



Hanover Bancorp, Inc. Reports Third Calendar Quarter and Fiscal Year 2020 Results highlighted by Record Net Interest Income and Record Net Interest Margin

October 23, 2020

Third Calendar Quarter and Fiscal Year Performance Highlights

- **Net Income** : GAAP Net income for the quarter ended September 30, 2020 totaled \$1.5 million or \$0.37 per diluted common share, versus \$1.4 million or \$0.32 per diluted common share recorded in the same period a year ago. The Company recorded core (non-GAAP) net income of \$1.7 million in the quarter ended September 30, 2020 versus core net income of \$1.8 million in the comparable 2019 quarter. The Company recorded GAAP net income for the fiscal year ended September 30, 2020 of \$5.0 million or \$1.18 per diluted common share compared with \$8.1 million or \$2.05 per diluted common share in the 2019 fiscal year. The Company recorded core (non-GAAP) net income of \$5.9 million for the fiscal year ended September 30, 2020 versus core net income of \$8.7 million in the 2019 fiscal year.
- **Balance Sheet**: Assets totaled \$851.6 million at September 30, 2020, up \$13.6 million from June 30, 2020 and up \$2.8 million from September 30, 2019.
- **Continued Capital Strength**: The Bank's Tier 1 capital ratio was 11.22% and its Total Risk-Based capital ratio was 20.75% at September 30, 2020, each significantly above the regulatory minimums for a well-capitalized institution.
- **Increase in Tangible Book Value Per Share**: Tangible book value per common share increased by 7.7% to \$18.23 at September 30, 2020 from \$16.92 at the comparable 2019 date.
- **Year-Over-Year Loan Growth**: Total loans outstanding at September 30, 2020 were \$725.0 million or 85.1% of total assets, an increase of \$4.7 million from June 30, 2020 and up \$4.6 million from September 30, 2019.
- **Excellent Asset Quality** : At September 30, 2020, the Bank's asset quality remained pristine with non-performing loans representing only 0.13% of the total portfolio.
- **Record Net Interest Income** : Net interest income was \$7.4 million for the quarter ended September 30, 2020, an increase of \$1.0 million, or 16.4%, versus the comparable 2019 quarter.
- **Record Net Interest Margin**: The Company's net interest margin increased significantly during the quarter ended September 30, 2020 to 3.73% versus 3.13% in the quarter ended June 30, 2020 and 3.24% in the quarter ended September 30, 2019.
- **Continued Growth Through Acquisition**: On August 27, 2020, the Company announced that it had entered into a definitive agreement to acquire Savoy Bank ("Savoy"). Savoy is a community commercial bank with total assets of \$588 million, total loans of \$547 million and total deposits of \$334 million at September 30, 2020. Savoy operates one branch in midtown Manhattan. This transaction is expected to be completed in the first half of 2021, subject to regulatory approvals and other customary closing conditions.

MINEOLA, N.Y., Oct. 23, 2020 (GLOBE NEWSWIRE) -- Hanover Bancorp, Inc. ("Hanover" or "the Company"), the holding company for Hanover Community Bank ("the Bank") today reported significant performance achievements for the quarter ended September 30, 2020, highlighted by strong capital, excellent asset quality and record levels of net interest income and net interest margin.

Earnings Summary for the Quarter Ended September 30, 2020

The Company reported GAAP net income for the quarter ended September 30, 2020 of \$1.5 million or \$0.37 per diluted common share, versus \$1.4 million or \$0.32 per diluted common share in the comparable year ago period, representing an increase of \$136 thousand or 9.6%.

The improvement in GAAP net income recorded in the third calendar quarter of 2020 resulted from a \$1.