bancorp stockholders owning approximately 16.3% of the combined company.

No interest will be paid on any cash merger consideration.

**Exchange of Hamilton Bancorp Stock Certificates for Orrstown Financial Services Common Stock**

On or before the closing date of the merger, Orrstown Financial Services will cause to be delivered to the exchange agent certificates representing the shares of Orrstown Financial Services common stock to be issued in the merger. In

addition, Orrstown Financial Services will deliver to the exchange agent an aggregate amount of cash sufficient to pay the aggregate amount of cash consideration payable in the merger, including an estimated amount of cash to be paid in lieu of fractional shares of Orrstown Financial Services common stock. Orrstown Financial Services has selected Continental Stock Transfer & Trust Company to act as exchange agent in connection with the merger.

As promptly as practicable following the effective time of the merger, the exchange agent will mail to each Hamilton Bancorp stockholder of record at the effective time of the merger a letter of transmittal and instructions for use in surrendering the stockholder's Hamilton Bancorp stock certificates. When such Hamilton Bancorp stockholders deliver their Hamilton Bancorp stock certificates to the exchange agent with a properly completed and duly executed letter of transmittal and any other required documents, their Hamilton Bancorp stock certificates will be canceled and in exchange Hamilton Bancorp stockholders will receive, as allocated to them:

the number of whole shares of Orrstown Financial Services common stock that they are entitled to receive under the merger agreement;

a check representing the amount of cash that they are entitled to receive under the merger agreement; and

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if applicable, a check representing the amount of cash that they are entitled to receive in lieu of any fractional shares.

No interest will be paid or accrued on any cash constituting merger consideration.

Hamilton Bancorp stockholders who are receiving the stock consideration in the merger are not entitled to receive any dividends or other distributions on Orrstown Financial Services common stock with a record date after the closing date of the merger until they have surrendered their Hamilton Bancorp stock certificates in exchange for an Orrstown Financial Services stock certificate. After the surrender of their Hamilton Bancorp stock certificates, Hamilton Bancorp stockholders of record will be entitled to receive any dividend or other distribution, without interest, which had become payable with respect to their Orrstown Financial Services common stock.

## **Treatment of Hamilton Bancorp Equity Awards**

*Stock Options.* Upon the effective time of the merger, each option granted under Hamilton Bancorp's 2013 Equity Incentive Plan and any other similar plan or otherwise, which is outstanding immediately prior to the effective time of the merger and which has not been previously exercised or canceled, will be canceled and Hamilton Bancorp shall pay to the holder thereof cash in an amount equal to the product of (i) the number of shares of Hamilton Bancorp common stock underlying such stock option and (ii) the excess, if any, of \$16.90 (subject to adjustment to the extent there is any reduction to the merger consideration as set forth in the merger agreement) per share over the exercise price per share provided for in such stock option, which cash payment shall be made without interest and shall be net of all applicable withholding taxes. At the effective time of the merger, the Hamilton Bancorp 2013 Equity Incentive Plan shall terminate and the provisions of such plan and any other plan, program or arrangement providing for the issuance or grant of any other interest in respect of the capital stock of Hamilton Bancorp shall be of no further force and effect and shall be deemed to be canceled. As of the record date, there were outstanding options to purchase 262,704 shares of Hamilton Bancorp common stock.

*Restricted Stock.* Immediately prior to the effective time of the merger, all outstanding unvested shares of restricted stock awarded under the 2013 Equity Incentive Plan and any other similar plan will become fully vested and will be treated as outstanding shares of Hamilton Bancorp common stock for all purposes under the merger agreement, and be converted into the right to receive merger consideration. As of the record date, there were outstanding 26,561 unvested shares of Hamilton Bancorp restricted stock.

## **Conditions to the Merger**

The obligations of the parties to the merger agreement to consummate the merger are subject to the fulfillment of the following conditions:

the merger agreement and the merger being approved by the requisite affirmative vote of the holders of at least a majority of the outstanding shares of Hamilton Bancorp common stock entitled to vote at the special meeting;

Orrstown Financial Services and Orrstown Bank having obtained all regulatory approvals required to consummate the transactions provided for in the merger agreement, all related statutory waiting periods having expired, and none of the regulatory approvals having imposed any burdensome condition;



the absence of any order, decree or injunction in effect, or any law, statute or regulation enacted or adopted, that enjoins, prohibits, materially restricts or makes illegal the consummation of the transactions provided for in the merger agreement; and

the registration statement, of which this proxy statement/prospectus is a part, being declared effective and the absence of any proceeding or threatened proceeding to suspend, or stop order suspending, that effectiveness.

In addition, the obligation of Orrstown Financial Services to complete the merger is subject to the fulfillment or written waiver, where permissible, of the following conditions:

each of the representations and warranties of Hamilton Bancorp contained in the merger agreement having been true and correct as of the date of the merger agreement and as of the closing date of the merger, unless the failure of those representations and warranties to be true and correct, individually or in the aggregate, has not had, or would not reasonably be likely to have, a material adverse effect on Hamilton Bancorp;

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each and all of the agreements and covenants of Hamilton Bancorp to be performed and complied with pursuant to the merger agreement on or prior to the closing date of the merger having been duly performed and complied with in all material respects;

Orrstown Financial Services having received a certificate from the chief executive officer and chief financial officer of Hamilton Bancorp with respect to compliance with the foregoing conditions; and

Orrstown Financial Services having received an opinion from its tax counsel, or such other counsel as provided for in the merger agreement, that the merger will be treated for federal income tax purposes as a reorganization under Section 368(a) of the Code.

The obligations of Hamilton Bancorp to complete the merger are subject to the fulfillment or written waiver, where permissible, of the following additional conditions:

each of the representations and warranties of Orrstown Financial Services contained in the merger agreement having been true and correct as of the date of the merger agreement and as of the closing date of the merger, unless the failure of those representations and warranties to be true and correct, individually or in the aggregate, has not had, or would not reasonably be likely to have, a material adverse effect on Orrstown Financial Services;

each and all of the agreements and covenants of Orrstown Financial Services to be performed and complied with pursuant to the merger agreement on or prior to the closing date of the merger having been duly performed and complied with in all material respects;

Hamilton Bancorp having received a certificate from the chief executive officer and chief financial officer of Orrstown Financial Services with respect to compliance with the foregoing conditions; and

Hamilton Bancorp having received an opinion from its tax counsel, or such other counsel as provided for in the merger agreement, that the merger will be treated for federal income tax purposes as a reorganization under Section 368(a) of the Code.

Material adverse effect when used in reference to Hamilton Bancorp or Orrstown Financial Services, means any fact, change, event, development, effect or circumstance that, individually or in the aggregate, (1) are, or would reasonably be expected to be, materially adverse to the business, business prospects, operations, assets, liabilities, condition (financial or otherwise), results of operations, cash flows or properties of Hamilton Bancorp or Orrstown Financial Services and its subsidiaries, taken as a whole, or (2) would reasonably be expected to prevent Hamilton Bancorp or Orrstown Financial Services from performing its obligations under the merger agreement or consummating the transactions provided for in the merger agreement; however, material adverse effect does not include the impact of:

any fact, change, event, development, effect or circumstance arising after the date of the merger agreement affecting banks or their holding companies generally or arising from changes in general business or

economic conditions (and not specifically relating to or having the effect of specifically relating to or having a materially disproportionate effect on Hamilton Bancorp or Orrstown Financial Services and its subsidiaries, taken as a whole);

any fact, change, event, development, effect or circumstance resulting from any change in law, generally accepted accounting principles or regulatory accounting after the date of the merger agreement, which affects generally entities such as Hamilton Bancorp or Orrstown Financial Services and its subsidiaries, taken as a whole (and not specifically relating to or having the effect of specifically relating to or having a materially disproportionate effect on Hamilton Bancorp or Orrstown Financial Services and its subsidiaries, taken as a whole);

actions and omissions of Hamilton Bancorp or Orrstown Financial Services and its subsidiaries taken with the prior written consent of the other party in furtherance of the transactions provided for in the merger agreement or otherwise permitted to be taken by Hamilton Bancorp or Orrstown Financial Services and its subsidiaries under the merger agreement;

any fact, change, event, development, effect or circumstance resulting from the announcement or pendency of the transactions provided for in the merger agreement;

transaction expenses required by Hamilton Bancorp or Orrstown Financial Services of a type and in an amount customary for transactions similar to the merger;

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any failure by Hamilton Bancorp or Orrstown Financial Services to meet any internal or published industry analyst projections or forecasts or estimates of revenues or earnings for any period; and

changes in the trading price or trading volume of Orrstown Financial Services common stock.

**Termination**

The merger agreement may be terminated and the merger and the transactions provided for in the merger agreement abandoned as follows:

by mutual written consent of the parties;

by Orrstown Financial Services or Hamilton Bancorp if the merger is not consummated by July 31, 2019, unless the terminating party's failure to comply with the merger agreement was the cause of the failure of the merger to occur on or before this date;

by Orrstown Financial Services or Hamilton Bancorp if the other party materially breaches any of its representations, warranties, covenants or agreements contained in the merger agreement (provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement), and the breach cannot be or has not been cured within 30 days of written notice of the breach and such breach would entitle the non-breaching party not to consummate the transactions provided for in the merger agreement;

by Orrstown Financial Services or Hamilton Bancorp if (1) any regulatory approval required for consummation of the merger and the other transactions provided for in the merger agreement (A) will impose any term, condition or restriction upon Orrstown Financial Services or any of its subsidiaries that Orrstown Financial Services reasonably determines, after consultation with Hamilton Bancorp, is a burdensome condition, or (B) has been denied by final nonappealable action of any regulatory authority, or (2) any governmental entity has issued a final nonappealable order, injunction or decree enjoining or otherwise prohibiting the transactions provided for in the merger agreement, provided in either case that the terminating party has used its reasonable best efforts to have the order, injunction or decree lifted or to prevent such burdensome condition from being imposed;

by Orrstown Financial Services or Hamilton Bancorp if the required approval of the merger agreement and the merger by the Hamilton Bancorp stockholders is not obtained;

by Orrstown Financial Services, if the Hamilton Bancorp board of directors or any committee thereof:

withdraws, qualifies, amends, modifies or withholds its recommendation to the Hamilton Bancorp stockholders to vote in favor of the merger, fails to reaffirm such recommendation within five business

days following a request to do so by Orrstown Financial Services, or makes any statement, filing or release that is inconsistent with such recommendation;

materially breaches its obligation to call, give notice of, hold and commence the special meeting or to solicit proxies in favor of approval of the merger agreement and the merger;

approves or recommends another acquisition proposal;

enters into, or causes Hamilton Bancorp to enter into, any letter of intent, agreement in principle, acquisition, or other agreement related to an acquisition proposal, or requiring Hamilton Bancorp to abandon, terminate or fail to complete the merger or the transactions contemplated thereby; or

resolves or otherwise determines to take, or announces an intention to take, any of the actions listed above;

by Orrstown Financial Services if Hamilton Bancorp or any of Hamilton Bancorp's representatives breaches in any material respect the provisions in the merger agreement prohibiting the solicitation of other offers; or

by Hamilton Bancorp, if its board of directors so determines by a majority vote of the members of its entire board, at any time during the five business day period commencing on the determination date, if both of the following conditions are satisfied:

the volume weighted average stock price of Orrstown Financial Services common stock as reported on NASDAQ for the 15 trading day period immediately preceding the determination date is less than \$20.1535 (which represents 85% of the 15-day volume weighted average stock price of Orrstown Financial Services common stock, as reported on NASDAQ, for the measurement period); and

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the volume weighted average stock price of Orrstown Financial Services common stock as reported on NASDAQ for the 15 consecutive trading days immediately preceding the determination date underperforms the volume weighted average price of the NASDAQ Bank Index for the 15 consecutive trading days immediately preceding the determination date by more than 15%.

If the Hamilton Bancorp board of directors exercises the termination right described above, Hamilton Bancorp shall promptly notify Orrstown Financial Services of its decision. Within five business days of receipt of such notice, Orrstown Financial Services may elect to increase the merger consideration to be provided to Hamilton Bancorp stockholders by increasing the exchange ratio or the cash consideration to an amount which would compensate Hamilton Bancorp stockholders to the extent of the decrease in the price of Orrstown Financial Services common stock below the minimum implied value that would avoid triggering the termination right described above.

If Orrstown Financial Services elects to increase the merger consideration pursuant to the preceding sentence, no termination will occur.

Under the merger agreement, an acquisition proposal means any inquiry, offer or proposal (other than an inquiry, offer or proposal from Orrstown Financial Services), whether or not in writing, contemplating, relating to, or that could reasonably be expected to lead to, an acquisition transaction. An acquisition transaction means:

any transaction or series of transactions involving any merger, consolidation, recapitalization, share exchange, liquidation, dissolution or similar transaction involving Hamilton Bancorp or any of its subsidiaries;

any transaction pursuant to which any third party or group acquires or would acquire (whether through sale, lease or other disposition), directly or indirectly, any assets of Hamilton Bancorp representing, in the aggregate, 25% or more of the assets of Hamilton Bancorp and its subsidiaries on a consolidated basis;

any issuance, sale or other disposition of (including by way of merger, consolidation, share exchange or any similar transaction) securities (or options, rights or warrants to purchase or securities convertible into, such securities) representing 25% or more of the votes attached to the outstanding securities of Hamilton Bancorp or any of its subsidiaries;

any tender offer or exchange offer that, if consummated, would result in any third party or group beneficially owning 25% or more of any class of equity securities of Hamilton Bancorp or any of its subsidiaries; or

any transaction which is similar in form, substance or purpose to any of the transactions listed above, or any combination of these types of transactions.

For purposes of the termination fee provisions described below, all references to 25% in the definition of acquisition transaction shall instead refer to 50%.

## **Termination Fee**

Under the terms of the merger agreement, Hamilton Bancorp must pay Orrstown Financial Services a termination fee of \$2,212,500 if:

Orrstown Financial Services terminates the merger agreement as a result of the Hamilton Bancorp board of directors:

withdrawing, qualifying, amending, modifying or withholding its recommendation to the Hamilton Bancorp stockholders to vote in favor of the merger, failing to reaffirm such recommendation within five business days following a request to do so by Orrstown Financial Services, or making any statement, filing or release that is inconsistent with such recommendation;

materially breaching its obligation to call, give notice of hold and commence the special meeting or to solicit proxies in favor of the merger;

approving or recommending another acquisition proposal;

entering into, causing Hamilton Bancorp to enter into, any letter of intent, agreement in principle, acquisition, or other agreement related to an acquisition proposal, or requiring Hamilton Bancorp to abandon, terminate or fail to complete the merger or the transactions contemplated thereby; or

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resolving or otherwise determining to take, or announcing an intention to take, any of the actions listed above;

Orrstown Financial Services terminates the merger agreement as a result of a material breach by Hamilton Bancorp or any of Hamilton Bancorp's representatives of the provisions in the merger agreement prohibiting the solicitation of other offers;

Orrstown Financial Services or Hamilton Bancorp terminates the merger agreement as a result of:

the failure of the Hamilton Bancorp stockholders to approve the merger agreement and the merger, or the merger not having been consummated by July 31, 2019 due to the failure of the Hamilton Bancorp stockholders to approve the merger agreement and the merger, and both:

an acquisition proposal with respect to Hamilton Bancorp has been publicly announced, disclosed or otherwise communicated to the Hamilton Bancorp board of directors or senior management of Hamilton Bancorp prior to July 31, 2019 or prior to the special meeting, as applicable; and

within 12 months of termination of the merger agreement, Hamilton Bancorp enters into a definitive agreement with respect to, or consummates, another acquisition transaction; or

Orrstown Financial Services terminates the merger agreement as a result of a breach by Hamilton Bancorp of any of its representations, warranties, covenants or agreements contained in the merger agreement, if both:

an acquisition proposal with respect to Hamilton Bancorp has been publicly announced, disclosed or otherwise communicated to the Hamilton Bancorp board of directors or senior management of Hamilton Bancorp prior to such breach or during the related cure period; and

within 12 months of termination of the merger agreement, Hamilton Bancorp enters into a definitive agreement with respect to, or consummates, another acquisition transaction.

**No Solicitation; Acquisition Proposals**

Hamilton Bancorp has agreed that neither it nor its subsidiaries nor any of its respective officers, directors, employees, investment bankers, financial advisors, attorneys, accountants, consultants, affiliates and other of its agents (which we refer to as Hamilton Bancorp's representatives) will, directly or indirectly:

initiate, solicit, induce or knowingly encourage, or take any action to facilitate the making of, any inquiry, offer or proposal which constitutes, or could reasonably be expected to lead to, an acquisition proposal;



participate in any discussions or negotiations regarding any acquisition proposal or furnish, or otherwise afford access, to any person (other than Orrstown Financial Services) any information or data with respect to Hamilton Bancorp or any of its subsidiaries or otherwise relating to an acquisition proposal;

release any person from, waive any provisions of, or fail to enforce any confidentiality agreement or standstill agreement to which Hamilton Bancorp is a party; or

enter into any agreement, agreement in principle or letter of intent with respect to any acquisition proposal or approve or resolve to approve any acquisition proposal or any agreement, agreement in principle or letter of intent relating to an acquisition proposal.

If Hamilton Bancorp receives a bona fide unsolicited written acquisition proposal that did not result from a breach by Hamilton Bancorp of any of the provisions in the merger agreement as discussed above, the Hamilton Bancorp board of directors may participate in discussions or negotiations regarding the unsolicited acquisition proposal or furnish the third party with, or otherwise afford access to the third party of, any information or data with respect to Hamilton Bancorp or any of its subsidiaries or otherwise relating to the acquisition proposal if:

the Hamilton Bancorp board of directors first determines in good faith, (1) after consultation with its outside legal counsel and its independent financial advisor, that such acquisition proposal constitutes or is reasonably likely to lead to a superior proposal, and (2) after consultation with its outside legal counsel, that it is required to take such actions to comply with the fiduciary standard of conduct required of a board of directors under applicable law and Hamilton Bancorp's bylaws;

Hamilton Bancorp has provided Orrstown Financial Services with at least three business days prior notice of such determination; and

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prior to furnishing or affording access to any information or data with respect to Hamilton Bancorp or any of its subsidiaries or otherwise relating to an acquisition proposal, the third party enters into a confidentiality agreement with Hamilton Bancorp containing terms not materially less favorable to Hamilton Bancorp than those contained in its confidentiality agreement with Orrstown Financial Services.

A superior proposal means any bona fide written proposal (on its most recently amended or modified terms, if amended or modified) made by a third party to enter into an acquisition transaction on terms that the Hamilton Bancorp board of directors determines in its good faith judgment, after consultation with outside legal counsel and its independent financial advisor:

would, if consummated, result in the acquisition of all, but not less than all, of the issued and outstanding shares of Hamilton Bancorp's common stock or all, or substantially all, of the assets of Hamilton Bancorp;

would result in a transaction that:

involves consideration to the Hamilton Bancorp stockholders that is more favorable, from a financial point of view, than the consideration to be paid to Hamilton Bancorp stockholders pursuant to the merger agreement, considering, among other things, the nature of the consideration being offered and any material regulatory approvals or other risks associated with the proposed transaction, including without limitation the timing thereof, beyond or in addition to those specifically provided for in the merger agreement, and which proposal is not conditioned upon obtaining additional financing; and

is, in light of the other terms of such proposal, more favorable to Hamilton Bancorp stockholders than the merger and the transactions provided for in the merger agreement; and

is reasonably likely to be completed on the terms proposed, in each case taking into account all legal, financial, regulatory and other aspects of the proposal.

Hamilton Bancorp has agreed to promptly, and in any event within 24 hours, notify Orrstown Financial Services in writing if any proposals or offers are received by, any information is requested from, or any negotiations or discussions are sought to be initiated or continued with, Hamilton Bancorp or any of its representatives, in each case in connection with any acquisition proposal. Any such notice will indicate the name of the person initiating such discussions or negotiations or making such inquiry, proposal, offer or information request, the material terms and conditions of any proposals or offers. Hamilton Bancorp is also required to keep Orrstown Financial Services informed, on a reasonably current basis, and in any event within 24 hours, of the status and terms of any material developments with respect to such proposal, offer, information request, negotiations or discussions (including any amendments or modifications to such proposal, offer or request). Hamilton Bancorp will provide Orrstown Financial Services with at least 48 hours prior notice of any meeting of the Hamilton Bancorp board of directors at which it is reasonably expected to consider an acquisition proposal.

Hamilton Bancorp has also agreed to promptly provide Orrstown Financial Services with any non-public information about Hamilton Bancorp or any of its subsidiaries provided to any other person that was not previously provided to Orrstown Financial Services.

In addition, under the merger agreement, Hamilton Bancorp agreed that its board of directors, or any committee of the board, will not:

withdraw, qualify, amend, modify, withhold, or propose to withdraw, qualify, amend, modify, or withhold, in a manner adverse to Orrstown Financial Services in connection with the transactions provided for in the merger agreement (including the merger), its recommendation that Hamilton Bancorp stockholders vote to approve the merger agreement and the merger;

fail to reaffirm its recommendation that Hamilton Bancorp stockholders vote to approve the merger agreement and the merger within three business days following a request by Orrstown Financial Services;

make any statement, announcement or release, in connection with the special meeting or otherwise, inconsistent with its recommendation that Hamilton Bancorp stockholders vote to approve the merger agreement and the merger (including taking a neutral position or no position with respect to an acquisition proposal);

approve or recommend, or propose to approve or recommend, any acquisition proposal; or

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enter into any letter of intent, agreement in principle, acquisition agreement or other agreement:

related to any acquisition transaction (other than a confidentiality agreement entered into in accordance with the no solicitation provisions of the merger agreement); or

requiring Hamilton Bancorp to abandon, terminate or fail to consummate the merger or any other transaction provided for in the merger agreement.

However, prior to the date of the special meeting of stockholders, the Hamilton Bancorp board of directors may withdraw, qualify, amend or modify its recommendation that Hamilton Bancorp stockholders vote to approve the merger agreement and the merger if the Hamilton Bancorp board of directors reasonably determines in good faith, after consultation with outside legal counsel, that it is required to do so in order to comply with the fiduciary standard of conduct required of a board of directors under applicable law and Hamilton Bancorp's bylaws. In the event that the Hamilton Bancorp board of directors makes this determination, Hamilton Bancorp must provide five business days prior written notice to Orrstown Financial Services that its board has decided that a bona fide unsolicited written acquisition proposal that Hamilton Bancorp received (that did not result from a breach of the no solicitation provisions of the merger agreement) constitutes a superior proposal. During the five business days after Orrstown Financial Services' receipt of the notice of a superior proposal, Hamilton Bancorp and its board must cooperate and negotiate in good faith with Orrstown Financial Services to make any adjustments, modifications or amendments to the terms and conditions of the merger agreement as would enable Hamilton Bancorp to proceed with its board's original recommendation with respect to the merger agreement without requiring Hamilton Bancorp to approve or recommend to its stockholders a superior proposal and withdraw, qualify or modify its board's recommendation with respect to the merger agreement. At the end of the five-business day period, and after taking into account any such adjusted, modified or amended terms as may have been proposed by Orrstown Financial Services during that period, the Hamilton Bancorp board of directors must again determine in good faith, after consultation with outside legal counsel, that:

it is required to approve or recommend to its stockholders a superior proposal and withdraw, qualify, amend or modify its recommendation with respect to the merger agreement to comply with its fiduciary duties to its stockholders under applicable law; and

the acquisition proposal is a superior proposal.

Notwithstanding any withdrawal, qualification, amendment or modification to recommendation of the board of directors of Hamilton Bancorp that the stockholders of Hamilton Bancorp vote to approve the merger agreement and the merger, Hamilton Bancorp must submit the merger agreement to its stockholders at the special meeting for the purpose of voting on the approval of the merger agreement and the merger; provided, however, that if the board of directors of Hamilton Bancorp shall have withdrawn, qualified, amended or modified its recommendation, then the board of directors of Hamilton Bancorp may communicate the basis for its lack of a recommendation to the stockholders of Hamilton Bancorp in this proxy statement/prospectus or an appropriate amendment or supplement thereto. In addition, the board of directors of Hamilton Bancorp may not submit to the vote of its stockholders any acquisition proposal other than the merger at the special meeting.

## **Hamilton Bancorp Stockholders Meeting**

Hamilton Bancorp has agreed to call, hold and convene a meeting of its stockholders as promptly as practicable (and in any event within 45 days following the time when the registration statement of which this proxy statement/prospectus is a part becomes effective) to consider and vote upon the approval of the merger agreement and the merger and any other matter required to be approved by the stockholders of Hamilton Bancorp in order to consummate the merger.

### **NASDAQ Listing**

Under the terms of the merger agreement, Orrstown Financial Services will file a notice of additional listing of shares with NASDAQ with respect to the shares of Orrstown Financial Services common stock to be issued to the holders of Hamilton Bancorp common stock in the merger so that these shares will be listed and traded on NASDAQ following the merger.

### **Indemnification and Insurance**

*Indemnification.* Under the merger agreement, Orrstown Financial Services has agreed that all rights to indemnification and all limitations of liability existing in favor of any director or officer of Hamilton Bancorp, as provided in the articles of

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incorporation and bylaws of Hamilton Bancorp, or in applicable law as in effect on the date of the merger agreement with respect to matters occurring on or prior to the effective time of the merger, including without limitation the right to advancement of expenses, will survive the merger.

*Directors and Officers Insurance.* The merger agreement provides for Hamilton Bancorp to purchase an extended reporting period endorsement under its existing directors and officers liability insurance coverage prior to the effective time of the merger in a form acceptable to Hamilton Bancorp. This extended reporting period endorsement will provide Hamilton Bancorp's directors and officers with coverage for six years following the effective time of the merger of not less than the existing coverage under, and have other terms at least as favorable to the insured persons as, the directors and officers liability insurance coverage presently maintained by Hamilton Bancorp so long as the aggregate cost is no more than 200% of the annual premium currently paid by Hamilton Bancorp for such insurance. In the event that this premium limit is insufficient for such coverage, Hamilton Bancorp may enter into an agreement to spend up to that amount to purchase such lesser coverage as may be obtained with such amount.

## **Conduct of Business Pending the Merger**

Under the merger agreement, Hamilton Bancorp has agreed that, until the effective time of the merger or the termination of the merger agreement, and except as expressly permitted by the merger agreement or with the prior written consent of Orrstown Financial Services, Hamilton Bancorp will not, and will cause each of its subsidiaries not to:

conduct its business other than in the ordinary and usual course consistent with past practice;

fail to use reasonable best efforts to preserve intact its business organizations and assets, and maintain its rights, franchises, and existing relations with customers, suppliers, employees and business associates;

take any action that would reasonably be expected to adversely affect the ability of either Hamilton Bancorp or Orrstown Financial Services to obtain any necessary regulatory approval required to complete the transactions provided for in the merger agreement or adversely affect Hamilton Bancorp's ability to perform any of its material obligations under the merger agreement;

issue, sell or otherwise permit to become outstanding any securities or equity equivalents or enter into any agreement with respect to the foregoing, except with respect to stock options or stock based awards outstanding or authorized to be granted on the date of the merger agreement;

accelerate the vesting of any existing stock options or other equity rights except pursuant to the merger agreement;

effect a split, dividend, recapitalization or reclassification of its capital stock;

declare or pay any dividend or other distribution on its capital stock other than dividends from wholly owned subsidiaries to Hamilton Bancorp or regular quarterly cash dividends on the common stock of Hamilton Bancorp no greater than the rate paid during the fiscal quarter immediately preceding the date of the merger agreement with record and payment dates consistent with past practice;

grant or approve any preemptive or similar rights with respect to any shares of Hamilton Bancorp common stock;

enter into or amend any employment, severance or similar arrangement with any director, officer, employee or consultant, grant any salary or wage increase, increase any employee benefit, or make any bonus or incentive payments except for normal increases not to exceed five percent (5%) on an individual basis in compensation to employees in the ordinary course of business consistent with past practice, as may be required by law, to satisfy existing contractual obligations and with respect to the calendar year in which the merger becomes effective, for bonuses budgeted by Hamilton Bancorp consistent with past practice and in the ordinary course of business;

enter into, establish, adopt, or amend any benefit plans or any agreement, arrangement, plan or policy between Hamilton Bancorp and any of its directors, officers or employees, except as required by law or to satisfy contractual obligations;

hire any member of senior management or other key employee, elect to any office any person who is not a member of Hamilton Bancorp's management team as of the date of the merger agreement or elect to the Hamilton Bancorp board of directors any person who is not a member of the Hamilton Bancorp board of directors as of the date of the merger agreement, except for the hiring of at-will employees having a title of manager or lower to replace employees that cease to be employees of Hamilton Bancorp after the date of the merger agreement at an annual rate of salary not to exceed \$50,000 in the ordinary course of business;

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sell, transfer, mortgage, encumber or otherwise dispose of or discontinue any of Hamilton Bancorp's assets, deposits, business or properties except in the ordinary course of business consistent with past practice and in a transaction, that, together with all other such transactions, is not material to Hamilton Bancorp and its subsidiaries, taken as a whole;

amend its articles of incorporation or bylaws;

acquire all or any portion of the assets, business, securities, deposits or properties of any other entity, other than by way of foreclosures or acquisitions of control in a bona fide fiduciary capacity or in satisfaction of debts previously contracted in good faith, in each case in the ordinary course of business consistent with past practice;

except for any emergency repairs to real or personal property owned by Hamilton Bancorp, notice of which will be provided to Orrstown Financial Services 48 hours prior to such repairs, make any capital expenditures other than capital expenditures in the ordinary course of business consistent with past practice in amounts not to exceed \$35,000 in the aggregate;

enter into or terminate any material agreement or amend or modify in any material respect any existing material agreement;

settle any litigation, which settlement involves payment by Hamilton Bancorp or any of its subsidiaries of any amount that exceeds \$25,000 individually or \$50,000 in the aggregate and/or would impose any material restriction on the business of Hamilton Bancorp or any of its subsidiaries after the effective time of the merger, or waive or release any material rights or claims, or agree or consent to the issuance of any injunction, decree, order or judgment restricting or otherwise affecting its business or operations in any material respect;

enter into any new material line of business;

change its material lending, investment, underwriting, risk and asset liability management or other material banking and operating policies, except as required by applicable law, regulation or policies imposed by any regulatory authority;

introduce any material new products or services, any material marketing campaigns or any material new sales compensation or incentive programs or arrangements;

file any application or make any contract with respect to branching or site location or branching or site relocation or closure;



enter into any derivative transactions;

incur, modify, extend or renegotiate any indebtedness for borrowed money (other than deposits, federal funds purchased, Federal Home Loan Bank advances, and securities sold under agreements to repurchase, in each case in the ordinary course of business consistent with past practice);

prepay any indebtedness or other similar arrangements so as to cause Hamilton Bancorp or any of its subsidiaries to incur any prepayment penalty;

assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other person, other than in the ordinary course of business consistent with past practice;

acquire (other than by way of foreclosures or acquisitions in a bona fide fiduciary capacity or in satisfaction of debts previously contracted in good faith, in each case in the ordinary course of business consistent with past practice) any debt security or equity investment of a type or in an amount not in accordance with Hamilton Bancorp's investment policy or any other debt security other than in accordance with Hamilton Bancorp's investment policy, or restructure or materially change its investment securities portfolio or its interest rate risk position, through purchases, sales or otherwise, or in accordance with Hamilton Bancorp's investment policy;

make, increase or purchase any loan if, as a result of such action, the total commitment to the borrower and the borrower's affiliates would equal or exceed \$500,000 in the case of consumer loans, \$1,000,000 in the case of residential mortgage loans or \$2,000,000 in the case of commercial loans or commercial real estate loans;

make, increase or purchase any fixed-rate loan with pricing below the applicable Federal Home Loan Bank advance rate;

renegotiate, renew, increase, extend, modify or purchase any existing loan rated special mention or lower by Hamilton Bancorp in an amount equal to or greater than \$250,000;

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invest in real estate or in any real estate development project, other than by way of foreclosure or acquisitions in a bona fide fiduciary capacity or in satisfaction of a debt previously contracted in good faith, in each case, in the ordinary course of business consistent with past practice;

foreclose on or take a deed or title to any real estate other than single-family residential properties without first conducting a Phase I environmental assessment of the property, or foreclose or take a deed or title to any real estate if such environmental assessment indicates the presence of hazardous material;

change its accounting principles, practices or methods other than as may be required by changes in laws or regulations or by generally accepted accounting principles;

make or change any material (affecting or relating to more than \$50,000 or more of taxable income) tax election, change an annual accounting period, adopt or change any material accounting method, file any material amended tax return, fail to timely file any material tax return, enter into any material closing agreement, settle or compromise any material liability with respect to taxes, agree to any material adjustment of any tax attribute, surrender any material right to claim a refund of taxes, consent to any material extension or waiver of the limitation period applicable to any tax claim or assessment, or take any other similar action relating to the filing of any material tax return or the payment of any material tax;

change its loan policies or procedures except as required by a governmental authority;

knowingly take any action that would, or would be reasonably likely to, prevent or impede the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code or materially impede or delay receipt of any regulatory approval;

take any action that is intended or is reasonably likely to result in:

any of its representations and warranties set forth in the merger agreement being or becoming untrue in any material respect at any time prior to the effective time of the merger;

any of the conditions to the merger set forth in the merger agreement not being satisfied; or

a material violation of any provision of the merger agreement; or

resolve, agree or commit to do any of these prohibited activities.

Orrstown Financial Services and Orrstown Bank have agreed that, except as permitted by the merger agreement or otherwise consented to by Hamilton Bancorp in writing, they will not:

knowingly take any action that would, or would be reasonably likely to, prevent or impede the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code or materially impede or delay receipt of any regulatory approval; or

take any action that is intended or is reasonably likely to result in any of the conditions to the merger set forth in the merger agreement not being satisfied.

The agreements relating to the conduct of Hamilton Bancorp's and Orrstown Financial Services' business contained in the merger agreement are complicated and not easily summarized. You are urged to carefully read Article V of the merger agreement attached to this proxy statement/prospectus as *Annex A*.

### **Employee Benefits**

Under the terms of the merger agreement, from and for at least a 12-month period after the effective time of the merger, Orrstown Financial Services will provide the employees of Hamilton Bancorp and any of its subsidiaries who remain employed after the effective time of the merger with at least the types and levels of employee benefits as are substantially comparable to those provided to similarly-situated employees of Orrstown Financial Services. Orrstown Financial Services also has the right in its sole discretion to terminate, merge or continue any of Hamilton Bancorp's employee benefit plans. To the extent that Hamilton Bancorp's employees become eligible to participate in Orrstown Financial Services' employee benefit plans after the merger, Orrstown Financial Services will:

provide each employee with eligibility and vesting credit, but not benefit accrual credit with respect to defined benefit plans for purposes of severance benefits, for any purposes under any post-termination/retiree welfare benefit plan or for purposes of any equity based compensation or benefits or profits-sharing contribution, equal to the amount of service credited by Hamilton Bancorp prior to the merger;

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subject to the terms of Orrstown Financial Services employee plans, take commercially reasonable efforts to provide each employee with eligibility and vesting credit in Orrstown Financial Services 401(k) plan and for purposes of determining the length of vacation, sick time, paid time off and severance under Orrstown Financial Services applicable plan or policy;

subject to the terms of Orrstown Financial Services employee plans, not treat any employee of Hamilton Bancorp or any of its subsidiaries as a new employee for purposes of any exclusions under any health or similar plan of Orrstown Financial Services for any pre-existing medical condition, except to the extent such employee was treated as a new employee under the Hamilton Bancorp health plan; and

subject to the terms of Orrstown Financial Services employee plans, provide for any deductibles, co-payments or out-of-pocket expenses paid under Hamilton Bancorp's health plans to be credited toward deductibles, co-payments or out-of-pocket expenses under Orrstown Financial Services health plans upon delivery to Orrstown Financial Services of appropriate documentation.

In addition, Orrstown Financial Services may pay retention bonuses to certain of Hamilton Bancorp's employees who remain employed through certain dates following the effective time of the merger. The employees who may receive retention bonuses and the amounts, allocation and timing of payment of the retention bonuses will be determined by the mutual agreement of Orrstown Financial Services and Hamilton Bancorp. Orrstown Financial Services also agreed to cause Hamilton Bancorp to honor and continue to be obligated to perform all contractual rights of current and former employees of Hamilton Bancorp or any of its subsidiaries existing as of the date of the merger agreement.

Employees of Hamilton Bancorp and any of its subsidiaries who are not otherwise party to an employment agreement, change in control agreement or other separation agreement that provides a benefit upon a termination of employment will be eligible to receive a lump sum severance payment equal to two weeks of weekly base pay for each full year of service, with a minimum of four weeks and a maximum of 26 weeks, if their employment is terminated other than for cause by Hamilton Bancorp at the request of Orrstown Financial Services prior to the effective time of the merger or by Orrstown Financial Services within one year following the effective time of the merger. In addition, for those Hamilton Bancorp employees who are not offered full-time employment with Orrstown Financial Services, Hamilton Bancorp, in consultation with Orrstown Financial Services, will provide reasonable outplacement services to such affected employees.

Hamilton Bancorp maintains the Hamilton Bank ESOP. Under the merger agreement, the Hamilton Bank ESOP will be terminated immediately prior to the effective time of the merger. As a result of the merger, all shares of Hamilton Bancorp common stock held by the Hamilton Bank ESOP will be converted into the right to receive the merger consideration. Any outstanding indebtedness of the Hamilton Bank ESOP will be repaid from unallocated plan assets and the balance of the unallocated shares of Hamilton Bancorp common stock, as well as any other assets remaining unallocated, will be allocated to the plan participants on a pro rata basis to all active participants with an account balance under the Hamilton Bank ESOP based on the size of each active participant's account balance on the termination date. Neither Hamilton Bancorp nor, following the effective time of the merger, Orrstown Financial Services will make any distribution from the Hamilton Bank ESOP to any employees of Hamilton Bancorp or any of its subsidiaries who continue employment with Orrstown Financial Services, except as may be required by applicable law or the terms of the plan, until receipt of a favorable determination letter from the IRS.

Orrstown Financial Services also agreed to cause Hamilton Bancorp to honor and continue to be obligated to perform all contractual rights of current and former employees of Hamilton Bancorp or any of its subsidiaries existing as of the date of the merger agreement.

**Other Covenants**

The merger agreement also contains covenants relating to the preparation and distribution of this proxy statement/prospectus and all requisite regulatory filings.

**Representations and Warranties**

The merger agreement contains representations and warranties that Orrstown Financial Services and Hamilton Bancorp made solely to each other as of specific dates. Those representations and warranties were made only for purposes of the merger agreement and may be subject to important qualifications and limitations agreed to by the parties, including the

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schedules referenced in the merger agreement that each party delivered to the other in connection with the execution of the merger agreement. Moreover, some of those representations and warranties may not be accurate or complete as of any specific date, may be subject to a standard of materiality provided for in the merger agreement, or may have been used for the purpose of allocating risk among Orrstown Financial Services and Hamilton Bancorp rather than establishing matters as facts. Accordingly, they should not be relied upon as statements of factual information. Third parties are not entitled to the benefits of the representations and warranties in the merger agreement.

The merger agreement contains representations and warranties of Orrstown Financial Services and Hamilton Bancorp that are reciprocal except as noted, relating to:

due organization, existence, good standing and corporate authority;

capitalization;

subsidiaries;

corporate power;

corporate authority;

no violation or breach of certain organizational documents, agreements and governmental orders;

compliance with laws;

litigation;

regulatory action;

corporate records;

taxes and tax returns;

labor matters;

environmental matters;

SEC documents, financial reports and regulatory reports;

risk management instruments, solely from Orrstown Financial Services;

insurance;

property and leases;

repurchase agreements;

trust accounts;

absence of certain changes;

regulatory capitalization;

Community Reinvestment Act, anti-money laundering and customer information security compliance;

brokers;

deposit insurance;

information technology systems;

investment securities;

sufficient funds, solely from Orrstown Financial Services;

off balance sheet transactions, solely from Orrstown Financial Services; and

loans and allowance for loan losses.

The merger agreement contains additional representations and warranties by Hamilton Bancorp relating to:

employee benefit programs;

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deposits;

employee stock ownership plan;

intellectual property;

personal data and privacy requirements;

material agreements and defaults;

inapplicability of takeover laws;

investment management and trust activities;

derivative transactions; and

transactions with affiliates.

The merger agreement also contains additional representations and warranties by Orrstown Financial Services and its subsidiaries relating to SEC documents and filings, and the sufficiency of funds to complete the merger.

None of the representations and warranties by either party survives the effective time of the merger. The representations and warranties in the merger agreement are complicated and not easily summarized. You are urged to carefully read Articles III and IV of the merger agreement attached to this proxy statement/prospectus as *Annex A*.

**Expenses**

Each party will pay all fees and expenses it incurs in connection with the merger agreement and the related transactions, except that the parties will each pay 50% of the printing and mailing expenses for this proxy statement/prospectus and Orrstown Financial Services will pay all SEC registration and filing fees.

**Amendments**

Orrstown Financial Services and Hamilton Bancorp may amend the merger agreement by executing a written amendment approved by the boards of directors of Orrstown Financial Services and Hamilton Bancorp. However, after approval of the merger agreement and the merger by the stockholders of Hamilton Bancorp, no amendment of the merger agreement may be made which by law requires further approval of the Hamilton Bancorp stockholders without obtaining that approval.

**Regulatory Approvals Required for the Merger**

Before Orrstown Financial Services and Hamilton Bancorp may complete the merger, they must obtain a number of regulatory approvals from, or give notices to, federal and state bank regulators.

*Board of Governors of the Federal Reserve System.* The merger of Hamilton Bank with and into Orrstown Bank is subject to approval by the Board of Governors of the Federal Reserve System (the Federal Reserve ), under Section 18(c) of the Federal Deposit Insurance Act, as amended, also known as the Bank Merger Act. Under the Bank Merger Act, the Federal Reserve may not approve a transaction that would result in a monopoly or otherwise substantially lessen competition or restrain trade, unless it finds that the anti-competitive effects of the transaction are clearly outweighed by the public interest. In addition, the Federal Reserve considers the financial and managerial resources and future prospects of the depository institutions involved in the proposed merger, the convenience and needs of the communities to be served, and the risk to the financial stability of the United States banking or financial system. Under the Community Reinvestment Act of 1977, as amended (the CRA ), the Federal Reserve must take into account the record of performance of each party to the proposed merger in meeting the credit needs of its entire community, including low- and moderate- income neighborhoods. The Federal Reserve also must consider the effectiveness of each party involved in the proposed transaction in combating money laundering activities. Federal law requires publication of notice of, and the opportunity for public comment on, the application submitted by Orrstown Bank for Federal Reserve approval.

In connection with its review of the application submitted by Orrstown Bank, the Federal Reserve will request a report on competitive factors from the United States Department of Justice (the DOJ ). The Federal Reserve or the DOJ may

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challenge the merger on competitive grounds, and may require Orrstown Bank to divest certain of its branches or branches it proposes to acquire from Hamilton Bank in order to complete the merger. The level of divestitures that the Federal Reserve and the DOJ may require might be unacceptable. Such divestitures could delay the date of completion of the merger or may diminish the benefits of the merger.

Following Federal Reserve approval, the Bank Merger Act imposes a waiting period of up to 30 days after the Federal Reserve approval in order to permit the United States Department of Justice to file any objections to the proposed merger of Hamilton Bank with and into Orrstown Bank under the federal antitrust laws. This waiting period may be reduced to 15 days if the DOJ has not provided any adverse comments relating to the competitive factors of the transaction, which the parties expect to occur. In reviewing these transactions, the DOJ could analyze the effect of the transactions on competition differently than the Federal Reserve, and thus it is possible that the DOJ could reach a different conclusion than the Federal Reserve regarding the anti-competitive effects of these transactions. If the DOJ were to commence an antitrust action, it would stay the effectiveness of the Federal Reserve's approval unless a court specifically orders otherwise.

In addition, as Orrstown Financial Services is a bank holding company that has elected financial holding company status under the Bank Holding Company Act (BHCA), Orrstown Financial Services is also subject to regulation by the Federal Reserve. Orrstown Financial Services will seek the prior approval for the merger of Hamilton Bancorp with and into Orrstown Financial, as well as the acquisition of Hamilton Bank contemplated thereby, from the Federal Reserve pursuant to Section 3 of the BHCA. Section 3 of the BHCA requires the Federal Reserve to consider a number of factors in deciding whether to approve an application for approval, including the (1) competitive effect of the transactions; (2) financial and managerial resources and prospects of the companies and the convenience and needs of the community to be served; (3) certain supervisory concerns; (4) the effectiveness of the companies' anti-money laundering efforts; and (5) the extent to which the transactions would result in greater or more concentrated risks to the stability of the United States banking or financial system. In connection with its review, the Federal Reserve provides an opportunity for public comment on the application and may hold a hearing or other proceeding on the application.

*Pennsylvania Department of Banking and Securities.* The merger of Hamilton Bancorp with and into Orrstown Financial Services is subject to the prior approval of the Pennsylvania Department of Banking and Securities under Section 115 of the Pennsylvania Banking Code of 1965 relating to business combinations involving a holding company of a Pennsylvania-chartered bank. Additionally, the merger of Hamilton Bank with and into Orrstown Bank is subject to the prior approval of the Pennsylvania Department of Banking and Securities under Chapter 16 of the Pennsylvania Banking Code of 1965. Generally, in determining whether to approve a bank merger, the Pennsylvania Department of Banking and Securities considers similar factors that are considered by the Federal Reserve under the Bank Merger Act, in addition to any state-specific factors contained in the statutory provisions identified above.

*Maryland Commissioner of Financial Regulation.* The merger of Hamilton Bancorp with and into Orrstown Financial Services, and the acquisition of Hamilton Bank contemplated thereby, is subject to the prior approval of the Maryland Commissioner of Financial Regulation under Subtitle 9 of Title 5 of the Financial Institutions Article of the Maryland Code relating to proposed acquisitions of Maryland bank holding companies or Maryland-chartered banks. Additionally, the merger of Hamilton Bank with and into Orrstown Bank is subject to the prior approval of the Maryland Commissioner of Financial Regulation under Subtitle 7 of Title 3 of the Financial Institutions Article of the Maryland Code. Generally, in determining whether to approve a bank merger, the Maryland Commissioner of Financial Regulation considers similar factors that are considered by the Federal Reserve under the Bank Merger Act, in addition to any similar factors contained in the statutory provisions identified above.

**Restrictions on Resales by Affiliates**

Shares of Orrstown Financial Services common stock to be issued to Hamilton Bancorp stockholders in the merger will have been registered under the Securities Act and may be traded freely and without restriction by those stockholders not deemed to be affiliates (as that term is defined under the Securities Act) of Orrstown Financial Services after the merger, except that the director of Hamilton Bancorp who will join Orrstown Financial Services board of directors as of the effective time of the merger will be deemed an affiliate of Orrstown Financial Services and will have certain limitations on the sale of his or her shares. Any subsequent transfer of shares by any Hamilton Bancorp stockholder who is deemed an affiliate of Orrstown Financial Services after the merger will, under existing law, require either:

the further registration under the Securities Act the Orrstown Financial Services common stock to be transferred; or

the availability of another exemption from registration.

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An affiliate of Orrstown Financial Services is a person who directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, Orrstown Financial Services. These restrictions are expected to apply to the directors and executive officers of Orrstown Financial Services and to the holders of 10% or more of the outstanding Orrstown Financial Services common stock. The same restrictions apply to the spouses and certain relatives of those persons and any trusts, estates, corporations or other entities in which those persons have a 10% or greater beneficial or equity interest.

Orrstown Financial Services will give stop transfer instructions to the exchange agent with respect to the shares of Orrstown Financial Services common stock to be received by persons subject to these restrictions.

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**THE VOTING AGREEMENTS**

In connection with the merger agreement, Orrstown Financial Services entered into voting agreements with all directors and executive officers of Hamilton Bancorp, consisting of William E. Ballard, Joseph J. Bouffard, Carol L. Coughlin, Robert A. DeAlmeida, James R. Farnum, Jr., Ellen R. Fish, William W. Furr, Bobbi R. Macdonald, John P. Marzullo, and Jenny G. Morgan. There are 146,700 shares of Hamilton Bancorp common stock subject to the voting agreements, which represents approximately 4.3% of the outstanding shares of Hamilton Bancorp common stock as of the record date.

In the voting agreements, each of these stockholders has agreed to vote all of his, her or its shares of Hamilton Bancorp common stock (including any shares acquired after the date of the voting agreement, whether by the exercise of any stock option, purchase in the open market, privately or otherwise):

in favor of approval of the merger agreement and the merger;

against any action or agreement that would result in a breach in any material respect of any covenant, representation or warranty, or any other obligation or agreement of Hamilton Bancorp contained in the merger agreement or of the stockholder contained in the voting agreement, or that would preclude fulfillment of a condition under the merger agreement to Hamilton Bancorp's and Orrstown Financial Services' respective obligations to consummate the merger; and

against another acquisition proposal, or any agreement or transaction that is intended, or could reasonably be expected, to impede, interfere with, delay, postpone, discourage or adversely affect the consummation of the merger or any of the transactions provided for in the merger agreement.

Under the voting agreements, each of the stockholders also agreed not to, and not to permit any of his, her or its affiliates, to:

initiate, solicit, induce or knowingly encourage, or take any action to facilitate the making of, any inquiry, offer or proposal which constitutes, or could reasonably be expected to lead to, another acquisition proposal;

participate in any discussions or negotiations regarding another acquisition proposal, or furnish, or otherwise afford access, to any person (other than Orrstown Financial Services) any information or data with respect to Hamilton Bancorp or any of its subsidiaries or otherwise relating to another acquisition proposal;

enter into any agreement, agreement in principle or letter of intent with respect to another acquisition proposal;

solicit proxies or become a participant in a solicitation with respect to another acquisition proposal (other than the merger agreement) or otherwise encourage or assist any party in taking or planning any action that

would compete with, restrain or otherwise serve to interfere with or inhibit the timely consummation of the merger in accordance with the terms of the merger agreement;

initiate a stockholders' vote or action by consent of Hamilton Bancorp's stockholders with respect to another acquisition proposal; or

except by reason of the voting agreement, become a member of a group with respect to any voting securities of Hamilton Bancorp that takes any action in support of another acquisition proposal.

In addition, except under limited circumstances, these stockholders also agreed not to sell, assign, transfer or otherwise dispose of or encumber their shares of Hamilton Bancorp common stock while the voting agreements are in effect. The voting agreements terminate immediately upon the earlier of the effective time of the merger, the termination of the merger agreement in accordance with its terms, an amendment to the merger agreement that decreases the merger consideration, or mutual written agreement of Orrstown Financial Services and the stockholder.

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**MATERIAL FEDERAL INCOME TAX CONSEQUENCES**

The following is a general summary of material United States federal income tax consequences of the merger of Orrstown Bank and Hamilton Bancorp to U.S. holders of Hamilton Bancorp common stock. The federal income tax laws are complex and the tax consequences of the merger may vary depending upon each stockholder's individual circumstances or tax status. The following discussion is based upon current provisions of the Code, existing temporary and final regulations under the Code and current administrative rulings and court decisions, all of which are subject to change, possibly on a retroactive basis. Any such change could affect the validity of this discussion. No attempt has been made to comment on all United States federal income tax consequences of the merger that may be relevant to Hamilton Bancorp stockholders. The tax discussion set forth below is included for general information only. It is not intended to be, nor should it be construed to be, legal or tax advice to a particular Hamilton Bancorp stockholder.

The following discussion may not apply to particular categories of holders of shares of Hamilton Bancorp common stock in light of their individual circumstances or to holders that are subject to special treatment under the Code, such as:

pass-through entities or investors in pass-through entities;

trusts and estates;

insurance companies;

financial institutions;

brokers or dealers in securities;

traders in securities that elect to use a mark-to-market method of accounting;

tax-exempt organizations;

individual retirement and other tax-deferred accounts;

banks;

persons subject to the alternative minimum tax;



persons who hold Hamilton Bancorp capital stock as part of a straddle, hedging or conversion transaction;

persons whose functional currency is other than the United States dollar;

persons eligible for tax treaty benefits;

foreign corporations, foreign partnerships and other foreign entities;

persons who are not citizens or residents of the United States; and

holders whose shares of Hamilton Bancorp were acquired pursuant to the exercise of an employee stock option or otherwise as compensation.

This discussion assumes that holders of shares of Hamilton Bancorp common stock hold their shares as capital assets within the meaning of section 1221 of the Code. The following discussion does not address state, local or foreign tax consequences of the merger. You are urged to consult your tax advisors to determine the specific tax consequences of the merger, including any state, local or foreign tax consequences of the merger.

For purposes of this discussion, the term "U.S. holder" means a beneficial owner of Hamilton Bancorp common stock that is:

a U.S. citizen or resident, as determined for federal income tax purposes; or

a corporation, or entity taxable as a corporation, created or organized in or under the laws of the United States or any state thereof or the District of Columbia.

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**ALL HOLDERS OF HAMILTON BANCORP COMMON STOCK SHOULD CONSULT THEIR TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE MERGER, INCLUDING THE APPLICABILITY AND EFFECT OF THE ALTERNATIVE MINIMUM TAX AND ANY STATE, LOCAL, FOREIGN, AND OTHER TAX LAWS.**

**Tax Consequences of the Merger**

Based on facts and representations and assumptions regarding factual matters that were provided by Orrstown Financial Services and Hamilton Bancorp and that are consistent with the state of facts that Orrstown Financial Services and Hamilton Bancorp believe will be existing as of the effective time of the merger, Goodwin Procter LLP and Luse Gorman, PC are each of the opinion that the merger, when consummated in accordance with the terms of the merger agreement, will constitute a reorganization within the meaning of Section 368(a) of the Code. None of the tax opinions given in connection with the merger or the opinions described below will be binding on the Internal Revenue Service or the courts. Neither Orrstown Financial Services nor Hamilton Bancorp intends to request any ruling from the Internal Revenue Service as to the U.S. federal income tax consequences of the Merger. Consequently, no assurance can be given that the Internal Revenue Service will not assert, or that a court would not sustain, a position contrary to any of those set forth below.

It is the opinion of Goodwin Procter LLP and Luse Gorman, PC that the merger will be treated as a reorganization within the meaning of section 368(a) of the Code, with the tax consequence as described below.

Neither Orrstown Financial Services nor Hamilton Bancorp will recognize any taxable gain or loss as a result of the merger and each will be a party to a reorganization within the meaning of section 368(a) of the Code.

Hamilton Bancorp stockholders will receive both Orrstown Financial Services common stock and cash consideration in exchange for all of his, her or its shares of Hamilton Bancorp common stock and generally will recognize gain, but not loss, to the extent of the lesser of:

the excess, if any, of (a) the sum of the aggregate fair market value of the Orrstown Financial Services common stock received (including any fractional share of Orrstown Financial Services common stock deemed to be received and exchanged for cash) and the amount of cash received (excluding any cash received in lieu of a fractional share of common stock) over (b) the stockholder's aggregate tax basis in the shares of Orrstown Financial Services common stock exchanged in the merger; and

the amount of cash received by the stockholder (excluding any cash received in lieu of a fractional share of common stock, which will be taxed as discussed below under "Cash in Lieu of Fractional Shares").

In general, for this purpose, gain or loss must be calculated separately for each block of shares surrendered in the exchange, and a loss realized on one block of shares may not be used to offset gain realized on another block of shares. Any such gain will be long-term capital gain if the shares of Hamilton Bancorp common stock exchanged were held for more than one year, unless the receipt of cash has the effect of a distribution of a dividend under the provisions of the Code, in which case such gain will be treated as a dividend to the extent of the stockholder's ratable share of the undistributed accumulated earnings and profits of Hamilton Bancorp. You should consult your tax advisors as to the possibility that all or a portion of any cash received in exchange for your Hamilton Bancorp common stock will be treated as a dividend.

The stockholder's aggregate tax basis in the Orrstown Financial Services common stock received pursuant to the merger will equal that stockholder's aggregate tax basis in the shares of Hamilton Bancorp common stock being exchanged, reduced by any amount allocable to a fractional share of Orrstown Financial Services common stock for which cash is received and by the amount of any cash consideration received, and increased by the amount of taxable gain, if any, recognized by that stockholder in the merger (including any portion of such gain that is treated as a dividend).

#### **Cash in Lieu of Fractional Shares**

No fractional shares of Orrstown Financial Services common stock will be issued in the merger. A Hamilton Bancorp stockholder who receives cash in lieu of such a fractional share will be treated as having received that fractional share pursuant to the merger and then as having exchanged such fractional share for cash in a redemption by Orrstown Financial Services. A Hamilton Bancorp stockholder will generally recognize capital gain or loss on such a deemed redemption of the fractional share in an amount determined by the excess of the amount of cash received and the stockholder's tax basis in the

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fractional share. Any capital gain or loss generally will be long-term capital gain or loss if the Hamilton Bancorp common stock exchanged was held for more than one year.

## **Tax Opinions**

Tax opinions of Goodwin Procter LLP and Luse Gorman, PC have been filed as Exhibits 8.1 and 8.2, respectively, to the registration statement of which this proxy statement/prospectus is a part. Additionally, it is a condition to the obligations of Orrstown Financial Services and Hamilton Bancorp to complete the merger that Orrstown Financial Services receive an opinion of Goodwin Procter LLP, counsel to Orrstown Financial Services, or such other counsel as contemplated by the merger agreement, and that Hamilton Bancorp receive an opinion of Luse Gorman, PC, counsel to Hamilton Bancorp, or such other counsel as contemplated by the merger agreement, each dated as of the closing date of the merger and each to the effect that, based on representations of Orrstown Financial Services and Hamilton Bancorp and on certain customary assumptions and conditions, the merger will be treated for United States federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. The tax opinions in Exhibits 8.1 and 8.2 are not intended to satisfy this closing condition.

The tax opinions delivered or to be delivered to Orrstown Financial Services and to Hamilton Bancorp in connection with the merger are not binding on the Internal Revenue Service, or the IRS, or the courts, and neither Orrstown Financial Services nor Hamilton Bancorp have sought or will seek any ruling from the IRS, regarding any matters relating to the merger. Consequently, there can be no assurance that the IRS will not disagree with or challenge any of the conclusions contained in the tax opinions delivered to Orrstown Financial Services or Hamilton Bancorp, or the federal income tax consequences of the merger described in this proxy statement/prospectus.

## **Information Reporting and Backup Withholding**

Cash payments received in the merger by a U.S. holder may, under certain circumstances, be subject to information reporting and backup withholding, unless the holder provides proof of an applicable exemption or furnishes its taxpayer identification number, and otherwise complies with all applicable requirements of the backup withholding rules.

If withholding results in an overpayment of taxes, a refund or credit against an Hamilton Bancorp stockholder's United States federal income tax liability may be obtained from the IRS, provided the stockholder furnishes the required information to the IRS. A holder that does not furnish their correct taxpayer identification number may be subject to penalties imposed by the IRS.

Hamilton Bancorp stockholders who receive Orrstown Financial Services common stock as a result of the merger will be required to retain records pertaining to the merger and will be required to file with their United States federal income tax return for the year in which the merger takes place a statement setting forth certain facts relating to the merger.

## **Other Tax Consequences**

The state and local tax treatment of the merger may not conform to the federal income tax consequences discussed above. Consequently, you should consult your own tax advisors regarding the treatment of the merger under state and local tax laws.

**The preceding discussion is intended only as a general discussion of material U.S. federal income tax consequences of the merger. It is not a complete analysis or discussion of all potential tax effects that may be**

**important to you. Thus, you are strongly encouraged to consult your tax advisor as to the specific tax consequences resulting from the merger, including tax return reporting requirements, the applicability and effect of federal, state, local, and other tax laws, and the effect of any proposed changes in tax laws.**

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**THE COMPANIES**

**Orrstown Financial Services**

Orrstown Financial Services, Inc., a Pennsylvania corporation, is the holding company for its wholly-owned subsidiaries Orrstown Bank and Wheatland Advisors, Inc. Orrstown Financial Services' principal executive offices are located at 77 East King Street, Shippensburg, Pennsylvania, 17257, with additional executive and administrative offices at 4750 Lindle Road, Harrisburg, Pennsylvania, 17111. Orrstown Financial Services was organized on November 17, 1987, for the purpose of acquiring Orrstown Bank and such other banks and bank-related activities as are permitted by law and desirable. Orrstown Financial Services provides banking and bank-related services through banking offices located in south-central Pennsylvania, principally in Berks, Cumberland, Dauphin, Franklin, Lancaster, Perry, and York Counties and in Washington County, Maryland. Wheatland Advisors was acquired in December 2016 and provides services as a registered investment advisor through its office in Lancaster County, Pennsylvania. On October 1, 2018, Orrstown Financial Services completed its acquisition of Mercersburg Financial Corporation.

Orrstown Bank was originally organized in 1919 as a state-chartered bank. On March 8, 1988, in a bank holding company reorganization transaction, Orrstown Financial Services acquired 100% ownership of Orrstown Bank.

Orrstown Financial Services' primary activity consists of owning and supervising its subsidiaries, Orrstown Bank and Wheatland Advisors. Day-to-day management is conducted by officers of Orrstown Bank. Orrstown Financial Services has historically derived most of its income through dividends from Orrstown Bank. At September 30, 2018, Orrstown Financial Services had total assets of \$1.7 billion, total loans of \$1.1 billion, total deposits of \$1.4 billion, and total stockholders' equity of \$145.6 million.

Orrstown Financial Services has no employees. Its nine officers are employees of Orrstown Bank. On September 30, 2018, Orrstown Bank and Wheatland combined had 332 full-time and 17 part-time employees.

Orrstown Bank is engaged in commercial banking and trust business as authorized by the Pennsylvania Banking Code of 1965. This involves accepting demand, time and savings deposits, and granting loans. Orrstown Bank holds commercial, residential, consumer and agribusiness loans primarily in its market areas of Cumberland, Dauphin, Franklin, Lancaster, Perry and York Counties in Pennsylvania and Washington County in Maryland; and in contiguous counties. Orrstown Bank maintains a diversified loan portfolio and evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by Orrstown Bank upon the extension of credit, is based on management's credit evaluation of the customer pursuant to collateral standards established in Orrstown Bank's credit policies and procedures.

Wheatland Advisors was acquired to supplement Orrstown Bank's trust and wealth management group and to provide opportunities for future growth in these areas.

You can find additional information about the company in its filings with the Securities and Exchange Commission referenced in the section in this proxy statement/prospectus titled "Where You Can Find More Information" on page 173.

**Hamilton Bancorp, Inc.**

*In this section entitled "The Companies - Hamilton Bancorp, Inc." and the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations of Hamilton Bancorp, Inc." and*

*Management of Hamilton Bancorp, Inc., and only in these three sections, the terms we, our, and us refer to Hamilton Bancorp, Inc. and Hamilton Bank, unless the context indicates another meaning.*

Hamilton Bancorp, Inc. is a Maryland chartered corporation incorporated on June 7, 2012 to serve as the stock holding company for Hamilton Bank, a state chartered commercial bank. On October 10, 2012, in accordance with a Plan of Conversion adopted by its Board of Directors and approved by its members, Hamilton Bank converted from a mutual savings bank to a stock savings bank and became the wholly owned subsidiary of Hamilton Bancorp. In connection with the conversion, Hamilton Bancorp sold 3,703,000 shares of common stock at a price of \$10.00 per share, through which Hamilton Bancorp received net proceeds of approximately \$35,580,000. On December 21, 2017, Hamilton Bank converted its charter from a federal savings bank to a Maryland state-chartered commercial bank and now operates under the laws of the State of Maryland. In conjunction with Hamilton Bank's charter conversion, Hamilton Bancorp converted from a savings and loan holding company to a bank holding company. Hamilton Bancorp's principal business activity is the ownership of

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Hamilton Bank's capital stock and the management of the offering proceeds it retained in connection with Hamilton Bank's conversion. Hamilton Bancorp does not own or lease any property but instead uses the premises, equipment and other property of Hamilton 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.

Founded in 1915 and celebrating over 100 years of service, Hamilton Bank is a community-oriented financial institution, dedicated to serving the financial needs of consumers and businesses within its market area. Our lending market area is considered greater Maryland, southern Pennsylvania, Washington D.C., and northern Virginia. We offer a variety of deposit and loan products in our market area. Our real estate loans consist primarily of one-to-four family mortgage loans (including owner-occupied and non-owner-occupied investor loans), as well as commercial real estate loans, and home equity loans and lines of credit. We also offer commercial term, leases and line of credit loans along with consumer loans consisting primarily of automobile loans, recreational vehicles and loans secured by deposits. We currently operate out of our corporate headquarters in Towson, Maryland and our seven full-service branch offices located in Baltimore City, Cockeysville, Towson, Rosedale, Ellicott City and Pasadena, Maryland. Our market area for deposits is primarily the local counties surrounding our offices. Our primary source of income is loans to small and middle-market businesses and middle-income individuals.

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

We offer a variety of deposit accounts, including certificate of deposit accounts, money market accounts, savings accounts, checking accounts and individual retirement accounts. Over the past three years we have borrowed funds from the FHLB to meet growing loan demand and to facilitate several purchases of loan pools since March 2017. We have also acquired FHLB advances through our acquisitions of Fraternity Community Bancorp, Inc. and Fairmount Bancorp, Inc. completed in May 2016 and September 2015, respectively. We are committed to offering alternative banking delivery systems, including ATMs, online and mobile banking and remote deposit capture.

## **Recent Acquisitions**

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

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

As a result of the acquisitions, we have added three branches to our branch structure in the Baltimore area.



**Market Area**

We conduct our operations from our seven full-service banking offices in Maryland. Our primary deposit market includes the areas surrounding our banking offices in Cockeyville, Pasadena, Towson, Rosedale, Ellicott City and two locations in Baltimore City. In July 2017, we re-located our Ellicott City branch in Howard County a short distance away from the former location so as to still serve our existing customer base and surrounding area. The landlord, whom the property was leased from, is converting the former branch property into other commercial space. In March 2018 we also re-located our Pigtown branch, located in Baltimore City, just a few doors down from our former branch. The new branch

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locations are both smaller in size, offering cost savings, and allowed us to redesign our branches so the needs of our customers can be better served. In the new locations we did away with the conventional teller line and created a more open space with the use of a cash recycler. Our employees can now interact and provide greater assistance to our customers in a friendlier and inviting environment.

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

Our branch network includes Baltimore City and the Maryland counties of Anne Arundel, Howard, and Baltimore. Maryland continues to rank first in the nation with respect to median household income, as reflected in 2017, with median household income of nearly \$81,000 compared to a national average of \$61,000. Both Howard and Anne Arundel county rank amongst the top counties in the state with respect to household income and report lower unemployment. Baltimore City, Baltimore County, Howard, and Anne Arundel County reported preliminary unemployment rates of 5.3%, 3.9%, 3.0% and 3.2%, respectively, for October 2018, compared to the statewide and national unemployment rates of 4.1% and 3.7%, 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, internet banks, mortgage banking firms, consumer finance companies, credit unions, and non-bank lenders. 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, 2018 (the latest date for which information is available), our market share was 0.04% of total deposits in Baltimore City, making us the 22nd largest out of 25 financial institutions in Baltimore City. In addition, as of June 30, 2018, our deposit market share was 1.67%, 0.41% and 0.59% of total deposits in Baltimore County, Anne Arundel, and Howard County, respectively, making us the 12th largest out of 29 financial institutions in Baltimore County, the 20th largest out of 26 financial institutions in Anne Arundel County and 15th largest out of 19 financial institutions in Howard County.

**Lending Activities**

**General.** Historically, our principal lending activity has been the origination of mortgage loans collateralized by one-to-four family residential real estate located within our primary market area. In recent years we have reduced our emphasis on the origination of one-to-four family mortgage lending to become less reliant on the origination of such loans for growth and to emphasize the origination of commercial business and commercial real estate lending. This will allow Hamilton Bank to develop a more diversified loan portfolio, generate loan growth from different resources,

and provide our customers with more products and services that fit their needs. In connection with this strategy, we have hired several commercial real estate and commercial business loan officers over the past couple of years with strong experience in these lending areas. In addition, back office commercial loan personnel have also been hired to assist with the processing, underwriting, and monitoring of our commercial loan portfolio. Our commercial loan underwriting analysis is maintained in-house and allows us to be more efficient in originating loans and enhancing the customer experience. We sold a majority of our newly originated one-to-four family mortgage loans with terms over 10 years into the secondary market. However, towards the end of fiscal 2017 and throughout fiscal 2018, we did retain in our portfolio the fixed-rate residential mortgages we originated due to the amount of run-off we were experiencing within the portfolio. In addition to commercial business loans and leases, commercial real estate loans and residential mortgage loans, we also offer home equity loans and lines of credit, residential and commercial construction loans, and, to a much lesser extent, other consumer loans.

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Our portfolio of one-to four-family residential loans have increased in amount during fiscal 2018 and 2017 due to the purchase of several pools of loans in fiscal 2018 and our acquisition of Fraternity in fiscal 2017. The percentage of one-to four-family loans to total loans, however, has declined from 46.4% at March 31, 2017 to 41.5% at September 30, 2018.

**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 \$-0- at September 30, 2018 and \$-0-, \$-0-, \$259,000, \$581,000 and \$-0- at March 31, 2018, 2017, 2016, 2015 and 2014, respectively.

	At September 30, 2018		2018		2017		At March 31, 2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)											
ate												
tial												
ge												
ny												
ial	\$ 155,662	41.5%	\$ 163,448	42.0%	\$ 157,446	46.4%	\$ 69,300	31.1%	\$ 49,865	31.1%	\$ 57,674	
ny												
r	24,883	6.6	26,736	6.9	25,522	7.5	27,860	12.5	12,971	8.1	14,000	
rcial												
ction	3,457	0.9	7,116	1.8	3,190	0.9	8,527	3.8	6,362	4.0	3,268	
rcial	115,697	30.9	112,166	28.8	107,564	31.7	78,115	35.1	59,273	36.9	41,406	
al												
ans	299,699	80.0	309,466	79.5	293,722	86.6	183,802	82.5	128,471	80.1	116,348	
rcial												
s	37,889	10.1	40,144	10.3	21,537	6.4	20,395	9.2	18,490	11.5	15,657	
er:												
quity												
d	19,368	5.2	19,996	5.1	20,544	6.1	14,391	6.4	12,261	7.6	11,660	
er	17,693	4.7	19,615	5.0	3,197	0.9	4,179	1.9	1,166	0.8	1,154	
er	37,061	9.9	39,611	10.2	23,741	7.0	18,570	8.3	13,427	8.4	12,814	

ans ble	374,649	100.0%	389,221	100.0%	339,000	100.0%	222,767	100.0%	160,388	100.0%	144,819	100.0%
m (nt) s d	1,485		1,412		76		(769)					
ferred												
ion l	(194)		(212)		(143)		(139)		(103)		(119)	
nce	(3,031)		(2,822)		(2,195)		(1,702)		(1,690)		(1,786)	
ans ble,	\$ 372,909		\$ 387,599		\$ 336,738		\$ 220,157		\$ 158,595		\$ 142,914	

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**Loan Portfolio Maturities and Yields.** The following table summarizes the scheduled repayments of our loan portfolio at September 30, 2018. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	<b>One- to Four-Family Residential Real Estate</b>		<b>One- to Four-Family Investor Real Estate</b>		<b>Commercial Construction Real Estate</b>		<b>Commercial Real Estate</b>	
	<b>Amount</b>	<b>Weighted Average Rate</b>	<b>Amount</b>	<b>Weighted Average Rate</b>	<b>Amount</b>	<b>Weighted Average Rate</b>	<b>Amount</b>	<b>Weighted Average Rate</b>
	<b>(Dollars in thousands)</b>							
Due in less than one year	\$ 4,028	5.09%	\$ 2,194	6.67%	\$ 2,544	5.09%	\$ 12,644	3.15%
Due in one year to five years	3,281	3.84	6,916	6.26	913	3.52	31,714	4.67
Due after five years	148,353	4.10	15,773	5.46			71,339	4.56
<b>Total</b>	<b>\$ 155,662</b>	<b>4.12%</b>	<b>\$ 24,883</b>	<b>5.79%</b>	<b>\$ 3,457</b>	<b>4.68%</b>	<b>\$ 115,697</b>	<b>4.44%</b>

	<b>Commercial Business</b>		<b>Home Equity Loans and Lines of Credit</b>		<b>Other Consumer</b>		<b>Total</b>	
	<b>Amount</b>	<b>Weighted Average Rate</b>	<b>Amount</b>	<b>Weighted Average Rate</b>	<b>Amount</b>	<b>Weighted Average Rate</b>	<b>Amount</b>	<b>Weighted Average Rate</b>
	<b>(Dollars in thousands)</b>							
Due in less than one year	\$ 10,776	5.49%	\$ 218	6.23%	\$ 1,253	2.88%	\$ 33,657	4.52%
Due in one year to five years	18,053	4.82	709	6.57	609	4.85	62,195	4.85
Due after five years	9,060	4.69	18,441	4.90	15,831	4.74	278,797	4.40
<b>Total</b>	<b>\$ 37,889</b>	<b>4.98%</b>	<b>\$ 19,368</b>	<b>4.98%</b>	<b>\$ 17,693</b>	<b>4.61%</b>	<b>\$ 374,649</b>	<b>4.49%</b>

**Fixed and Adjustable-Rate Loan Schedule.** The following table sets forth at September 30, 2018, the dollar amount of all fixed-rate and adjustable-rate loans due after September 30, 2019.

<b>Due after September 30, 2019</b>		
<b>Fixed</b>	<b>Adjustable</b>	<b>Total</b>
<b>(In thousands)</b>		

Real estate loans:			
One- to four-family residential	\$ 125,846	\$ 25,788	\$ 151,634
One- to four-family investor	18,833	3,856	22,689
Commercial construction	913		913
Commercial	82,015	21,038	103,053
Commercial business loans	23,372	3,741	27,113
Consumer loans:			
Home equity loans and lines of credit	4,145	15,005	19,150
Other consumer	16,440		16,440
 Total loans	 \$ 271,564	 \$ 69,428	 \$ 340,992

**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 acquired, participated and made loans to investors for the purchase of one-to-four family residential properties that are not owner-occupied. As of September 30, 2018, we had a total of \$180.5 million of residential mortgage loans secured by one-to-four family properties, of which \$155.6 million, or 86.2%, were secured by properties serving as the primary residence of the owner. The remaining \$24.9 million, or 13.8%, of such loans were secured by non-owner-occupied residential properties. The majority of our residential mortgage loans are secured by properties within our primary lending area of greater Maryland, southern Pennsylvania, Washington D.C., and northern Virginia, however, during the last half of fiscal 2018 we did purchase several residential mortgage loan pools totaling \$19.3 million in areas outside of our market.

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 in a rising rate environment though, we have been selling to the secondary market the majority of our one-to-four family fixed rate loans that have been originated with terms exceeding 10 years. However,

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toward the end of fiscal 2017 and throughout fiscal 2018, we did portfolio the fixed-rate residential mortgages we originated due to the amount of run-off we were experiencing within the portfolio. In fiscal 2019, we began to sell these loans into the secondary market once again. During fiscal 2017 and 2016, we sold \$2.2 million, or 23.5%, and \$4.4 million, or 68.0%, of one-to-four family mortgage loans that we originated with terms exceeding 10 years, respectively. Over the first half of fiscal 2019, we originated and sold \$1.3 million of one-to-four family mortgage loans. Our residential mortgage portfolio is almost entirely comprised of fixed-rate loans, with 83.0% of residential mortgage loans due after September 30, 2019 having fixed rates at September 30, 2018. During the year ended March 31, 2018, we originated \$1.5 million in residential mortgage loans with adjustable-rates and have not originated any adjustable-rate mortgage loans through September 30, 2018 of this fiscal year.

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

Loans secured by non-owner-occupied properties typically have five to ten year terms and amortize over a 25 to 30 year period. Because of the increased risk associated with non-owner-occupied properties, interest rates on such loans are higher than owner-occupied properties, averaging 6.6% during the six months ended September 30, 2018. 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.

We also make jumbo loans (loans above \$424,100, the current maximum conforming loan amount as established by the Federal Housing Finance Agency) that we may sell into the secondary market or retain in Hamilton Bank's portfolio depending upon the residential mortgage run-off at the time. Jumbo loans that we originate and sell, typically have 30-year terms and maximum loan-to-value ratios of 80%. At September 30, 2018, our largest outstanding portfolio jumbo residential mortgage loan was for \$2.3 million at origination, with a current book balance of \$1.9 million. This loan is performing in accordance with its original terms.

From 2009 through part of fiscal 2017, applications for loans that we intended to sell were processed through Mortgage Department Services, LLC (MDS), a company in which we had a minority interest. In fiscal 2017 we brought this process in-house using various software programs. Each application and loan is reviewed to ensure that the loan meets the standards for sale to the secondary market and Hamilton Bank's portfolio (See Loan Originations, Participations, Purchases and Sales). When we sell loans in the secondary market, we typically sell the loans at a premium and record the income immediately as a gain on sale of loans. All such loans are sold with servicing released and in most cases, with recourse that we provide to the purchaser in the case of (i) delinquency within the first 90 days of sale or (ii) breaches of customary representations and warranties to the buyers.

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



circumstances warrant, flood insurance.

***Commercial Real Estate Loans.*** We originate commercial real estate loans within our primary lending area, with an emphasis on the Greater Baltimore region, 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. At September 30, 2018, commercial real estate loans amounted to 30.9% of total loans or \$115.7 million, including \$8.3 million acquired in the Fraternity acquisition, compared to approximately \$41.4 million, or 28.6% of total loans, at March 31, 2014.

Our commercial real estate loans are underwritten based on our loan underwriting policies. Our policies provide that such loans may be made in amounts of up to 85% of the appraised value of the property, provided that the property is more

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than 50% owner-occupied or 75% of the appraised value of the property if it is not owner-occupied. Our commercial real estate loans typically have terms of 5 to 10 years and amortize for a period of up to 25 years. In the past year we have originated an increased amount of commercial real estate loans with terms of 7 to 10 years based upon the strength of the property cash flow and loan to value ratio. Interest rates may be fixed or adjustable. If adjustable, then they are generally based on the Prime rate of interest, LIBOR, or U.S. Treasuries Constant Maturity.

The regulatory loan-to-one borrower limit is 15% of a bank's unimpaired capital plus unimpaired surplus, or approximately \$6.9 million at September 30, 2018. We have adopted an internal limit equal to 75% of Hamilton Bank's loan-to-one borrower limit. The internal limit at September 30, 2018 is \$5.2 million. We generally target commercial real estate loans with balances of \$250,000 to \$4.0 million. At September 30, 2018, our commercial real estate loans had an average balance of \$787,000. At that same date, our largest commercial real estate relationship consisted of one loan totaling \$4.6 million. This loan is secured by a shopping center, and was performing in accordance with their original terms at September 30, 2018.

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 larger loan balances in relation 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 this type of lending. We seek to minimize these risks through our underwriting standards. We have experienced a decrease over the past several years in the number of delinquencies and non-performing loans in our commercial real estate loan portfolio. See Risk Factors-Our increase in commercial real estate loans has increased our credit risk.

***Commercial Business Loans.*** We originate commercial business loans and lines of credit secured by non-real estate business assets. These loans are generally originated to small and middle market businesses in our primary market area, although in fiscal 2018 we purchased a \$15.5 million pool of commercial equipment lease loans that are considered out of our 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 September 30, 2018, commercial business loans and lines of credit outstanding totaled \$37.9 million, including \$10.1 million of the original \$15.5 million pool of commercial equipment lease loans. This loan segment amounted to 10.1% of total loans, compared to approximately \$15.7 million, or 10.8% of total loans, at March 31, 2014. At September 30, 2018, we also had \$11.5 million of available and unfunded commercial business lines of credit.

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

Hamilton Bank is also qualified to make Small Business Administration (SBA) loans. The SBA program is an economic development program which finances the expansion of small businesses. Under the SBA program, we

originate and fund loans under the SBA 7(a) Loan Program which qualify for guarantees up to 85% for loans less than or equal to \$150,000 and 75% for loans greater than \$150,000. We also originate loans under the SBA's CDC/504 Loan Program in which we generally provide 50% of the financing, taking a first lien on the real property as collateral. We do not treat the SBA guarantee as a substitute for a borrower meeting our credit standards, and, except for minimum capital levels or maximum loan terms, the borrower must meet our other credit standards as applicable to loans outside the SBA process. During the six months ended September 30, 2018, fiscal 2018 and fiscal 2017, we did not originate any loans under the SBA 7(a) Loan Program.

We focus on the origination of commercial business loans in amounts between \$250,000 and \$4.0 million. At September 30, 2018, our commercial business loans had an average outstanding balance of \$155,000. At that same date, our

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largest commercial business loan was a commercial line of credit with a commitment balance of \$5.0 million, of which \$2.2 million has been advanced. The loan is secured by the business assets of the company and is performing in accordance with its original terms at September 30, 2018.

Commercial business loans generally have a greater credit risk than one-to-four family residential mortgage loans and real estate backed commercial loans. Unlike residential and commercial 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. See Risk Factors Our entry into commercial real estate and commercial business lending may result in higher losses on our loans.

***Home Equity Loans and Lines of Credit.*** We offer home equity loans and lines of credit that are secured by the borrower's primary or secondary residence. At September 30, 2018, we had \$19.4 million, or 5.2% of our total loan portfolio in home equity loans and lines of credit. At that date we also had \$23.3 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 plus or minus an applicable margin and require interest paid monthly. Home equity loans and lines of credit are available in amounts of between \$10,000 and \$1.0 million.

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

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

Before making a commitment to fund a construction loan, Hamilton Bank requires detailed cost estimates to complete the project and an appraisal of the property by an independent licensed appraiser. Hamilton Bank also reviews and inspects each property before disbursement of funds during the term of the construction loan. Loan proceeds are disbursed after inspection based on the percentage of completion method. Construction loans for one-to-four family residential real estate may be underwritten with a loan-to-value ratio of up to 80% or 95% with private mortgage

insurance. Commercial construction loans generally may not exceed a loan-to-value ratio of 75% to 80%.

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 September 30, 2018, total construction loans represented \$7.1 million, or 1.9%, of Hamilton Bank's total loans, of which \$3.6 million consisted of residential construction loans and \$3.5 million were commercial construction. At

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September 30, 2018, the commitment to fund or advance funds on total construction loans equaled \$10.3 million. At September 30, 2018, our largest construction loan was a commercial construction loan with a contractual principal and recorded investment balance of \$1.2 million. This loan is under the SBA CDC/504 loan program and we are waiting to be taken out by the SBA. The loan is secured by the commercial property being constructed and is performing in accordance with its original terms at September 30, 2018.

***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, along with boats, motorcycles, and recreational vehicles. During fiscal 2018 we purchased two loan pools consisting of recreational vehicles from the same seller that totaled \$19.8 million, of which \$15.0 million are outstanding at September 30, 2018. These loans are located outside of what is considered our lending area. Other consumer loans at September 30, 2018 totaled \$17.7 million, or 4.7% of our total loan portfolio.

***Loan Originations, Participations, Purchases and Sales.*** Most of our loan originations are generated by our loan personnel operating at our corporate headquarters and banking office locations. All loans we originate are underwritten pursuant to our policies and procedures. While we originate 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. As a result, 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 the majority of our one-to-four family residential mortgage loans with maturities over 10 years that we have originated. All loan applications originated from 2009 through the first part of 2017, that we had the intention of selling, were processed through a third party. That third party has since dissolved and we started directly underwriting and selling loans in the secondary market ourselves in 2017. Through the Fraternity acquisition, we obtained the necessary software and personnel to be able to process loans we intend to sell in-house. We receive a premium for each loan that is delivered or sold to the secondary market. When a loan is sold, it is sold with servicing released, and in most cases, with recourse that we provide to the purchaser in the event of (i) delinquency within the first 90 days of sale or (ii) breaches of customary representations and warranties to the buyers. During the last half of fiscal 2017 and into fiscal 2018 we retained in portfolio many of the traditional residential mortgage loans we originated, versus selling them in the secondary market, due to the increase in normal attrition within this loan segment resulting from our acquisitions. Prior to that time, we generally sold these loans in the secondary market at a premium to assist with managing interest rate risk and to enhance non-interest revenue. At the beginning of this year, we began to once again sell most newly originated residential loans that qualify into the secondary market versus putting them in portfolio for those same reasons.

From time to time, we have purchased loan participations in commercial loans in which we are not the lead lender that are secured by real estate or other assets within the state of Maryland. With regard to all loan participations, we follow our customary loan underwriting and approval policies, and although we may be only approving and servicing a portion of the loan, we underwrite the loan request as if we had originated the loan to ensure cash flow and collateral are sufficient. At September 30, 2018, our loan participations totaled \$17.9 million, or 4.8% of our total loan portfolio, the majority of which were in our primary market area. Of the \$17.9 million in participations, only \$134,000 are on nonaccrual at September 30, 2018 compared to \$32,000 at March 31, 2018 and \$126,000 at March 31, 2017. We do not specifically look to loan participations as a means to increase loan volume; however, we do look at opportunities for participations, if presented, on a case by case basis.

In addition to loan participations, we may look to purchase pools or portfolios of loans from time-to-time to enhance growth and earnings potential. As with participations, we follow our customary loan underwriting standards when reviewing a particular pool of loans to determine if the purchase meets Hamilton Bank's established credit guidelines. Based upon the number of loans within a particular pool, we may not be able to review the loan pool on a loan-by-loan basis, but will review the loan data requested on the entire pool, such as delinquency, credit scores, and appraised values and examine an adequate sample of the individual loans that make up the loan pool. During fiscal 2018 we purchased several pools of loans both within and outside of our market area. The loan pools totaled \$54.6 million and consisted of \$15.5 million in commercial lease loans, \$19.8 million in recreational vehicles, and \$19.3 million in one-to four-family residential mortgage loans. The loan purchases were funded through the use of cash and approximately \$27.0 million in new FHLB borrowings. At the end of fiscal 2017 we also purchased \$23.4 million of one-to-four family jumbo residential mortgage loans in two separate pools.

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These purchases were funded with approximately \$12.5 million in cash and \$11.5 million in borrowings from the FHLB. We entered into a cash flow hedge with respect to these borrowings to lock in a long-term cost of funds and minimize some of the interest rate risk associated with purchasing longer-term assets.

In May 2016, in connection with the acquisition of Fraternity Federal Savings and Loan, we acquired approximately \$108.7 million in outstanding loans. As of September 30, 2018, the outstanding balance of those acquired from Fraternity totaled \$73.4 million, or 19.6% of gross loans, of which \$102,000 are on non-accrual. The remaining loans are performing as agreed under their current terms at September 30, 2018. In September 2015, prior to Fraternity, we acquired Fairmount Bank and approximately \$53.6 million in outstanding loans, of which \$31.1 million remain outstanding at September 30, 2018. The outstanding Fairmount loans make-up 8.3% of gross loans at September 30, 2018.

As noted earlier, we may sell residential mortgage loans into the secondary market at a premium. We also have the ability to sell certain pools of loans to increase liquidity, improve current earnings, divest of a concentration of loans, or manage problem credits. When selling a pool of loans, we analyze whether the sale makes sense from a profit standpoint and then look for several bids from various parties so as to maximize the price with respect to the sale. In fiscal 2017 we sold two pools of loans with a combined book value of \$4.5 million. Both pools consisted primarily of one-to-four family non-owner occupied residential mortgage ( residential investor ) loans acquired in the Fairmount Bank acquisition. The financial performance of the residential investor loans sold was deteriorating and the underlying collateral did not provide sufficient support. Selling the pool of loans made the most sense with respect to managing these problem credits and reducing any additional losses going forward.

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

	<b>Six Months Ended September 30, 2018</b>	<b>Year Ended March 31, 2018                      2017</b>	
		<b>(In thousands)</b>	
Total loans at beginning of year	\$ 389,221	\$ 339,000	\$ 222,767
Loans originated:			
Real estate loans:			
Residential mortgage loans:			
One- to four-family residential	7,995	16,788	21,837
One- to four-family investor			
Commercial construction	875	5,654	4,759
Commercial	13,546	16,218	25,397
Total real estate loans	22,416	38,660	51,993
Commercial business loans	3,910	8,125	10,117
Consumer:			
Home equity loans and lines of credit	3,746	6,452	5,920
Other consumer	136	226	112
Total consumer loans	3,882	6,678	6,032
Total loans originated	30,208	53,463	68,142
Fraternity Bank loans acquired			108,804



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Residential loan pool purchases		19,251	23,422
SBA commercial loans purchased		3,254	
Commercial lease loan pool purchased		15,473	
Recreational vehicle loan pools purchased		19,961	
Deduct:			
Principal repayments	35,842	51,919	62,724
Loans sold in the secondary market	1,280		6,640
Transferred to foreclosed real estate	130	24	127
Unused lines of credit	7,528	9,238	14,644
Net loan activity	(14,572)	50,221	116,233
Total loans at end of year	\$ 374,649	\$ 389,221	\$ 339,000

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***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.

Hamilton Bank's policies and loan approval limits are established by our board of directors. Designated Bank officers and loan committee are assigned levels of loan authority. Having loan authority gives the individuals or committee the ability to authorize the extension of credit. Every extension of credit requires two signatures, one of which must have sufficient authority given the risk rating and aggregate exposure. The second approver cannot be an individual assigned less loan authority than the sponsor of the loan. Loan authority is recommended by the Chief Credit Officer and approved by the Credit Committee. All loan authorities are reviewed and confirmed annually by the Credit Committee. The Chief Credit Officer, and or the President may recommend interim changes to establish loan limits or assign loan authority for new officers. These interim changes shall be presented to the Credit Committee for approval at its next regularly scheduled meeting. The Chief Credit Officer and/or the President also have the authority to reduce or remove loan authority. Such changes in lending authority are to be reported to Credit Committee after the fact.

## **Securities Activities**

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

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

We account for investment and mortgage-backed securities in accordance with Accounting Standards Codification (ASC) Topic 320, Investments—Debt and Equity Securities. ASC 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 September 30, 2018, all of our securities were classified as available for sale.

Maryland-chartered banks 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 September 30, 2018, our investment portfolio consisted almost entirely of securities and mortgage-backed securities issued by U.S. Government agencies, municipalities or U.S. Government-sponsored enterprises. At that same date we also held \$2.0 million of corporate bonds, which equaled approximately 2.8% of our total investment securities based upon the fair value of such securities. The principal and interest on our mortgage-backed securities are guaranteed by the issuing entity.

At September 30, 2018, we owned approximately \$2.8 million 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 September 30, 2018, we had no investments in a single company or entity (other than an agency of the U.S. Government, a municipality or a U.S. Government-sponsored enterprise) that had an aggregate book value in excess of 10% of our equity.

In fiscal 2017, our investment balances increased through the acquisition of Fraternity and the build-up of excess cash. During fiscal 2018 and 2019, however, our investment balances have decreased due to either calls or maturing bonds, normal principal pay downs on our mortgage backed securities, or the sale of certain securities. The proceeds from these reductions in securities have been used to fund loan activity, including loan purchases, and repayment of borrowings and the decrease in deposits.

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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 September 30, 2018		2018		At March 31, 2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In thousands)								
Mortgage-backed securities:								
Fannie Mae	\$ 24,205	\$ 22,935	\$ 28,107	\$ 27,066	\$ 35,034	\$ 34,473	\$ 27,774	\$ 27,712
Ginnie Mae	9,292	9,052	8,418	8,245	10,003	9,924	5,988	6,006
Freddie Mac	19,510	18,564	21,776	20,952	30,593	30,132	20,178	20,222
Other	2,201	2,159	2,778	2,762	6,365	6,304		
Total mortgage-backed securities	55,208	52,710	61,079	59,025	81,995	80,833	53,940	53,940
U.S. Government agencies	2,747	2,712	2,753	2,719	3,525	3,512	10,519	10,533
Municipal bonds	12,377	11,492	12,435	11,706	17,096	16,168	4,061	4,112
Corporate bonds	2,000	1,949	2,000	1,954	2,000	1,916	2,000	1,899
Total	\$ 72,332	\$ 68,863	\$ 78,267	\$ 75,404	\$ 104,616	\$ 102,429	\$ 70,520	\$ 70,484

**Portfolio Maturities and Yields.** The composition and maturities of the investment securities portfolio at September 30, 2018 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 September 30, 2018									
	One Year or Less Weighted Amortized Cost	More Than One Year Through Five Years Weighted Amortized Cost	More Than Five Years Through Ten Years Weighted Amortized Cost	More Than Ten Years Weighted Amortized Cost	Total Securities Estimated Fair Value	Weighted Average Yield	Weighted Average Yield	Weighted Average Yield	Weighted Average Yield	Weighted Average Yield
(Dollars in thousands)										
Mortgage-backed securities:										
Fannie Mae	\$	\$ 2,859	3.01%	\$ 1,987	1.75%	\$ 19,359	2.59%	\$ 24,205	\$ 22,935	2.57%
Ginnie Mae		11	2.60	23	4.51	9,258	2.84	9,292	9,052	2.84
Freddie Mac		667	1.99	3,925	2.22	14,918	2.57	19,510	18,564	2.48
Other		165	4.02	268	5.10	1,768	4.97	2,201	2,159	4.91

Total mortgage-backed securities			3,702	2.87	6,203	2.20		2.73	55,208	52,710	2.68
U.S. Government agencies	2,003	1.75	744	2.14					2,747	2,712	1.85
Municipal bonds			485	3.56	1,573	3.33		3.44	12,377	11,492	3.43
Corporate bonds					2,000	3.39			2,000	1,949	3.39
Total	\$ 2,003	1.75%	\$ 4,931	2.83%	\$ 9,776	2.63%	\$ 55,622	2.86%	\$ 72,332	\$ 68,863	2.80%

### 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. In addition, we may also borrow from the FHLB, as we did in fiscal 2018, to fund our loan growth both organically and through loan purchases. In fiscal 2016 and 2017 we acquired \$10.5 million and \$15.0 million of FHLB advances in the acquisitions of Fairmount and Fraternity of which all has matured or rolled over, respectively. As of September 30, 2018, there were \$53.6 million in advances outstanding from the FHLB.

**Deposits.** We offer deposit products having a range of interest rates and terms. We currently offer statement savings accounts, interest and noninterest-bearing demand accounts, health savings accounts (HSA), 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, centered around both deposit and lending customer relationships.

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

Based on experience, we believe that our deposits are relatively stable. However, the ability to attract and maintain deposits and the rates paid on these deposits, has been and will continue to be significantly affected by market conditions. At September 30, 2018, \$234.5 million, or 60.4% of our total deposit accounts were certificates of deposit, of which \$126.5 million had maturities of one year or less.

The following table sets forth the distribution of our average deposit accounts, by account type, for the periods indicated. Our focus has been on growing our lower costing core deposits (considered all deposits other certificates of deposit) and relying less on originating certificates of deposit.

Deposit type:	For the Six Months Ended September 30, 2018			2018		For the Years Ended March 31, 2017			2016		Weighted Average	
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Average Rate	Rate
(Dollars in thousands)												
Certificates of deposit	\$ 239,914	60.0%	1.30%	\$ 242,949	60.3%	\$ 259,721	63.8%	0.89%	\$ 172,064	64.9%	0.96%	
Money market	60,640	15.1	0.66	60,589	15.1	61,568	15.1	0.37	35,124	13.3	0.17	
Statement Savings	40,849	10.2	0.12	43,408	10.8	43,527	10.7	0.15	25,843	9.8	0.10	
Noninterest bearing demand NOW accounts	28,962	7.2		29,306	7.3	24,078	5.9		19,282	7.3		
	30,226	7.5	0.03	26,094	6.5	18,333	4.5	0.03	12,447	4.7	0.03	
Total deposits	\$ 400,591	100.0%	0.89%	\$ 402,346	100.0%	\$ 407,227	100.0%	0.64%	\$ 264,760	100.0%	0.66%	

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

Interest Rate:	At September 30, 2018		At March 31, 2017	
	2018	2016	2017	2016
(In thousands)				

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Less than 2.00%	\$	201,174	\$ 231,253	\$ 241,121	\$ 181,572
2.00% to 2.99%		33,315	15,736	6,512	13,459
3.00% to 3.99%					
4.00% to 4.99%					
5.00% and above					
<b>Total</b>	<b>\$</b>	<b>234,489</b>	<b>\$ 246,989</b>	<b>\$ 247,633</b>	<b>\$ 195,031</b>

**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 September 30, 2018 Period to Maturity**

Interest Rate Range:	Less Than or	Equal to	More Than	More Than	Total	Percent of Total
	One Year	One to Two Years	Two to Three Years	More Than Three Years		
Less than 2.00%	\$ 121,388	\$ 43,332	\$ 17,689	\$ 18,765	\$ 201,174	85.8%
2.00% to 2.99%	5,063	4,833	15,511	7,908	33,315	14.2
3.00% to 3.99%						
4.00% to 4.99%						
5.00% to 5.99%						
<b>Total</b>	<b>\$ 126,451</b>	<b>\$ 48,165</b>	<b>\$ 33,200</b>	<b>\$ 26,673</b>	<b>\$ 234,489</b>	<b>100.0%</b>

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As of September 30, 2018, the aggregate amount of outstanding certificates of deposit at Hamilton Bank in amounts greater than or equal to \$100,000 was approximately \$107.8 million. The following table presents the maturity of these certificates of deposit at such date.

<b>Period to Maturity</b>	<b>At September 30, 2018</b>	
	<b>(In thousands)</b>	
Three months or less	\$	17,150
Over three through six months		11,788
Over six months through one year		26,350
Over one year to three years		37,731
Over three years		14,784
<b>Total</b>	<b>\$</b>	<b>107,803</b>

**Borrowings.** As a member of the FHLB, Hamilton Bank is eligible to obtain advances upon the security of the FHLB common stock owned and certain loan products, provided certain standards related to credit-worthiness have been met. FHLB advances are available pursuant to several credit programs, each of which has its own interest rate and range of maturities. At September 30, 2018, based on available collateral, we had the ability to borrow approximately \$76.7 million from the FHLB. Beginning in the second half of fiscal 2015, we began to increase our borrowings from the FHLB as a means to fund our loan growth both organically and through loan purchases. Additionally, in fiscal 2016 and 2017 we acquired \$10.5 million and \$15.0 million of FHLB advances in the acquisitions of Fairmount and Fraternity of which all has matured or rolled over. As of September 30, 2018, there were \$53.6 million in advances outstanding from the FHLB.

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. During fiscal 2018 and the six months ended September 30, 2018, there was nothing drawn upon under either line of credit.

**Employees**

As of September 30, 2018, we had 73 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 direct subsidiary, Hamilton Bank. At September 30, 2018, Hamilton Bank has five wholly owned subsidiaries including 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. On May 13, 2016, in connection with the acquisition of Fraternity Community Bancorp, Hamilton Bank acquired four additional subsidiaries: 4819 Palmer Avenue LLC, a limited liability company organized under the laws of the State of Maryland ( 4819 Palmer ); 764 Washington Boulevard LLC, a limited liability company organized under the laws of the State of Maryland ( 764 WB LLC ); 764 Washington Boulevard II LLC, a limited liability company organized under the laws of the State of Maryland ( 764 WB LLC II ); and Fraternity Insurance Agency, Inc., an inactive corporation organized under the laws of the State of Maryland. 4819 Palmer, 764 WB LLC and 764 WB LLC II were each formed by Fraternity Federal Savings & Loan Association to hold other real estate owned.



## **Regulation and Supervision**

In December 2017, Hamilton Bank converted its charter from a federal savings bank to a Maryland chartered commercial bank. As a Maryland-chartered commercial bank, Hamilton Bank is subject to the regulation, supervision, and control of the Maryland Office of the Commissioner of Financial Regulation ( MOCFR ). Hamilton Bank is subject to regulation, supervision and control of the FDIC, an agency of the federal government. The federal and state system of regulation and supervision establishes a comprehensive framework of activities in which Hamilton Bank may engage and is intended primarily for the protection of depositors and the FDIC's Deposit Insurance Fund, and not for the protection of stockholders. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to matters such as their capital adequacy, assets, management, earnings, liquidity

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and sensitivity to market interest rates. Hamilton Bank is also regulated to a lesser extent by the Board of Governors of the Federal Reserve System (the Federal Reserve Board), which governs the reserves to be maintained against deposits and other matters. Hamilton Bank must comply with the consumer protection regulations issued by the Consumer Financial Protections Bureau. Hamilton Bank also is a member of and owns stock in the Federal Home Loan Bank of Atlanta, which is one of the twelve regional banks in the Federal Home Loan Bank System. The MOCFR and the FDIC examine Hamilton Bank and prepare 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 by federal and state law, especially in matters concerning the ownership of deposit accounts, the form and content of Hamilton Bank's loan documents and certain consumer protection matters.

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

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

**Banking Regulation**

**General.** Hamilton Bank is a Maryland commercial bank and its deposit accounts are insured by the Deposit Insurance Fund of the FDIC. Hamilton Bank is subject to supervision, examination and regulation by the MOCFR and the FDIC.

The Dodd-Frank Act established the Consumer Financial Protection Bureau (CFPB) as an independent bureau of the Federal Reserve System. The CFPB assumed responsibility for implementing federal consumer financial protection and fair lending laws and regulations, a function formerly handled by federal bank regulatory agencies. However, institutions of less than \$10 billion, such as Hamilton Bank, continue to be examined for compliance with consumer protection or fair lending laws and regulations by, and be subject to enforcement authority of their primary federal regulators.

**Capital Requirements.** Under the FDIC's regulations, federally insured state-chartered banks that are not members of the Federal Reserve System (state non-member banks), such as Hamilton Bank, are required to comply with minimum leverage capital requirements. Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8%, and a Tier 1 capital to total assets leverage ratio of 4%. In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a capital conservation buffer consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in. It is currently at 1.875%, and will be fully phased in at 2.5% on January 1, 2019.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. In assessing an institution's

capital adequacy, the FDIC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions if it deems necessary.

Legislation enacted in May 2018 requires the federal banking agencies, including the FDIC, to establish for banks with assets of less than \$10 billion of assets a community bank leverage ratio of 8 to 10%. Banks with capital meeting the specified requirement will be considered to meet the applicable regulatory capital requirements including the risk-based requirements. The establishment of the community bank leverage ratio is subject to notice and comment rulemaking by the federal regulators.

***Prompt Corrective Regulatory Action.*** Federal law establishes a system of prompt corrective action to resolve the problems of undercapitalized institutions. The FDIC has adopted regulations to implement the prompt corrective action

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legislation. An institution is deemed to be well capitalized if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is adequately capitalized if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is undercapitalized if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be significantly undercapitalized if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be critically undercapitalized if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

Undercapitalized banks must adhere to growth, capital distribution (including dividend) and other limitations and are required to submit a capital restoration plan. A bank's compliance with such a plan must be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5% of the institution's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an undercapitalized bank fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized banks must comply with one or more of a number of additional measures, including, but not limited to, a required sale of sufficient voting stock to become adequately capitalized, a requirement to reduce total assets, cessation of taking deposits from correspondent banks, the dismissal of directors or officers and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. Critically undercapitalized institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

At September 30, 2018, Hamilton Bank's capital exceeded all applicable regulatory requirements.

**Loans to One Borrower.** Under Maryland law, the maximum amount that Hamilton Bank is generally permitted to lend to any one borrower and his or her related interests may generally not exceed 10% of Hamilton Bank's unimpaired capital and surplus, which is defined to include Hamilton Bank's capital, surplus, retained earnings and 50% of its reserve for possible loan losses. By interpretive ruling of the Maryland Commissioner, Maryland banks have the option of lending up to the amount that would be permissible for a national bank, which is generally 15% of unimpaired capital and surplus (defined to include a bank's total capital for regulatory capital purposes plus any loan loss allowances not included in regulatory capital). Under this formula, Hamilton Bank would have been permitted to lend up to \$6.9 million to any one borrower at September 30, 2018. As of September 30, 2018, Hamilton Bank was in compliance with the loans to one borrower limitations.

**Branching.** Maryland law provides that, with the approval of the Commissioner, Maryland banks may establish branches within Maryland and may establish branches in other states by any means permitted by the laws of such state or by federal law. Federal law permits well capitalized and well managed bank holding companies to acquire banks in any state, subject to Federal Reserve Board approval, certain concentration limits and other specified conditions. Interstate mergers of banks are also authorized, subject to regulatory approval and other specified conditions. In addition, banks are permitted to establish de novo branches on an interstate basis to the extent that branching is authorized by the law of the host state for Hamilton Banks chartered by that state.

**Insurance of Deposit Accounts.** Hamilton Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The deposit insurance per account owner is currently \$250,000.

The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund. Assessments for most institutions are based on financial measures and supervisory ratings derived from statistical modeling estimating

the probability of failure within three years. The assessment range (inclusive of possible adjustments) for most banks and savings associations is 1.5 basis points to 30 basis points of total assets less tangible equity.

In addition to the FDIC assessments, the Financing Corporation ( FICO ) is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in September 2019 and the last quarterly assessment charged will in March 2019. For the third calendar quarter of fiscal 2018, the annualized FICO assessment will be equal to 0.14 of a basis point of total assets less tangible capital.

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

***Dividends.*** Maryland banks may only pay cash dividends from undivided profits or, with the prior approval of the Commissioner, their surplus in excess of 100% of required capital stock. Federal law provides that an insured depository institution may not make any dividend, including paying a dividend, if after paying such dividend, the institution would fail to satisfy any applicable regulatory capital requirement. In addition, Hamilton Bank's ability to pay dividends is limited if Hamilton Bank does not have the capital conservation buffer required by the new capital rules, which may limit the ability of Hamilton Bancorp to pay dividends to its stockholders. See [Capital Requirements](#) .

***Transactions with Related Parties.*** A state nonmember bank, such as Hamilton Bank, is limited in the amount of covered transactions with any affiliate, including Hamilton Bancorp. Covered transactions must be on terms substantially the same, or at least as favorable, to Hamilton Bank as those provided to a non-affiliate. The term covered transaction includes the making of loans, purchase of assets, issuance of a guarantee and similar types of transactions. Certain covered transactions, such as loans to affiliates, must meet specified collateral requirements.

Loans to directors, executive officers and principal stockholders of a state nonmember bank must be made on substantially the same terms as those prevailing for comparable transactions with persons who are not executive officers, directors, principal stockholders or employees of Hamilton Bank. Loans to any executive officer, director and principal stockholder are subject to additional restriction, including certain board of director's approval requirements and specified limits.

***Enforcement.*** The Commissioner has extensive enforcement authority over Maryland banks. This includes the ability to issue cease and desist orders and civil money penalties and to remove directors or officers. The Commissioner may also take possession of a Maryland bank whose capital is impaired and seek to have a receiver appointed by a court.

The FDIC has primary federal enforcement responsibility over state banks under its jurisdiction, including the authority to bring enforcement action against all institution-related parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an institution. Formal enforcement action may range from the issuance of capital directive or a cease and desist order for the removal of officers and/or directors, receivership, conservatorship or termination of deposit insurance. Civil money penalties cover a wide range of violations and actions, and range up to \$25,000 per day or even up to \$1 million per day (in the most egregious cases). Criminal penalties for most financial institution crimes include fines of up to \$1 million and imprisonment for up to 30 years.

***Community Reinvestment Act.*** Under the Community Reinvestment Act (CRA), a bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate-income neighborhoods. The CRA requires the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. Since converting our charter, the FDIC has not conducted a CRA examination. Our latest CRA examination, dated April 2015, was performed by the Office of the Comptroller of the Currency (OCC) and was rated Satisfactory.

***Federal Home Loan Bank System.*** Hamilton Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of

the Federal Home Loan Bank of Atlanta, Hamilton Bank is required to acquire and hold shares of capital stock in the Federal Home Loan Bank. As of September 30, 2018, Hamilton Bank was in compliance with this requirement.

**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. In addition, the Consumer Financial Protection Bureau issues regulations and standards under federal consumer protection laws that affect consumer businesses. These include regulations setting ability to repay and qualified mortgage standards for

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residential mortgage loans and mortgage loan servicing and originator compensation standards. Hamilton Bank is evaluating recent regulations and proposals, and devotes significant compliance, legal and operational resources to compliance with consumer protection regulations and standards.

**Holding Company Regulation**

**General.** As a bank holding company, Hamilton Bancorp is subject to comprehensive regulation, examination and supervision by the Federal Reserve Board under Hamilton Bank Holding Company Act of 1956, as amended (the BHCA ), and the regulations of the Federal Reserve Board. The Federal Reserve Board also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders, and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices.

**Permissible Activities.** A bank holding company is limited in its activities to banking, managing or controlling banks, or providing services for its subsidiaries. Other permitted non-bank activities have been identified as closely related to banking. Bank holding companies that are well capitalized and well managed and whose financial institution subsidiaries have satisfactory Community Reinvestment Act records can elect to become financial holding companies, which are permitted to engage in a broader range of financial activities than are permitted to bank holding companies. Hamilton Bancorp has not opted to become a financial holding company.

The Federal Reserve Board has the power to order a holding company or its subsidiaries to terminate any activity, or to terminate its ownership or control of any subsidiary, when it has reasonable cause to believe that the continuation of such activity or such ownership or control constitutes a serious risk to the financial safety, soundness or stability of any bank subsidiary of that holding company.

**Capital.** Bank holding companies are generally required to maintain on a consolidated basis, specified minimum ratios of capital to total assets and capital to risk-weighted assets. However, these requirements generally apply to bank holding companies with consolidated assets of \$1 billion or more, and do not apply to Hamilton Bancorp. Recent legislation has increased to \$3 billion of assets the threshold for the applicability of consolidated holding company capital requirements, subject the promulgation of regulations by the Federal Reserve board.

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

**Dividends.** The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies. 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 Hamilton Bancorp's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or Hamilton Bancorp's overall rate or earnings retention is inconsistent with Hamilton Bancorp's capital needs and overall financial condition. The ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. The policy statement also states that a bank holding company should inform the Federal Reserve Board supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if Hamilton Bank holding company is experiencing financial



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

**Acquisition.** Under the Federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect control of a bank holding company. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of Hamilton Bancorp's outstanding voting stock, unless the Federal Reserve Board has found that the acquisition will not result in control of Hamilton Bancorp. A change in control definitively occurs upon the acquisition of 25% or more of Hamilton Bancorp's outstanding voting stock. Under the Change in Bank Control Act, the Federal Reserve

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Board generally has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition.

**Federal Securities Laws**

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

**Properties**

We conduct our business through our executive and administrative office located in Towson, Maryland, which also serves as a full-service banking office, and six other full-service branch offices located in Baltimore City and the Maryland counties of Baltimore, Howard and Anne Arundel. The aggregate net book value of our premises, including leasehold improvements, was \$3.4 million at September 30, 2018. 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, including lease expiration dates for leased properties.

<b>Location</b>	<b>Leased or Owned</b>	<b>Year Opened/ Acquired</b>	<b>Lease Expiration Date</b>
<b><u>Executive and Administrative Office:</u></b>			
501 Fairmount Ave. Suite 200			
Towson, Maryland 21286	Leased	2011	November 30, 2021
<b><u>Branches:</u></b>			
5600 Harford Road			
Baltimore, Maryland 21214	Owned	1937	
8108 Jumpers Hole Road			
Pasadena, Maryland 21122	Owned	2009	
8216 Philadelphia Road			
Rosedale, Maryland 21237	Owned	2015	
788 Washington Boulevard			
Baltimore City, Maryland 21230 (2)	Leased	2018	August 31, 2022
9050 National Pike			
Ellicott City, Maryland 21042 (3)	Leased	2017	August 31, 2023
10283 York Road			
Cockeysville, Maryland 21030 (1)	Leased	2016	Jan. 31, 2020

- (1) Property was acquired in the Fraternity Community Bancorp acquisition on May 13, 2016.
- (2) This branch was opened in March 2018. The former branch located at 764 Washington Boulevard in Baltimore City, located on the same block as the new location, was acquired in the Fraternity acquisition and operated as Fraternity's administrative offices, as well as a full-service branch. We sold the former property in December 2017.
- (3) This branch was opened in July 2017 and is less than a mile from the former branch that was also leased. The former branch location at 8460 Baltimore National Pike in Ellicott City, Maryland was closed. The lessor decided to reconstruct this property for an alternative use and we were required to relocate.

**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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF HAMILTON BANCORP, INC.**

*In this section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations of Hamilton Bancorp, Inc. and the sections entitled The Companies Hamilton Bancorp, Inc. and Management of Hamilton Bancorp, Inc., and only in these three sections, the terms we, our, and us refer to Hamilton Bancorp, Inc. and Hamilton Bank, unless the context indicates another meaning.*

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

Statements included in this management's discussion and analysis include non-GAAP financial measures and should be read along with the accompanying tables which provide a reconciliation of non-GAAP financial measures to GAAP financial measures. Hamilton Bancorp's management uses these non-GAAP financial measures, including tangible common equity, in its analysis of Hamilton Bancorp's performance. The tangible common equity non-GAAP reconciliation, which includes tangible book value per share, is presented in the Overview section below.

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

**Summary of Recent Performance and Other Activities**

Hamilton Bancorp and its wholly owned subsidiary, Hamilton Bank, continued to show improvement in overall earnings, as well as revenue and loan growth during the six months ended September 30, 2018 compared to the same period a year ago. Net income improved from \$803,000 to \$1.5 million for the comparable periods, an increase of \$741,000 or 92.2%, while interest revenue grew from \$8.8 million to \$9.9 million, an increase of \$1.1 million. These increases are reflective of the overall growth of the loan portfolio over the past year due to organic and purchased loans and Hamilton Bancorp's focus on managing operating expenses. Interest revenue was partially offset by a \$703,000 increase in interest expense over this same period due to the rise in interest rates.

Non-interest revenue of \$587,000 remained relatively unchanged for the six months ended September 30, 2018 compared to \$561,000 for the six months ended September 30, 2017. On a comparative basis, there were increases relating to gain on sale of loans and other noninterest revenue, partially offset by a reduction in earnings on bank-owned life insurance (BOLI) and gains on sale of investment securities. In the prior year period, Hamilton Bancorp made a decision to hold in portfolio the majority of our residential loan originations versus selling them in the secondary market to partially offset the increased run-off associated with this loan type. Beginning in fiscal 2019, however, we again started to sell qualified residential loan originations into the secondary market as a means to generate noninterest revenue and diversify our income stream. For the six months ended September 30, 2018, we

recorded gains of \$25,873 on the sale of these loans.

Non-interest expense for the six months ended September 30, 2018 declined modestly to \$6.3 million from \$6.4 million for the six months ended September 30, 2017. We have been able to manage a growing loan portfolio from an operational cost basis and increase our interest revenue as noted earlier. This is reflected in the improvement of Hamilton Bancorp's efficiency ratio which has improved from 82.0% for the six months ended September 30, 2017 to 77.3% for the six months ended September 30, 2018. We have experienced significant decline in both legal and other professional services expense for the comparable periods related to costs incurred in the prior year, including costs associated with our charter conversion and payments under non-compete agreements that were a part of the Fraternity Community Bancorp, Inc. acquisition in May 2016. Offsetting these declines were increases in data processing expense and FDIC insurance premiums. Management remains committed to managing our operational expenses and achieving higher efficiencies.

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For the six months ended September 30, 2018, Hamilton Bancorp did not report any income tax expense due to the release of a portion of the valuation allowance on our net deferred tax assets established in the prior fiscal year. Management concluded, based upon analysis and substantive evidence, particularly negative evidence associated with being in a three-year cumulative loss position, that it is more likely than not that Hamilton Bancorp will be unable to generate sufficient taxable income in the foreseeable future to fully utilize the net deferred tax assets. If, in the future, Hamilton Bancorp generates taxable income on a sustained basis sufficient to support the deferred tax assets, the need for a deferred tax valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation at that time. The establishment of a valuation allowance on our deferred tax assets for financial reporting purposes does not affect how the net operating loss carryforwards may be utilized on our subsequent income tax returns. Income tax expense for the periods reported is based upon year-to-date results and is not reflective of annual earnings.

The following highlights contain additional financial data and events relating to the three and six months ended September 30, 2018 compared to the same periods ended September 30, 2017:

Hamilton Bancorp reported net income of \$665,000, or \$0.21 per common share, and \$1.5 million, or \$0.48 per common share for the three and six months ended September 30, 2018, respectively, compared to net income of \$411,000, or \$0.13 per common share, and \$803,000, or \$0.25 per common share for the comparable periods ended September 30, 2017. This represents an increase of 92.0% in earnings per share for the six-month comparable periods.

Net interest income for the three months ended September 30, 2018 was \$3.7 million, or \$138,000 higher than the same period a year ago. For the six months ended September 30, 2018, net interest income increased \$352,000, or 4.9%, to \$7.6 million compared to \$7.2 million for the same six-month period a year ago.

The net interest margin increased 6 basis points from 3.12% to 3.18% for the three months ended September 30, 2017 and 2018, respectively, due to the increase in net interest income. The net interest margin for the six months ended September 30, 2018 also improved from 3.10% to 3.12% for the same reason.

Return on average assets and equity for the first half of fiscal 2019 improved to 0.59% and 5.57%, compared to 0.31% and 2.64% for the first half of fiscal 2018; a 90.3% and 111.0% improvement, respectively.

Efficiency ratio improved from 82.0% for the six months ended September 30, 2017 to 77.3% for the six months ended September 30, 2018; an improvement of 5.7%. The improvement is attributable to increased revenue and the reduction of non-interest expenses, including legal and other professional services.

Total assets declined \$23.3 million from \$525.5 million at March 31, 2018 to \$502.2 million at September 30, 2018. The decline in overall assets is primarily attributable to a decline in investments and gross loans.

Cash and cash equivalents decreased \$1.3 million, or 5.7%, to \$22.0 million at September 30, 2018, compared to \$23.4 million at March 31, 2018, and investments also declined \$6.5 million from \$75.4 million to \$68.9 million over the same period. The decline in the investment portfolio is related to normal principal pay downs on mortgage-backed securities.

Gross loans decreased \$14.6 million, or 3.7%, from \$389.2 million to \$374.6 million. The decrease is due to principal pay downs and pay-offs within the loan portfolio, including \$9.6 million in pay-offs related to one commercial relationship that totaled \$6.3 million and a commercial real estate nonaccrual loan for \$3.3 million.

The allowance for loan losses to nonperforming loans improved to 49.8% from 27.9% over the quarter ended September 30, 2018. This improvement resulted from the pay-off on a \$3.3 million nonaccrual loan in which past due interest and all expenses incurred were collected and a \$194,000 increase in the allowance for loan losses over the quarter.

Annualized net charge-offs to average loans improved to 0.05% for the six-month period ended September 30, 2018 compared to 0.26% for the fiscal year ended March 31, 2018, while the allowance for loan losses as a percentage of gross loans increased from 0.73% to 0.81% over this same period.

Total deposits decreased \$16.7 million to \$388.5 million at September 30, 2018, while borrowings decreased \$7.1 million to \$53.5 million. The decline in deposits was largely related to higher costing time deposits which declined by \$12.5 million; while lower costing core deposits declined by \$4.0 million. Core deposits at September 30, 2018 made up 39.6% of total deposits compared to 38.9% and 40.1% at March 31, 2018 and September 30, 2017, respectively.

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At September 30, 2018 Hamilton Bancorp had a book value of \$16.23 per common share and a tangible book value of \$13.57 per common share compared to \$15.87 and \$13.18, respectively, at March 31, 2018. Book value and tangible book value increased as a result of the net income reported for the quarter. Tangible book value, a non-GAAP measure, was determined as follows:

	<b>September 30, 2018</b>	<b>March 31, 2018</b>
Tangible book value per common share:		
Total stockholders equity	\$ 55,459,509	\$ 54,076,132
Less: Goodwill and other intangible assets	(9,113,731)	(9,176,764)
Tangible common equity (Non-GAAP)	\$ 46,345,778	\$ 44,899,368
Outstanding common shares	3,416,414	3,407,613
Book value per common share (GAAP)	\$ 16.23	\$ 15.87
Tangible book value per common share (Non-GAAP)	\$ 13.57	\$ 13.18

Hamilton Bancorp maintained strong liquidity based upon the amount and make-up of its investment portfolio. At September 30, 2018, Hamilton Bank was deemed well capitalized under federal regulations.

**Strategic Plan**

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

We identified several strategic priorities in our three-year Strategic Plan. Those priorities included focusing on the following core areas:

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

**Low-Cost Funding Strategies** Focusing on utilizing and growing low-cost core deposits as the primary funding source for loans. Given the current environment for higher-returns on investments, the retention of deposit customers along with targeted sales strategies will be important to growing deposits. Comprehensive



marketing plans for increasing brand awareness in our market and promotion of products and services will be required, along with a seamless, fully integrated delivery experience for our customers that leverages technology and optimizes efficiencies. These strategies will apply to not just consumers, but to all commercial and small business customers.

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

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

### **Critical Accounting Policies**

The discussion and analysis of the financial condition and results of operations are based on our consolidated financial statements, which are prepared in conformity with generally accepted accounting principles used in the United States of

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

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

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

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

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

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

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

results of operations and cash flows.

If the estimated value of investments is less than the cost or amortized cost, we evaluate whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of the investment. If such an event or change has occurred and we determine that the impairment is other-than-temporary, we record the impairment of the investment in the period in which the event or change occurred. We also consider how long a security has been in a loss position in determining if it is other than temporarily impaired. Management also assesses the nature of the unrealized losses taking into consideration factors such as changes in risk-free interest rates, general credit spread widening, market supply and demand, creditworthiness of the issuer, and quality of the underlying collateral. At September 30, 2018, all of our securities were either issued by U.S. government agencies, U.S. government-sponsored enterprises, municipalities, or corporations.

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**Goodwill Impairment.** Goodwill represents the excess purchase price paid over the fair value of the net assets acquired. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Hamilton Bancorp is considered the Reporting Unit for purposes of impairment testing. Impairment testing requires that the fair value of Hamilton Bancorp be compared to the carrying amount of Hamilton Bancorp's net assets, including goodwill. If the fair value of Hamilton Bancorp exceeds the book value, no write-down of recorded goodwill is required. If the fair value of Hamilton Bancorp 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 based upon December financial information and current projections. We estimate the fair value of Hamilton Bancorp utilizing four valuation methods including the Comparable Transactions Approach, the Control Premium Approach, the Public Market Peers Approach, and the Discounted Cash Flow Approach.

Based on our annual impairment testing as of December 31, 2017, there was no evidence of impairment with respect to our goodwill or intangible assets. Subsequent to this testing, there was a triggering event at March 31, 2018 associated with the establishment of a valuation allowance on our deferred tax asset. Due to this event, we again performed impairment testing on our goodwill and intangible assets and concluded that there was still no impairment.

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

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

**Comparison of Financial Condition at September 30, 2018 and March 31, 2018**

**Assets.** Total assets decreased \$23.3 million to \$502.2 million at September 30, 2018 from \$525.5 million at March 31, 2018. The decrease is primarily attributable to a \$14.6 million reduction in gross loans, a \$6.5 million decrease in the investment portfolio, and a \$1.3 million decline in cash and cash equivalents.

**Cash and Cash Equivalents.** Cash and cash equivalents at September 30, 2018 totaled \$22.0 million compared to \$36.1 million and \$23.4 million at June 30, 2018 and March 31, 2018, respectively; a 64.1% decline over the last quarter. The higher balances through June 30, 2018 were a result of proceeds received from principal pay downs and/or pay-offs within the loan portfolio and a declining investment portfolio from normal principal payments associated with the mortgage-backed security portfolio. Excluding funds needed for liquidity and operational needs,

management intends to utilize any excess cash for future loan growth and/or possible repayment of maturing advances.

***Investment Securities.*** Our investment portfolio consists primarily of investment grade securities including U.S. government agency and government-sponsored entity ( GSEs ) securities, securities issued by states, counties and municipalities, corporate bonds, and mortgage-backed securities. At September 30, 2018, all securities are classified as available for sale. While we usually intend to hold investment securities until maturity, this classification provides us the opportunity to divest of securities that may no longer meet our liquidity objectives. During the six months ended September 30, 2018, we did not sell any securities.

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Investment securities decreased \$6.5 million, or 8.7%, to \$68.9 million at September 30, 2018, from \$75.4 million at March 31, 2018. The decrease is attributable to \$7.1 million in cash flows resulting from normal principal payments associated with our collateralized mortgage obligation and mortgage-backed security portfolios, partially offset by the purchase of one security during the six-month period with a book value of \$2.0 million. The fair value of the investment portfolio declined \$606,000 from an unrealized net loss position of \$2.9 million at March 31, 2018 to an unrealized net loss position of \$3.5 million at September 30, 2018. The decrease in fair value of the investment portfolio is a result of the increase in interest rates over the past six months.

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

**Loans.** Excluding loan premiums and loan origination fees and costs, gross loans receivable decreased by \$14.6 million, or 3.7%, to \$374.6 million at September 30, 2018 from \$389.2 million at March 31, 2018. The decrease is primarily attributable to normal principal pay-downs and pay-offs within the loan portfolio, including \$6.3 million in pay-offs associated with one commercial relationship and \$3.3 million attributed to one nonaccrual loan in which we collected all of our principal and past due interest, plus all legal and other expenses incurred. Included in gross loans at September 30, 2018 are acquired loans with a book balance of \$104.5 million associated with the prior acquisitions of Fraternity and Fairmount institutions (these loans are reflected in the acquired loan column of the table below). At September 30, 2018, gross loans receivable represented 74.6% of total assets compared to 68.6% of total assets a year ago.

The following table details the composition of loans and the related percentage mix and growth of total loans:

	September 30, 2018				March 31, 2018				Year-To-D Growth
	Legacy	Acquired	Total	Percent of Total	Legacy	Acquired	Total	Percent of Total	Amount
ay:									
1	\$ 83,090,271	\$ 68,932,853	\$ 152,023,124	40.6%	\$ 85,248,184	\$ 72,749,066	\$ 157,997,250	40.6%	\$ (5,974,126)
1									
on	3,639,139		3,639,139	1.0%	5,450,827		5,450,827	1.4%	(1,811,688)
	7,880,161	17,002,668	24,882,829	6.6%	9,275,031	17,460,809	26,735,840	6.9%	(1,853,011)
al	105,679,013	10,017,465	115,696,478	30.9%	100,403,769	11,762,485	112,166,254	28.8%	3,530,224
al									
on	2,529,160	928,008	3,457,168	0.9%	5,763,784	1,352,019	7,115,803	1.8%	(3,658,635)
	202,817,744	96,880,994	299,698,738	80.0%	206,141,595	103,324,379	309,465,974	79.5%	(9,767,236)

36,134,376	1,755,200	37,889,576	10.1%	38,302,739	1,841,226	40,143,965	10.4%	(2,254,389)
14,183,532	5,184,176	19,367,708	5.2%	13,956,327	6,039,462	19,995,789	5.1%	(628,081)
16,973,316	719,527	17,692,843	4.7%	18,849,448	766,063	19,615,511	5.0%	(1,922,668)
\$ 270,108,968	\$ 104,539,897	\$ 374,648,865	100.0%	\$ 277,250,109	\$ 111,971,130	\$ 389,221,239	100.0%	\$ (14,572,374)

Hamilton Bancorp's largest category of loans continues to be residential one-to four-family loans as a result of the loans acquired in the Fraternity and Fairmount acquisitions. This segment of our loan portfolio comprises 40.6% of the entire loan portfolio at September 30, 2018, the same percentage as of March 31, 2018 despite a decrease of \$6.0 million. During the last half of fiscal 2017 and into fiscal 2018 we retained in portfolio many of the traditional residential mortgage loans we originated, versus selling them in the secondary market, due to the increase in normal attrition within this loan segment resulting from our acquisitions. Prior to that time, we generally sold these loans in the secondary market at a premium to assist with managing interest rate risk and to enhance non-interest revenue. At the beginning of this year, we began to once again sell most newly originated residential loans that qualify into the secondary market versus putting them in portfolio for those same reasons. To date we have originated and sold \$1.3 million in loans into the secondary market. Because of this, we expect the one-to four-family residential loan portfolio to continue to decline as we focus more on the growth within the commercial portfolio to replace the residential run-off and assist with managing interest rate risk.

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As a means to supplement our residential loan portfolio, Hamilton Bancorp began to promote its one-to-four family residential construction lending program several years ago. During the first half of fiscal 2019, Hamilton Bank originated commitments of \$6.2 million in residential construction loans. At September 30, 2018 we have \$8.4 million in residential construction commitments, of which \$3.6 million in funds have been advanced; compared to \$8.7 million in residential construction commitments at March 31, 2018 of which \$5.4 million in funds had been advanced. The construction period on residential homes is typically nine to twelve months, at which time Hamilton Bank is often repaid through permanent financing by a third party.

Real estate investor loans represent funds advanced to borrowers for the purchase or refinance of non-owner occupied one-to-four family properties. These loans made up \$24.9 million, or 6.6%, of gross loans at September 30, 2018, including a remaining balance of \$17.0 million of such loans acquired from Fraternity and Fairmount. This type of lending typically involves more risk than originating owner-occupied one-to-four family residential mortgages. Hamilton Bank typically refrains from originating this type of loan.

Hamilton Bank continues to focus on growth through origination and/or purchase of both commercial real estate and commercial business loans as these loans offer higher rates of return and shorter maturity periods than typical retail lending. Over the six months ended September 30, 2018, we saw strong organic growth within our commercial real estate loan portfolio. We organically originated \$11.5 million in commercial real estate loans and transferred or reclassified nearly \$2.0 million more from commercial construction loans over this period. This resulted in an overall increase, after several loan pay-offs and normal principal payments, of nearly \$3.5 million within this loan segment. Commercial business loans declined from \$40.1 million to \$37.9 million, a decrease of 5.6% or \$2.3 million. Commercial business loans, although relatively stable, can fluctuate based upon demands or pay-downs on respective lines of credit. Overall commercial loans, including commercial construction loans, have declined since March 31, 2018 due to \$6.3 million in pay-offs associated with one commercial relationship that had several commercial loans with Hamilton Bank and the pay-off of a nonaccrual commercial real estate loan with a book balance of \$3.3 million.

**Bank-Owned Life Insurance.** We invest in bank-owned life insurance ( BOLI ) to provide us with a funding source for our benefit plan obligations. BOLI also provides us noninterest income that is tax-exempt. Our investment in BOLI increased by \$129,000 to \$17.7 million at September 30, 2018. The increase is attributable to the increase in cash surrender value of the underlying insurance policies. Federal regulations generally limit our investment in BOLI to 25% of our Tier 1 capital plus our allowance for loan losses. Our amount of BOLI at September 30, 2018 exceeded these limits because of the BOLI we acquired in the Fraternity acquisition in May 2016 and the increase in cash surrender value of these policies over the years. Due to the amount of BOLI currently held, Hamilton Bancorp has no plans to purchase additional BOLI at this time.

**Deposits.** Total deposits (excluding premiums on acquired deposits) decreased \$16.5 million, or 4.1%, to \$388.2 million at September 30, 2018 from \$404.7 million at March 31, 2018. Hamilton Bancorp continues to focus on generating lower cost, core deposits (which includes all deposits other than certificates of deposit) to support continued loan growth. Core deposits accounted for 39.6% of total deposits at September 30, 2018, compared to 39.0% at March 31, 2018.

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

September 30, 2018 Total	March 31, 2018 Total	Year-To-Date Growth Amount
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		<b>Percent of Total</b>		<b>Percent of Total</b>		<b>Growth Percent</b>
Savings	\$ 38,539,878	9.9%	\$ 42,499,381	10.6%	\$ (3,959,503)	-9.3%
Noninterest-bearing checking	28,816,887	7.4%	29,557,943	7.3%	(741,056)	-2.5%
Interest-bearing checking	28,727,675	7.4%	27,219,286	6.7%	1,508,389	5.5%
Money market accounts	57,641,094	14.8%	58,466,228	14.4%	(825,134)	-1.4%
Time deposits	234,488,724	60.4%	246,988,613	61.0%	(12,499,889)	-5.1%
	\$ 388,214,258	100.0%	\$ 404,731,451	100.0%	\$ (16,517,193)	-4.1%
Premium on deposits assumed	256,357		411,524		(155,167)	
Total deposits	\$ 388,470,615		\$ 405,142,975		\$ (16,672,360)	

Our strategy with respect to deposits has been to maintain our current certificate of deposit base as needed to support loan demand by pricing more competitively in the marketplace or through short-term certificate of deposit promotions, as we

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focus on growing our core deposits at a faster pace to reduce our overall cost of funds. During the first half of fiscal 2019, however, we have not been as aggressive in maintaining our certificates of deposits based upon funding and liquidity needs. Over this period, time deposits have decreased \$12.5 million, or 5.1%, to \$234.5 million at September 30, 2018. As interest rates have risen in the past six months, the market competition for time deposits has gotten more competitive with respect to pricing. We have strategically decided not to price at the top of the market, unless through a promotional deposit product, or match competitor pricing in certain circumstances as a means to manage interest expense. Core deposits though have also decreased \$4.0 million, or 2.5%, from \$157.7 million at March 31, 2018 to \$153.7 million at September 30, 2018. There may be instances though when funding demands are more immediate. To meet these demands, Hamilton Bancorp entered into a contract and began utilizing a certificate of deposit subscription service in the third quarter of fiscal 2018. The cost of these deposits is more expensive than traditional certificates of deposit because of the ability to provide the funding needed in a timely manner; but can be less costly than borrowing from the Federal Home Loan Bank or other sources. During the first six months of fiscal 2019 we did not need to utilize this service to originate deposits to support any additional funding requirements.

***Borrowings.*** Borrowings consist of both short and long-term advances from the FHLB. At September 30, 2018, outstanding advances from the FHLB decreased \$7.1 million, or 11.75%, to \$53.6 million compared to \$60.7 million at March 31, 2018. Approximately \$6.0 million of this decline occurred during the quarter ended September 30, 2018. During the first half of fiscal 2019 we have had \$29.0 million in borrowings that have either matured or been called. We elected to rollover \$22.0 million of those borrowings and pay-off \$7.0 million to date.

At September 30, 2018, \$7.0 million of the total advances are considered short-term and mature in less than one year, while the remaining \$46.6 million in advances are considered long-term and mature in more than one year (See Note 7 of the Notes to Consolidated Financial Statements). Included in long-term advances is \$11.6 million in advances that mature on a quarterly basis; however, they are associated with several cash flow hedge transactions and will be continuously renewed over the expected life of the hedged transactions. The hedge transactions currently have an average life of 5.8 years. Excluding the advances associated with the hedge transactions, the longest outstanding borrowing is for \$2.0 million and matures in September 2023.

The FHLB borrowings provide an alternative means to support the cash outflow needed to fund new loan originations in coordination with deposit growth. FHLB borrowings can provide a less expensive means to support cash outflow when compared to selling higher yielding investment securities. These obligations are secured by our residential and home equity loan portfolios. At September 30, 2018, we had the ability to borrow approximately \$76.7 million in additional funds from the FHLB, subject to our pledging sufficient assets. These obligations will be repaid as our cash position strengthens.

***Equity.*** Total equity increased \$1.4 million or 2.6%, to \$55.5 million at September 30, 2018 from \$54.1 million at March 31, 2018. The change in equity is primarily attributable to net income of \$1.5 million reported for the first six months of fiscal 2019, along with a \$251,000 increase in additional paid in capital resulting from the expense derived from equity awards granted in prior periods and a \$194,000 increase in the market value of our cash flow hedge on FHLB borrowings. These increases were partially offset by a \$412,000 decline in accumulated other comprehensive loss associated with the decrease in the fair value of the investment portfolio. The fair value of the investment portfolio decreased while the fair value of our cash flow hedge increased due to rising interest rates that occurred over that same period. Hamilton Bancorp's book value per common share was \$16.23 at September 30, 2018 compared to \$15.87 at March 31, 2018. At September 30, 2018, Hamilton Bank remains well capitalized as defined under federal regulations.

**Comparison of Financial Condition at March 31, 2018 and March 31, 2017**

**Assets.** Total assets increased \$11.0 million to \$525.5 million at March 31, 2018 from \$514.5 million at March 31, 2017. The increase is primarily attributable to a \$50.2 million increase in gross loans, partially offset by a \$27.0 million decline in investment securities, an \$8.0 million decrease in net deferred tax assets, and \$6.0 million decrease in cash and cash equivalents.

**Cash and Cash Equivalents.** Cash and cash equivalents decreased by \$6.0 million, or 20.4%, to \$23.4 million at March 31, 2018 from \$29.3 million at March 31, 2017. The decline from March 31, 2017 is in part a result of cash and investments used to fund organic loan growth and purchase various pools of residential mortgage, commercial business, and consumer loans throughout the year; thereby converting lower interest-earning cash and investments into higher interest-earning loans. In the last quarter of fiscal 2018, we were able to replenish and increase our cash position by \$13.3 million through an increase in our core deposit base.

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***Certificates of Deposit Held as Investment.*** Certificates of deposit ( CDs ) of \$499,000 remained unchanged from March 31, 2017 to March 31, 2018. Hamilton Bancorp currently holds two CDs that are equal to or less than \$250,000 and fully insured by the FDIC. The weighted average rate and term of the portfolio is 2.28% and 3.6 years, respectively.

***Securities.*** Our investment portfolio consists primarily of investment grade securities including U.S. government agency and government-sponsored entity ( GSEs ) securities, securities issued by states, counties and municipalities, corporate bonds, and mortgage-backed securities. At March 31, 2018, all securities are classified as available for sale. While we usually intend to hold investment securities until maturity, this classification provides us the opportunity to divest of securities that may no longer meet our liquidity objectives.

Investment securities decreased \$27.0 million, or 26.4%, to \$75.4 million at March 31, 2018, from \$102.4 million at March 31, 2017. The decrease is related to \$15.1 million in cash flows resulting from normal principal payments associated with the mortgage-backed security portfolio, as well as the sale of \$11.6 million in securities during fiscal 2018, including \$7.4 million of securities sold in the third quarter ended December 31, 2017. The sale of securities during the year resulted in a loss of \$2,000. The fair value of the investment portfolio declined \$676,000 from an unrealized net loss position of \$2.2 million at March 31, 2017 to an unrealized net loss position of \$2.9 million at March 31, 2018. The decrease in fair value of the investment portfolio is a result of the increase in interest rates over the past fiscal year, particularly the last quarter of fiscal 2018. Partially offsetting the decline in value is the passage of time as certain investments get closer to maturity.

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

***Premises and Equipment.*** We currently have seven full service branches, one of which operates out of our administrative offices. With our acquisitions of Fairmount and Fraternity, we added three new branch locations and one that overlapped an existing location.

In the acquisition of Fairmount, Hamilton Bancorp acquired the main office, which included the administrative offices and the only full-service branch, three vacant lots, and an unoccupied branch building that was not in operation at the time of acquisition. Due to growth, we subsequently re-located several back-office departments to the administrative office space that was acquired. Hamilton Bancorp then sold the unoccupied branch building in fiscal 2017 with a book balance of \$405,000 for \$425,000 with net proceeds of \$393,000, excluding closing costs.

In the acquisition of Fraternity, Hamilton Bancorp acquired two branches and the main office located in Baltimore City that included both the administrative offices of Fraternity and a full-service branch. The main office was owned by Hamilton Bank and the other two branches were under a lease agreement at the time of acquisition. One of the leased branches was in close proximity and serviced the same geographic area as one of Hamilton's existing branches that was also leased. The acquired branch was in a better location, smaller in size, and less expensive to operate. As a result, management decided to close our existing branch in May 2016 and move our current customers to the newly acquired location; however, we were unable to get out of the then in place lease agreement. Consequently, in accordance with accounting guidelines, we immediately recognized the present value of the remaining lease payments

under that lease, which amounted to \$495,000. In November 2017, we reached an agreement with the lessor for \$250,000 to terminate the lease and allow another third party to occupy the property. The agreement saved Hamilton Bank approximately \$32,000 over the remaining term of the lease.

In December 2017 we sold the building located in the Pigtown community of Baltimore City that was obtained in the acquisition of Fraternity for \$830,000. The building housed the administrative offices of Fraternity and our original Pigtown branch. Subsequent to the acquisition, we continued to operate the Pigtown branch from this location; however, the administrative space was not being utilized. We determined it would be more cost effective to sell the building and relocate the branch within the same community to a smaller, more efficient space that would provide operational cost savings. The sale of the building and various furniture and equipment resulted in a gain of \$213,000. The new Pigtown branch, which is being leased, was opened in March 2018.

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We also relocated our Ellicott City branch within the same geographic area of Howard county during the second quarter of fiscal 2018. Similar to our Pigtown branch, we moved to a smaller, more efficient space that provided cost savings. The former and new location were or are leased properties. In addition, we recognized a loss of \$115,000 associated with the write-off or disposal of leasehold improvements that pertained to our legacy or former Cockeysville branch.

**Loans.** Excluding loan premiums and loan origination fees and costs, gross loans receivable increased by \$50.2 million, or 14.8%, to \$389.2 million at March 31, 2018 from \$339.0 million at March 31, 2017. The increase is attributable to organic growth and approximately \$54.0 million in loan purchases throughout the year. The various loan purchases included residential mortgages, commercial business, and consumer loans. Included in gross loans at March 31, 2018 are acquired loans with a book balance of \$112.0 million associated with the acquisitions of Fraternity and Fairmount institutions (these loans are reflected in the acquired loan column of the table below). At March 31, 2018, gross loans receivable represented 74.1% of total assets compared to 65.9% of total assets at March 31, 2017. The following table details the composition of loans and the related percentage mix and growth of total loans. We did not hold any loans for sale as of March 31, 2018 or 2017.

	March 31, 2018				March 31, 2017				Year-To-Date
	Legacy	Acquired	Total	Percent of Total	Legacy	Acquired	Total	Percent of Total	Growth Amount
ate									
Family:									
Residential	\$ 85,248,184	\$ 72,749,066	\$ 157,997,250	41%	\$ 67,126,677	\$ 83,892,389	\$ 151,019,066	45%	\$ 6,978,184
Commercial	5,450,827		5,450,827	1%	6,426,076		6,426,076	2%	(975,249)
Commercial	9,275,031	17,460,809	26,735,840	7%	6,742,469	18,779,644	25,522,113	8%	1,213,727
Commercial	100,403,769	11,762,485	112,166,254	29%	92,665,689	14,898,523	107,564,212	32%	4,602,042
Commercial	5,763,784	1,352,019	7,115,803	3%	1,881,541	1,308,652	3,190,193	2%	3,925,610
Commercial	206,141,595	103,324,379	309,465,974	80%	174,842,452	118,879,208	293,721,660	87%	15,744,314
Commercial	38,302,739	1,841,226	40,143,965	10%	19,518,029	2,019,337	21,537,366	6%	18,606,599
Equity	13,956,327	6,039,462	19,995,789	5%	13,278,229	7,266,141	20,544,370	6%	(548,581)
Other	18,849,448	766,063	19,615,511	5%	2,258,836	937,600	3,196,436	1%	16,419,075
Total	\$ 277,250,109	\$ 111,971,130	\$ 389,221,239	100%	\$ 209,897,546	\$ 129,102,286	\$ 338,999,832	100%	\$ 50,221,407

Hamilton Bancorp's largest concentration of loans continues to be residential one-to four-family loans as a result of the loans acquired in the Fraternity and Fairmount acquisitions. This loan portfolio comprises 41% of the entire loan portfolio at March 31, 2018, an increase of \$7.0 million from March 31, 2017. This growth is primarily related to the purchase of \$19.3 million in residential mortgage loans during the second half of fiscal 2018. In addition, over the last

half of fiscal 2017 and into fiscal 2018 we began to portfolio many of the traditional residential mortgage loans we originated, versus selling them in the secondary market, due to the increase in normal attrition within this loan segment resulting from our acquisitions. Prior to that time, we generally sold these loans in the secondary market at a premium to assist with managing interest rate risk and to enhance non-interest revenue. At the beginning of this year, we began to once again sell most newly originated residential loans that qualify into the secondary market versus putting them in portfolio for those same reasons.

In fiscal 2015, as a means to supplement our residential loan portfolio, Hamilton Bancorp began to promote its one-to-four family residential construction lending program. During fiscal 2018, Hamilton Bank originated commitments of \$12.2 million in residential construction loans. As a result, at March 31, 2018, we had \$8.7 million in residential construction commitments, of which \$5.4 million in funds have been advanced; compared to \$11.8 million in residential construction commitments at March 31, 2017 of which \$6.0 million in funds had been advanced. The construction period on residential homes is typically nine to twelve months, at which time Hamilton Bank is often repaid through permanent financing by a third party.

Real estate investor loans represent funds advanced to borrowers for the purchase or refinance of non-owner occupied one-to-four family properties. These loans make up \$26.7 million, or 6.9%, of total gross loans at March 31, 2018, including

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a remaining balance of \$17.5 million that were acquired from Fraternity and Fairmount. This type of lending can involve more risk than originating owner-occupied one-to-four family residential mortgages and as such, Hamilton Bank typically refrains from originating this type of loan organically.

Hamilton Bank continues to focus on growth through the origination or purchase of both commercial real estate and commercial business loans as these loans offer higher rates of return and shorter maturity periods than typical retail lending. The largest increase in loans over fiscal 2018 in terms of dollars, is a \$18.6 million, or 86.4%, increase in commercial business loans from \$21.5 million at March 31, 2017 to \$40.1 million at March 31, 2018. In the last half of fiscal 2017, management focused on diversifying the commercial loan portfolio and seeking more asset-based type lending relationships both organically and through purchases. The majority of the increase in commercial business loans is related to the purchase of a \$15.5 million pool of commercial business loans at the end of the first quarter of fiscal 2018. The pool of loans consists of commercial lease loans that are concentrated in equipment that is necessary to operate a business segment, such as medical equipment. Over this same period, commercial real estate loans have also grown by \$4.6 million, or 4.3%, from \$107.6 million at March 31, 2017 to \$112.2 million at March 31, 2018. Commercial real estate comprises 28.8% of the total loan portfolio at March 31, 2018, down slightly from 31.7% at March 31, 2017 due to the growth and diversification of the commercial business loan portfolio over this same period. Hamilton Bank continues to see the benefits of our commercial lending platform that was restructured in the first half of fiscal 2016, with new personnel and improved underwriting and monitoring procedures, from both an origination and credit quality perspective.

As a means to continue to increase revenue and diversify the loan portfolio, a group of consumer loans totaling \$19.8 million was purchased in August 2017 from another financial institution. This portfolio of loans was collateralized by various makes and models of recreational vehicles (RV). Prior to this purchase, the consumer portfolio made up less than 1.0% of the total loan portfolio. This purchase increased our consumer loan balances significantly from \$3.2 million at March 31, 2017 to \$19.6 million at March 31, 2018; accounting for 5.0% of the entire loan portfolio. As a result, we were able to further diversify the composition of the loan portfolio and increase our net interest income.

***Bank-Owned Life Insurance.*** We invest in bank-owned life insurance ( BOLI ) to provide us with a funding source for our benefit plan obligations. BOLI also provides us noninterest income that is nontaxable. At March 31, 2018, our investment in bank-owned life insurance was \$17.5 million, a decrease of \$797,000 from \$18.3 million at March 31, 2017. Federal regulations generally limit our investment in BOLI to 25% of our Tier 1 capital plus our allowance for loan losses. Our amount of BOLI exceeded these limits because of the BOLI we acquired in the Fraternity acquisition and the increase in cash surrender value of these policies over the years.

The decrease of \$797,000 is attributable to the payout of several BOLI policies related to the unexpected passing of a beloved employee during the current year. Hamilton Bancorp received \$2.1 million in proceeds, of which \$1.3 million was applied against the cash surrender value of the BOLI policies and the remaining \$835,000 was recorded as non-interest income. The decline associated with the payout under the policies was partially offset by the increase in cash surrender value of the other BOLI insurance policies that are held.

***Deposits.*** Total deposits (excluding premiums on acquired deposits) decreased \$7.3 million to \$404.7 million at March 31, 2018 from \$412.0 million at March 31, 2017. Hamilton Bancorp continues to focus on generating lower cost, core deposits (which includes all deposits other than certificates of deposit) and maintaining maturing certificates of deposit to support continued loan growth. Overall core deposits have decreased \$6.7 million, or 4.0%, to \$157.7 million at March 31, 2018 compared to \$164.4 million at March 31, 2017. This decline is attributable to the end of a promotional rate on certain money market accounts, as well as a very competitive deposit market. Core deposits accounted for 38.9% of total deposits at March 31, 2018, compared to 39.9% at March 31, 2017. Hamilton



Bank is currently running deposit promotions to attract new customers in a competitive deposit market.

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

	March 31, 2018		March 31, 2017		Year-To-Date Growth	
	Total	Percent of Total	Total	Percent of Total	Amount	Growth Percent
Savings	\$ 42,499,381	10%	\$ 44,614,415	11%	\$ (2,115,034)	-5%
Noninterest-bearing checking	29,557,943	7%	30,401,454	7%	(843,511)	-3%
Interest-bearing checking	27,219,286	7%	26,415,189	7%	804,097	3%
Money market accounts	58,466,228	14%	62,962,902	15%	(4,496,674)	-7%
Time deposits	246,988,613	61%	247,632,742	60%	(644,129)	0%
	\$ 404,731,451	100%	\$ 412,026,702	100%	\$ (7,295,251)	-2%
Premium on deposits assumed	411,524		829,072		(417,548)	
Total deposits	\$ 405,142,975		\$ 412,855,774		\$ (7,712,799)	

As loan demand increases, our strategy with respect to deposits has been to maintain our current certificate of deposit base, as we focus on growing our lower costing core deposits at a faster pace. We hope to accomplish this by pricing more competitively in the marketplace or through short-term certificate of deposit promotions. However, there may be instances when funding demands are more immediate. To meet these demands, Hamilton Bancorp entered into a contract and began utilizing a certificate of deposit subscription service in the third quarter of fiscal 2018. As a result, we were able to obtain \$13.8 million in certificate of deposits in the second half of fiscal 2018 through this service. The cost of these deposits is more expensive than traditional certificates of deposit because of the ability to provide the funding needed in a timely manner, but can be less costly than borrowing from the Federal Home Loan Bank or other sources. We may continue to utilize this service as a funding source when other less costly means are not able to meet our funding or liquidity requirements.

**Borrowings.** Borrowings in fiscal 2018 consisted of both short and long-term advances from the FHLB and a note payable associated with an automobile that was paid-off in the fourth quarter. At March 31, 2018, outstanding advances from the FHLB increased \$25.0 million to \$60.6 million at March 31, 2018 compared to \$35.6 million at March 31, 2017. The increase is attributable to additional FHLB advances that were entered into to fund various loan purchases throughout the year. Already included in the FHLB advances is \$15.0 million in FHLB advances assumed in the Fraternity acquisition, of which \$10 million is to mature in fiscal 2019 and \$5.0 million that matured in fiscal 2018 and were rolled over. The advances assumed from Fraternity were originally longer-term borrowings and carried higher contractual rates of interest varying from 3.4% to 4.3%. As a result of the higher stated rates, Hamilton Bancorp recorded a discount of \$794,000 when accounting for the borrowings at fair value upon acquisition. At March 31, 2018, the remaining discount is \$103,000. The accretion of this discount offsets the higher contractual rate on these borrowings.

At March 31, 2018, \$26.0 million of the total advances are considered short-term and mature in less than one year, while the remaining \$34.6 million in advances are considered long-term and mature in more than one year. Included in long-term advances is \$11.6 million in advances that mature on a quarterly basis; however, they are associated with several cash flow hedge transactions and will be continuously renewed over the expected life of the hedged transactions. The hedge transactions currently have an average life of 6.3 years. Excluding the advances associated

with the hedge transactions, the longest outstanding borrowing is for \$3.0 million and matures in August 2021.

The FHLB borrowings provide an alternative means to support the cash outflow needed to fund new loan originations in coordination with deposit growth. FHLB borrowings can provide a less expensive means to support cash outflow when compared to selling higher yielding investment securities. These obligations are secured by our residential and home equity loan portfolios. At March 31, 2018, we had the ability to borrow approximately \$68.3 million in additional funds from the FHLB, subject to our pledging sufficient assets. These obligations will be repaid as our cash position strengthens.

**Equity.** Total equity decreased \$5.7 million, or 9.6%, to \$54.1 million at March 31, 2018 from \$59.8 million at March 31, 2017. The change in equity is primarily attributable the \$6.0 million loss reported for fiscal 2018 along with a \$510,000 decline in accumulated other comprehensive loss associated with the decrease in the fair value of the investment portfolio. The fair value of the investment portfolio declined as a result of the increase in interest rates that occurred over the year, but more so during our fourth quarter. The decrease was partially offset by a \$457,000 increase in additional paid in

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capital resulting from the expense derived from equity awards granted in prior periods and the allocation of 14,812 shares of common stock under the Employee Stock Ownership Program. Hamilton Bancorp's book value per common share was \$15.87 at March 31, 2018 compared to \$17.53 at March 31, 2017. At March 31, 2018, Hamilton Bank remains well capitalized as defined under federal regulations.

**Comparison of Results of Operations for the Six Months Ended September 30, 2018 and September 30, 2017**

**General.** Net income was \$1.5 million, or \$0.48 per common share for the six-month period ended September 30, 2018 compared to a net income of \$803,000, or \$0.25 per common share for the same period in fiscal 2018, a period-over-period increase of \$741,000. The increase in net income was driven by an increase in net interest income associated with growth in loans over the past twelve months, lower noninterest expense, and no tax expense due to the establishment of a full valuation allowance on our net deferred tax assets at the end of fiscal 2018.

**Net Interest Income.** Net interest income increased \$352,000, or 4.9%, to \$7.6 million for the six months ended September 30, 2018 compared to \$7.2 million for the six months ended September 30, 2017. The increase in net interest income was due to a \$1.1 million increase in interest revenue, partially offset by a \$703,000 increase in interest expense. The increase in interest revenue was due to an increase in the average balance of interest-earning assets, particularly higher yielding loans, as well as an increase in average yield on interest-earning assets. The average balance in interest-earning assets increased \$20.4 million, or 4.4%, over the first half of fiscal year 2019 compared to the same period in fiscal 2018, while the average yield increased 28 basis points to 4.08% from 3.80%, respectively. The average balances increased period-over-period due to organic loan growth and the purchase of several pools of loans in the second half of fiscal 2018, including residential mortgage loan pools totaling \$19.2 million and several guaranteed SBA loans equal to \$3.2 million.

The increase in interest expense for the six-month period ended September 30, 2018 compared to the same period last year was the result of a 30 basis points increase in the average cost of interest-bearing liabilities. The average cost of interest-bearing liabilities increased from 0.78% for the six months ended September 30, 2017 to 1.08% for the six months ended September 30, 2018. In addition, the average balance of interest-bearing liabilities also increased \$13.4 million from \$415.7 million to \$429.1 million. The increase resulted from the growth in average borrowings, partially offset by a decrease in average interest-bearing deposits. The net interest margin increased 2 basis point from 3.10% for the six months ended September 30, 2017 to 3.12% for the six months ended September 30, 2018.

**Interest Revenue.** Interest revenue increased \$1.1 million, or 12.0% to \$9.9 million during the six months ended September 30, 2018 compared to \$8.8 million for the three months ended September 30, 2017. The increase resulted from increases in interest and fees on loans and interest on federal funds sold and other bank deposits, partially offset by a decrease in interest on investment securities.

Interest and fees on loans increased \$1.0 million, or 13.2%, to \$8.8 million for the six months ended September 30, 2018, compared to \$7.8 million for the six months ended September 30, 2017. The increase in interest and fees on loans is due to a \$31.8 million increase in the average balance of net loans from \$345.5 million to \$377.2 million period-over-period. The increase in average loans is attributable to organic growth generated by our commercial lending area and strategic loan purchases that occurred in the second half of fiscal 2018. In addition, the average yield earned on loans increased 16 basis points from 4.51% for the six months ended September 30, 2017 to 4.67% for the six months ended September 30, 2018. The increase in yield is a result of interest revenue recognized during the first half of the fiscal year relating to early pay-offs on acquired loans and the associated purchase accounting marks, pay-off on a \$3.3 million nonaccrual commercial loan in which all past due interest was collected, as well as overall higher rates on new loan originations due to rising interest rates.

Interest revenue on investment securities decreased \$113,000 to \$846,000 for the six months ended September 30, 2018 from \$959,000 for the six months ended September 30, 2017. The decrease is related to the average balance of investment securities decreasing \$24.2 million, or 24.0%, to \$76.6 million for the six months ended September 30, 2018 from \$100.8 million for the same period last year, while the average yield increased 31 basis points to 2.21% from 1.90%. The largest decrease in investment securities was in mortgage-backed securities, which decreased \$20.0 million to \$56.5 million for the six months ended September 30, 2018 from \$76.5 million for the same period last year. The average balance of investment securities also decreased period-over-period by \$4.2 million. The decrease in average investments is attributable to both normal principal pay downs related to mortgage-backed securities over the past twelve months, along with \$11.6 million in securities that were sold between August and December 2017. One investment security, with a book value of \$2.0 million, was purchased during the first quarter of fiscal 2019.

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**Interest Expense.** Interest expense increased \$703,000, or 43.3%, to \$2.3 million for the six months ended September 30, 2018 compared to \$1.6 million for the same period in fiscal 2018, due to the increase in the average cost of both interest-bearing deposits and borrowings. The average cost of interest-bearing deposits increased 26 basis points from 0.78% for the six months ended September 30, 2017 to 0.97% for the six months ended September 30, 2018. The increase in average cost was partially offset by a decrease in the average balance of interest-bearing deposits. The average balance of interest-bearing deposits decreased \$4.8 million, or 1.3%, to \$371.6 million for the six months ended September 30, 2018 from \$376.5 million for the six months ended September 30, 2017. Due to the increase in costs, the interest expense associated with interest-bearing deposits increased \$465,000, or 35.0%, period-over-period.

For the six-month period ended September 30, 2018, average interest-bearing deposit balances, other than checking accounts, decreased for all types of deposits when compared to the same period a year ago. As interest rates have risen over the past year, the market competition for deposits, in particular time deposits and money market accounts, has gotten more competitive with respect to pricing. We have strategically decided not to price our deposits at the top of the market, unless through a promotional deposit product, or match competitor pricing in certain circumstances as a means to manage interest expense. Hamilton Bancorp continues to focus on generating lower cost, core deposits (which includes all deposits other than certificates of deposit) to support continued loan growth. The average balance of core interest-bearing deposits decreased \$2.9 million, or 2.2%, to \$131.7 million for the six-month period ended September 30, 2018 compared to \$134.6 million for the six months ended September 30, 2017. The average balance of time deposits also decreased \$1.9 million, or less than 1.0%, to \$239.9 million compared to \$241.8 for the same periods, respectively.

Noninterest-bearing deposits allow us to fund growth in interest-earning assets at minimal cost. Average noninterest-bearing deposits decreased \$562,000, or 1.9%, to \$29.0 million for the six months ended September 30, 2018, compared to \$29.5 million for the six months ended September 30, 2017. Our cash management personnel and commercial loan officers remain focused in working with commercial clients to move their core deposit relationships to Hamilton Bank and provide lower cost of funds.

For the six-month period ended September 30, 2018, average borrowings were \$57.4 million compared to an average balance of \$39.2 million for the same period a year ago. The increase in borrowings is associated with funds needed to purchase several loan portfolios over the last half of fiscal 2018 and a declining deposit base. The borrowings consisted of advances from the Federal Home Loan Bank. At September 30, 2018, Hamilton Bank had \$53.6 million in outstanding advances from the FHLB, a decrease of \$6.0 million since June 30, 2018. The borrowings carried an average rate of 1.85% for the six months ended September 30, 2018; a 36 basis points increase from 1.49% for the same period a year ago. Borrowing from the FHLB in today's low interest rate environment can be a more cost-effective means to obtain funds if deposits are not growing compared to selling investment securities that are earning a higher yield.

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

	<b>Six Months Ended September 30,</b> <b>(dollars in thousands)</b>					
	<b>2018</b>			<b>2017</b>		
	<b>Average Balance</b>	<b>Interest</b>	<b>Yield/ Cost</b>	<b>Average Balance</b>	<b>Interest</b>	<b>Yield/ Cost</b>
<b>Interest-earning assets:</b>						
Cash and cash equivalents	\$ 30,644	\$ 224	1.46%	\$ 17,811	\$ 81	0.91%
Investment securities (1)	20,134	306	3.04%	24,298	306	2.52%
Mortgage-backed securities	56,465	540	1.91%	76,496	653	1.71%
Loans receivable, net (2)	377,221	8,812	4.67%	345,455	7,787	4.51%
Total interest-earning assets	484,464	9,882	4.08%	464,060	8,827	3.80%
Noninterest-earning assets	34,586			48,919		
Total assets	\$ 519,050			\$ 512,979		
<b>Interest-bearing liabilities:</b>						
Statement savings	\$ 40,849	\$ 25	0.12%	\$ 44,117	\$ 27	0.12%
Checking accounts	30,226	5	0.03%	26,450	5	0.04%
Money market	60,640	201	0.66%	64,082	169	0.53%
Certificates of deposit	239,914	1,564	1.30%	241,804	1,129	0.93%
Total interest-bearing deposits	371,629	1,795	0.97%	376,453	1,330	0.71%
Borrowings	57,422	531	1.85%	39,211	293	1.49%
Total interest-bearing liabilities	429,051	2,326	1.08%	415,664	1,623	0.78%
<b>Noninterest-bearing liabilities and equity:</b>						
Noninterest-bearing deposits	\$ 28,962			\$ 29,524		
Other noninterest-bearing liabilities	5,596			6,891		
Total liabilities	463,609			452,079		
Total stockholders equity	55,441			60,900		
Total liabilities and stockholders equity	\$ 519,050			\$ 512,979		

Net interest income	\$ 7,556	\$ 7,204
Net interest rate spread (3)	3.00%	3.02%
Net interest-earning assets (4)	\$ 55,413	\$ 48,396
Net interest margin (5)	3.12%	3.10%
Average interest-earning assets to average interest-bearing liabilities	112.92%	111.64%

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



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**Rate/Volume Analysis.** The following table sets forth the effects of changing rates and volumes on our net interest income for the six months ended September 30, 2018 compared to the six months ended September 30, 2017. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

	<b>Increase (Decrease) Due To</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Net</b>
<b>Interest-earning assets:</b>			
Cash and cash equivalents	\$ 117	\$ 26	\$ 143
Investment securities	(105)	105	
Mortgage-backed securities	(343)	230	(113)
Loans receivable	5,943	(4,918)	1,025
<b>Total interest-earning assets</b>	<b>5,612</b>	<b>(4,557)</b>	<b>1,055</b>
<b>Interest-bearing liabilities:</b>			
Certificates of Deposit	(18)	453	435
Money Market	(18)	50	32
Statement savings	(4)	2	(2)
NOW accounts	2	(2)	
Borrowings	271	(33)	238
<b>Total interest-bearing liabilities</b>	<b>233</b>	<b>470</b>	<b>703</b>
<b>Change in net interest income</b>	<b>\$ 5,379</b>	<b>\$ (5,027)</b>	<b>\$ 352</b>

**Provision for Loan Losses.** We establish provisions for loan losses that are charged to operations in order to maintain the allowance for loan losses at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. There was \$302,000 charged to the provision for loan losses for the six months ended September 30, 2018 compared to a provision for loan loss of \$280,000 for the six months ended September 30, 2017. In the first half of fiscal 2019, the \$302,000 provision for loan loss recorded is primarily attributable to \$93,000 in net charge-offs experienced over this period and roughly \$294,000 in additional reserves associated with the revaluation of our environmental factors (see Note 1 of the Financial Statements under *Summary of Significant Accounting Policies* for further discussion), partially offset by a decline in loan balances; compared to the provision for the prior year comparable period, which was related to growth within the loan portfolio.

The allowance for loan losses was \$3.0 million, or 49.8% of non-performing loans at September 30, 2018 compared to \$2.5 million, or 41.9% of non-performing loans at September 30, 2017. The increase in the percentage is a result of the decrease in loans over this period, partially offset by a \$200,000 increase in nonperforming loans. The \$6.1 million in non-performing loans at September 30, 2018 primarily consisted of two commercial real estate relationships totaling \$4.3 million. The first relationship has a recorded value of \$3.1 million and was placed on nonaccrual in June 2018, while the second relationship has a book value of \$1.2 million and has had \$1.9 million in charge-offs over the

past two years. Both relationships have been recorded at their net realizable fair value based upon recent appraisals. No additional charge-offs are anticipated with these relationships at this time; however, changes in property values and other circumstances may result in additional charge-offs at a later date.

During the six months ended September 30, 2018, loan charge-offs totaled \$130,000 with recoveries of \$37,000, compared to \$25,000 in charge-offs and \$21,000 in recoveries during the six months ended September 30, 2017. During fiscal year 2019, we expect that we will continue our emphasis in growing commercial real estate and commercial business loans, which have higher interest rates than one-to four-family mortgage loans, thus are generally considered to bear higher risk than one-to four-family mortgage loans and could contribute to higher loan loss provisions going forward.

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**Noninterest Revenue.** Noninterest revenue increased \$26,000, or 4.6%, to \$587,000 for the six months ended September 30, 2018, compared to \$561,000 for the six months ended September 30, 2017. The following table outlines the changes in noninterest revenue for the six-month periods.

	<b>Six Months Ended September 30,</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2018</b>	<b>2017</b>		
Service charges	\$ 241,549	\$ 238,050	\$ 3,499	1.5
Gain on sale of investment securities		10,381	(10,381)	(100.0)
Gain on sale of loans held for sale	25,873		25,873	N/A
Earnings on bank-owned life insurance	228,651	246,393	(17,742)	(7.2)
Other fees and commissions	90,917	66,112	24,805	37.5
 Total noninterest revenue	 \$ 586,990	 \$ 560,936	 \$ 26,054	 4.6

Service charges associated with retail and commercial deposit products increased slightly during the six months ended September 30, 2018 compared to the same period a year ago. Management remains focused on growing core deposits, particularly checking accounts, which typically generate more service fee income. The average balance relating to overall checking accounts for the six months ended September 30, 2018 was \$59.2 million compared to an average balance of \$56.0 million at September 30, 2017, an increase of 5.7%, or \$3.2 million. We continue to review and evaluate our fee structure to be more aligned with our market. Customers, however, have become more cost conscious of fees and better manage their deposit relationship with Hamilton Bank.

During the six months ended September 30, 2018, Hamilton Bancorp was able to enhance noninterest revenue by \$26,000 relating to gains on loans sold to the secondary market. In the last quarter of fiscal 2017 and into fiscal 2018, Hamilton Bancorp purposely held in portfolio the majority of our residential loan originations to partially offset the increased run-off associated with this loan segment. Beginning in fiscal 2019, however, we again started to sell qualified residential loan originations into the secondary market as a means to generate noninterest revenue and diversify our income stream. In the prior year six-month period we also realized gains on the sale of investment securities of \$10,000 compared to none for the six months ended September 30, 2018.

In addition to these gains, Hamilton Bancorp also experienced a \$24,000 increase in other noninterest revenue that includes the collection of certain loan fees, merchant card services and other miscellaneous items. Loan fees and merchant card services each increased \$3,000 period-over-period. Meanwhile, earnings on BOLI declined \$18,000 due to a reduction in the cash surrender value of Hamilton Bancorp's outstanding BOLI related to the pay-out of death benefits in the fourth quarter of fiscal 2018.

**Noninterest Expense.** Noninterest expense decreased \$73,000 to \$6.3 million for the six months ended September 30, 2018 compared to \$6.4 million the same period a year ago. The following table outlines the changes within noninterest expense for those periods.

	<b>2018</b>	<b>2017</b>	<b>\$ Change</b>	<b>% Change</b>
Salaries and benefits	\$ 3,741,180	\$ 3,711,999	\$ 29,181	0.8

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Occupancy	515,014	500,253	14,761	3.0
Advertising	31,982	41,198	(9,216)	(22.4)
Furniture and equipment	169,271	169,738	(467)	(0.3)
Data processing	401,541	346,356	55,185	15.9
Legal services	123,962	220,994	(97,032)	(43.9)
Other professional services	201,535	392,820	(191,285)	(48.7)
Deposit insurance premiums	213,930	130,890	83,040	63.4
Foreclosed real estate expense and losses	9,302	1,299	8,003	616.1
Other operating	889,207	854,366	34,841	4.1
<b>Total noninterest expense</b>	<b>\$ 6,296,924</b>	<b>\$ 6,369,913</b>	<b>\$ (72,989)</b>	<b>(1.1)</b>

Overall our operating expenses have remained relatively unchanged, despite decreased operating expenses in certain areas related to prior year expenses that were incurred, offset by increases in others due to operating as a larger financial

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institution. We have been able to manage a growing loan portfolio from an operational cost basis and continue to increase our interest revenue. This is reflected in the improvement of Hamilton Bancorp's efficiency ratio which has improved from 82.0% for the six months ended September 30, 2017 to 77.3% for the six months ended September 30, 2018. Management remains committed to reducing operational expenses and achieving higher efficiencies.

Salaries and benefit expense remains our highest operational cost and increased by \$29,000, or less than 1.0%, period-over-period. This modest increase is due to annual evaluations and respective salary increases and bonus accruals, partially offset by unfilled positions. Included in salaries and benefits for the six months ended September 30, 2018 and 2017, is \$182,000 and \$161,000 in expense, respectively, relating to prior equity awards granted to officers under Hamilton Bancorp's Equity Incentive Plan. The equity awards provide for management to have a vested interest in the performance of Hamilton Bancorp and share in the benefit of an increase in stockholder value. Similarly, other operating expenses for the same periods include \$70,000 in each of the comparable periods associated with equity awards granted to Directors.

Hamilton Bancorp realized an increase in operating expenses relating to data processing and deposit insurance premiums for the six-month periods ended September 30, 2018 and 2017. Data processing costs increased \$55,000 for the comparable quarters due to annual cost increases, along with the introduction of new technology that has made banking easier for our customers, including products such as mobile banking and our on-line consumer loan application. FDIC insurance premiums have also increased \$83,000 to \$214,000 for the six months ended September 30, 2018 compared to \$131,000 for the six months ended September 30, 2017. This increase is attributable to Hamilton Bancorp's lower capital position that resulted from the establishment of a valuation allowance on our deferred tax asset at the end of March 2018. A financial institution's FDIC insurance base is determined based upon an institution's average consolidated assets less tangible equity.

Offsetting the increases in noninterest expenses has been a \$97,000 reduction in legal expenses and an \$191,000 reduction in other professional services. Legal expense has declined because of higher costs incurred in the prior year associated with our charter conversion and consultation with counsel to advise on agreements associated with loan purchases and certain problem loans. Other professional services declined because of costs incurred in the prior year associated with payments under non-compete agreements that were a part of the Fraternity acquisition in May 2016. The terms and the payments under the non-compete agreements were fully satisfied in April 2018. In addition, in the second quarter of the prior year Hamilton Bancorp began to utilize the services of a financial consultant to assist Hamilton Bank in areas to generate more revenue. Those consulting services were utilized through March 2018.

***Income Tax Expense.*** For the six months ended September 30, 2018, Hamilton Bancorp did not report any income tax expense on pre-tax income of \$1.5 million compared to tax expense of \$312,000 for the six months ended September 30, 2017 after pre-tax income of \$1.1 million. There was no tax expense during the first half of fiscal 2019 due to the release of a portion of the valuation allowance on our net deferred tax assets established in the prior fiscal year. In accordance with Accounting Standards Codification (ASC) 740, *Accounting for Income Taxes*, at September 30, 2018, Hamilton Bancorp has assessed whether the deferred tax assets are more likely than not to be realized based on an evaluative process that considers all available positive and negative evidence. As part of this evaluative process, management considered the following sources of taxable income: 1.) taxable income in prior carryback years; 2.) the future reversals of taxable temporary differences; 3.) tax planning strategies; and 4.) future taxable income exclusive of reversing temporary differences and carryforwards. In making a conclusion, management evaluated all the available positive and negative evidence impacting these sources of taxable income. The first three options are more quantifiable and verifiable; however, management has concluded they are not viable sources of taxable income. As such, the positive evidence that has been most heavily relied upon, but the most subjective, is future taxable income exclusive of reversing temporary differences and carryforwards. Based upon Hamilton Bancorp being in a three-year cumulative loss position, which creates negative evidence, and because this evidence is

considered significant, management has concluded that there is more negative evidence than positive evidence and therefore, it is more likely than not that Hamilton Bancorp will be unable to generate sufficient taxable income in the foreseeable future to fully utilize the net deferred tax assets.

If, in the future, Hamilton Bancorp generates taxable income on a sustained basis sufficient to support the deferred tax assets, the need for a deferred tax valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation at that time. The establishment of a valuation allowance on our deferred tax assets for financial reporting purposes does not affect how the net operating loss carryforwards may be utilized on our subsequent income tax returns. The valuation allowance on Hamilton Bancorp's net deferred tax assets decreased \$361,000 to \$5.4 million at September 30, 2018, from \$5.8 million at March 30, 2018 due to book income of \$1.5 million and adjustments for permanent

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and temporary book-tax differences. Income tax expense for the periods reported is based upon year-to-date results and is not reflective of annual earnings.

**Comparison of Results of Operations for the Years Ended March 31, 2018 and March 31, 2017**

**General.** Net loss for the fiscal year ended March 31, 2018 was \$6.0 million, or \$1.90 per common share, compared to a net loss of \$929,000, or \$0.29 per common share for the fiscal year ending March 31, 2017. The loss in fiscal 2018 was a result of the increase in tax expense relating two separate events. The first event dealt with the passage of the *Tax Cuts and Job Act* (the Tax Act) that was signed into law on December 22, 2017. The Tax Act amended the Internal Revenue Code to reduce income tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Tax Act reduced the federal corporate income tax rate from a maximum 35 percent to a flat 21 percent tax rate. As a result, our net deferred tax assets of \$7.5 million at that time, which was based upon a 34 percent corporate tax rate, had to be re-evaluated to reflect the new tax rate of 21 percent. This non-cash adjustment was \$2.3 million and is recorded through income tax expense. The second event occurred during our fourth quarter and included the establishment of a full valuation allowance on the remaining portion of our net deferred tax assets of \$5.8 million. The valuation allowance determination was based upon the fact Hamilton Bancorp has experienced cumulative losses for three consecutive years.

Pre-tax income for fiscal 2018, however, was \$2.0 million compared to a loss of \$1.7 million for fiscal 2017; a period-over-period increase of \$3.7 million. The increase in pre-tax income is attributable to a \$602,000 increase in net interest income, a \$1.8 million decrease in the provision for loan losses, a \$942,000 increase in non-interest revenue, and a \$326,000 decrease in non-interest expense.

**Net Interest Income.** Net interest income before provision for loan losses increased \$602,000, or 4.3%, to \$14.5 million for the year ended March 31, 2018 compared to \$13.9 million for the year ended March 31, 2017. The increase in net interest income was due to a \$1.3 million increase in interest revenue, partially offset by a \$716,000 increase in interest expense. The increase in interest revenue was due to an increase in the average balance of interest-earning assets, particularly higher yielding loans, as well as an increase in average yield on interest-earning assets. The average balance of interest-earning assets increased \$17.4 million, or 3.8%, during the fiscal year ended March 31, 2018 compared to the same period in fiscal 2017, while the average yield increased 14 basis points from 3.67% to 3.81% over that same period. The average balances increased period-over-period due in part to the acquisition of Fraternity, which occurred in May 2016, and the realization of having those earning assets for a full year in fiscal 2018. Over this same period, Hamilton Bank was also able to increase the average balance of higher interest-earning assets, particularly loans, both organically and through loan purchases.

Partially offsetting the increase in interest revenue was a \$716,000 increase in interest expense for the fiscal year ended March 31, 2018 compared to the same period a year ago. This increase was due to the growth in the average balance of interest-bearing liabilities, particularly higher yielding borrowings, as well as an increase in the average cost of interest-bearing liabilities. The average balance of interest-bearing liabilities increased \$11.7 million, or 2.9%, for the fiscal 2018 year compared to the same period in fiscal 2017, while the average cost increased 15 basis points to 0.85% from 0.70%. The increase in interest-bearing liabilities was impacted by the growth in borrowings that were used to help in funding a growing loan portfolio and a decreasing deposit base. Despite the increase in interest expense, our net interest rate spread only decreased 1 basis point from 2.97% to 2.96% for the comparable periods.

**Interest Revenue.** Interest revenue increased \$1.3 million, or 7.9% to \$18.1 million for the year ended March 31, 2018, compared to \$16.7 million for the year ended March 31, 2017. The increase resulted from increases in interest and fees on loans and interest revenue earned on investment securities, partially offset by a decrease in revenue from federal funds sold and other bank deposits.

Interest and fees on loans increased \$1.3 million, or 8.5%, to \$16.9 million for the twelve months ended December 31, 2018, compared to \$14.8 million for the same period a year ago. The increase in interest and fees on loans is due to a \$47.9 million increase in the average balance of net loans from \$314.5 million to \$362.4 million period-over-period. The increase in average loans is attributable to having the loans acquired in the Fraternity acquisition for a full twelve months, as well as organic growth generated by our commercial lending area and strategic loan purchases. Partially offsetting the revenue derived from an increase in the average balance of loans is a 28-basis point decline in the average yield earned on loans from 4.72% for the year ended March 31, 2017 to 4.44% for the year ended March 31, 2018. The decline in yield is a result of the extended low interest rate environment and the competitive pressure relating to pricing.



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Interest revenue on investment securities increased \$120,000 to \$1.9 million for the year ended March 31, 2018 from \$1.7 million for the year ended March 31, 2017. The average balance of investment securities decreased by \$1.2 million, or 4.6%, to \$93.2 million for the year ended March 31, 2018 from \$94.4 million for the same period last year, while the average yield increased 15 basis points to 1.99% from 1.84% for the same two periods. The largest decrease in investment securities was in mortgage-backed securities, which decreased \$1.0 million to \$70.4 million for the year ended March 31, 2018 from \$71.4 million for the same period last year. The average balance of other investment securities remained relatively flat year-over-year, only decreasing \$149,000 during this period. The decrease in average investments is attributable to funding both organic loans and loan purchases throughout the year and providing liquidity associated with a decreasing deposit base. The decline in average investments is partially offset by the securities acquired in the Fraternity acquisition, along with utilizing the excess cash acquired in the Fraternity acquisition to purchase new securities in the second half of fiscal 2017. Investment balances have been declining since that time due to the need to provide liquidity to fund loan growth and a declining deposit base.

**Interest Expense.** Interest expense increased \$716,000, or 24.9%, to \$3.6 million for the year ended March 31, 2018 compared to \$2.9 million for the same period in fiscal 2017. The primary reason for this increase is due to the increase in the average balance and cost of borrowings, and to a lesser extent the increase in the cost of interest-bearing deposits, partially offset by a decrease in the average balance of those same deposits. For the year ended March 31, 2018, average interest-bearing borrowings were \$48.5 million compared to an average balance of \$26.1 million for the same period a year ago. The borrowings consisted of advances from the Federal Home Loan Bank and have been utilized to help with funding a growing loan portfolio and a declining deposit base over fiscal 2018. At March 31, 2018, Hamilton Bank had \$60.6 million in outstanding advances from the FHLB, including \$13.0 million in borrowings assumed through the Fraternity and Fairmount acquisitions that will all mature prior to November 2018. Overall borrowings carried an average rate of 1.55% for the year ended March 31, 2018 compared to 1.04% for the year ended March 31, 2017. Borrowing from the FHLB can be a more cost-effective means to obtain funds if deposits are not growing compared to selling investment securities that are earning a higher yield.

The average balance of interest-bearing deposits decreased \$10.7 million to \$372.4 million for the year ended March 31, 2018 from \$383.1 million for the year ended March 31, 2017. The average cost of deposits though increased from 0.68% to 0.76% for those same periods. We have begun to increase the rates on a portion of our deposit products and run various deposit promotions as the demand for deposits is becoming more competitive in the marketplace. During the second quarter of fiscal 2018 and last quarter of fiscal 2017, we began to run a money market promotion with a 6-month promotional rate as a means to attract core deposits. As a result, the average cost associated with money market accounts increased from 0.37% to 0.53% for the years ended March 31, 2017 and 2018, respectively.

For the year ended March 31, 2018, the average interest-bearing deposit balances increased or declined slightly for all types of deposits, except certificates of deposits, when compared to the same period last year. These increases are a result of the Fraternity acquisition, as well as our cash management efforts as it relates to our commercial customers and promotional efforts to raise funds for new loan growth. We remain focused on changing the mix of our deposit portfolio by maintaining our maturing certificates of deposits and growing lower cost core deposits, including savings, interest-bearing checking and money market accounts. The average balance of core interest-bearing deposits increased \$6.6 million, or 5.4%, to \$130.1 million for fiscal 2018 compared to \$123.4 million for fiscal 2017. The average balance of time deposits, however, decreased \$17.4 million, or 6.7%, to \$242.3 million for fiscal 2018 compared to \$259.7 million for fiscal 2017. The decrease in time deposits is related to the competitive interest rate market, as well as the decrease in our customer base that is attributable to an aging demographic. To compensate for this decline, Hamilton Bancorp entered into a contract and began utilizing a certificate of deposit subscription service in the third quarter of fiscal 2018. As a result, we have been able to obtain \$13.8 million in certificate of deposits in the second half of fiscal 2018 through this service. The cost of these deposits is more expensive than traditional certificates of

deposit because of the ability to provide the funding needed in a timely manner, but can be less costly than borrowing from the Federal Home Loan Bank or other source. We will continue to utilize this service as a funding source when other less costly means are not able to meet our funding requirements.

Noninterest-bearing deposits allow us to fund growth in interest-earning assets at the lowest minimal cost. Average noninterest-bearing deposits increased \$5.2 million, or 21.7%, to \$29.3 million for the year ended March 31, 2018, compared to \$24.1 million for the year ended March 31, 2017. This increase resulted from the efforts of our cash management personnel and commercial loan officers working with commercial clients to move their deposit relationship to Hamilton Bank and the acquisition of Fraternity.

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

(Dollars in thousands)	Year Ended March 31,					
	Average Balance	2018 Interest	Yield/ Cost	Average Balance	2017 Interest	Yield/ Cost
<b>Interest-earning assets:</b>						
Cash and cash equivalents	\$ 18,895	\$ 135	0.71%	\$ 48,207	\$ 190	0.39%
Investment securities (1)	22,804	609	2.67%	22,953	553	2.41%
Mortgage-backed securities	70,434	1,247	1.77%	71,448	1,183	1.66%
Loans receivable, net (2)	362,355	16,089	4.44%	314,473	14,836	4.72%
Total interest-earning assets	474,488	18,080	3.81%	457,081	16,762	3.67%
Noninterest-earning assets	42,820			40,634		
Total assets	\$ 517,308			\$ 497,715		
<b>Interest-bearing liabilities:</b>						
Certificates of deposit	\$ 242,328	\$ 2,454	1.01%	\$ 259,721	\$ 2,305	0.89%
Money Market	60,589	320	0.53%	61,568	225	0.37%
Statement savings	43,408	54	0.12%	43,527	65	0.15%
NOW accounts	26,094	9	0.03%	18,333	5	0.03%
Total interest-bearing deposits	372,419	2,837	0.76%	383,149	2,600	0.68%
Borrowings	48,525	750	1.55%	26,090	271	1.04%
Total interest-bearing liabilities	420,944	3,587	0.85%	409,239	2,871	0.70%
<b>Noninterest-bearing liabilities and equity:</b>						
Noninterest-bearing deposits	\$ 29,306			\$ 24,078		
Other noninterest-bearing liabilities	6,313			5,425		
Total liabilities	456,563			438,742		
Total stockholders equity	60,745			58,973		
Total liabilities and stockholders equity	\$ 517,308			\$ 497,715		
Net interest income		\$ 14,493			\$ 13,891	

Net interest rate spread (3)		2.96%	2.97%
Net interest-earning assets (4)	\$ 53,544		\$ 47,842
Net interest margin (5)		3.05%	3.04%
Average interest-earning assets to average interest-bearing liabilities	112.72		111.69

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

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**Rate/Volume Analysis.** The following table sets forth the effects of changing rates and volumes on our net interest income for the year ended March 31, 2018 compared to the year ended March 31, 2017. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

	<b>Increase (Decrease) Due To</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Net</b>
<b>Interest-earning assets:</b>			
Cash and cash equivalents	\$ (114)	\$ 59	\$ (55)
Investment securities	(4)	60	56
Mortgage-backed securities	(17)	81	64
Loans receivable	2,260	(1,007)	1,253
<b>Total interest-earning assets</b>	<b>2,125</b>	<b>(807)</b>	<b>1,318</b>
<b>Interest-bearing liabilities:</b>			
Certificates of Deposit	(155)	304	149
Money Market	(4)	99	95
Statement savings	(0)	(11)	(11)
NOW accounts	2	2	4
Borrowings	233	246	479
<b>Total interest-bearing liabilities</b>	<b>77</b>	<b>639</b>	<b>716</b>
<b>Change in net interest income</b>	<b>\$ 2,048</b>	<b>\$ (1,446)</b>	<b>\$ 602</b>

**Provision for Loan Losses.** We establish provisions for loan losses that are charged to operations in order to maintain the allowance for loan losses at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. There was \$1.6 million charged to the provision for loan losses for the fiscal year ending March 31, 2018 compared to a provision for loan losses of \$3.4 million for the fiscal year ending March 31, 2017. Hamilton Bancorp recorded a lower provision during fiscal 2018 compared to fiscal 2017 because of much lower net charge-offs that totaled \$948,000 and \$2.9 million, respectively. The more significant charge-offs for fiscal 2018 included \$379,000 associated with our commercial lease portfolio, \$244,000 relating to one commercial real estate relationship that has been a continued problem asset with prior charge-offs, and \$262,000 associated with one residential investor relationship. The remaining balance of the provision for loan losses for fiscal 2018 is primarily related to the overall growth within the loan portfolio generated organically and through various loan purchases throughout the fiscal year.

The allowance for loan losses was \$2.8 million, or 39.4% of non-performing loans at March 31, 2018 compared to \$2.2 million, or 94.5% of non-performing loans at March 31, 2017. The decrease in the percentage is a result of a \$4.8 million increase in non-performing loans as compared to the period ending March 31, 2017. The increase in non-performing loans is primarily due to one commercial real estate relationship with a book value of \$3.2 million that was placed on nonaccrual in the second quarter and a group of residential investor loans totaling \$600 thousand

that were placed on nonaccrual at the end of the third quarter. Approximately \$262 thousand has been charged-off in relation to the residential investor loans, while there was no impairment associated with the commercial real estate loan based upon the most recent collateral value of the property. In addition, there is approximately \$1.2 million in loans that are 90 days past due and accruing and classified as non-performing loans. These loans continue to make payments and we are recognizing the income, however, they have reached their maturity and are in the process of being extended or renewed. Our credit department is diligently working to obtain the necessary information from the borrower that is needed to complete this process. If these loan items were excluded, the allowance for loan losses as a percentage of non-performing loans at March 31, 2018 would be 86.2%.

During the year ended March 31, 2018, loan charge offs totaled \$975,000 with recoveries of \$27,000, compared to \$3.0 million in charge offs and \$51,000 in recoveries during the year ended March 31, 2017. The significant charge-offs in the prior year were related to two specific events, including one commercial real estate relationship that resulted in \$1.1 million in charge-offs and the sale of a pool of residential investor loans that resulted in \$1.6 million in charge-offs.

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During fiscal year 2018 and into fiscal 2019, we expect that we will continue our emphasis in growing commercial real estate and commercial business loans, which have higher interest rates than one-to-four family mortgage loans, but are generally considered to bear higher risk than one-to four-family mortgage loans. Such growth could contribute to higher provisions going forward.

**Noninterest Revenue.** Noninterest revenue decreased \$942,000, or 89.3%, to \$2.0 million for the year ended March 31, 2018 compared to \$1.1 million for the year ended March 31, 2017. The following table outlines the changes in components of noninterest revenue for the twelve-month periods.

	Years Ended March 31,		\$	% Change
	2018	2017		
Service charges	\$ 459,688	\$ 420,234	\$ 39,454	9.4
(Loss) gain on sale of investment securities	(2,354)	23,720	(26,074)	(109.9)
Gain on sale of loans held for sale		23,087	(23,087)	(100.0)
Gain (loss) on sale of property and equipment	97,604	(5,046)	102,650	(2,034.3)
Earnings on bank-owned life insurance (BOLI)	484,030	485,400	(1,370)	(0.3)
Earnings on death benefit from BOLI	834,610		834,610	N/A
Other fees and commissions	122,770	107,152	15,618	14.6
Total noninterest revenue	\$ 1,996,348	\$ 1,054,547	\$ 941,801	89.3

Noninterest revenue was impacted during the fiscal year ended March 31, 2018 by increases in service charges, gain on sale of property and equipment, and earnings on death benefit from BOLI, partially offset by decreases in gain on sale of investments and loans held for sale.

Service charges associated with retail and commercial deposit products increased \$39,000, or 9.4% during the twelve months ended March 31, 2018 compared to the same period a year ago due to a \$13.0 million increase in our average checking accounts period-over-period. Management is continually focused on growing core deposits, particularly checking accounts, which typically generate more service fee income. We continue to review and evaluate our retail fee structure on transactional accounts. Customers, however, have become more cost conscious of fees and better manage their deposit relationship with Hamilton Bank.

The \$98,000 gain on sale of property and equipment for fiscal 2018 is related to the December 2017 sale of our Pigtown branch in Baltimore City at a gain of \$213,000, net of various furniture and equipment that was associated with the property that was also disposed, partially offset by \$115,000 loss pertaining to the write-down or disposal of leasehold improvements associated with our former or legacy Cockeysville branch. The Pigtown branch was relocated within the same community, but to a smaller, more efficient space that will provide operational cost savings.

Hamilton Bancorp received gross proceeds of approximately \$2.1 million in relation to death benefits under our BOLI policies due to the sudden and unexpected passing of an employee during the fourth quarter of fiscal 2018. After netting out \$1.3 million associated with the cash surrender value of the policies, Hamilton Bancorp was able to recognize non-interest revenue of \$835,000. The normal earnings on BOLI remained relatively flat year-over-year despite an increase in average balances associated with the Fraternity acquisition because of the offsetting decrease in the rate earned on the outstanding BOLI policies, else revenue would have been higher. The revenue associated with both the death benefits and normal earnings are currently nontaxable for federal and state income tax purposes.

Offsetting the increases in noninterest revenue for fiscal 2018 was a decrease in gain on the sale of loans held for sale. Gain on sale of loans held for sale represents revenue earned on loans sold in the secondary market at a premium. Over the past several years, we typically sold our newly originated residential mortgage loans in the secondary market to better manage interest rate risk in a rising rate environment. During the second half of fiscal 2017 and throughout fiscal 2018, however, Hamilton Bancorp began to hold in portfolio our residential loan originations to partially offset the increased run-off associated with this loan segment. Consequently, there were no loans sold during the year ended March 31, 2018 compared to the same period last year in which several loans were sold at a gain of \$23,000. We do plan to sell residential mortgage loans again beginning in fiscal 2019.

Other fees and commissions include loan fees charged to customers, merchant credit card fees, and other smaller fees. The increase with respect to the twelve months ended March 31, 2018 compared to twelve months ended March 31, 2017, is



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primarily related to merchant credit services and a \$35,000 charge in the prior year relating to the disposal of an equity position in a limited liability company that assisted us with the sale of residential mortgages into the secondary market. Loan fees include various charges to customers for loan applications, processing, and/or extensions. Loan fees for fiscal 2018 declined \$46,000 to \$56,000, compared to \$100,000 for fiscal 2017.

Gains on investment securities are also reported as noninterest revenue. During fiscal 2018 we sold investment securities with a book value of \$11.6 million and recognized a loss of \$2,000 for the year ended March 31, 2018. For the year ended March 31, 2017, investment securities with a book value of \$4.3 million were sold and a gain of \$24,000 was recognized.

**Noninterest Expense.** Noninterest expense decreased \$326,000, or 2.5%, to \$12.9 million for the year ended March 31, 2018 compared to \$13.2 million for the year ended March 31, 2017. The following table outlines the changes in noninterest expense for those periods.

	Years Ended 31,		\$ Change	% Change
	2018	2017		
Salaries and benefits	\$ 7,268,507	\$ 6,756,044	\$ 512,463	7.6
Occupancy	1,045,589	984,767	60,822	6.2
Advertising	86,865	122,093	(35,228)	(28.9)
Furniture and equipment	343,624	377,232	(33,608)	(8.9)
Data processing	716,458	777,554	(61,096)	(7.9)
Legal services	491,900	291,550		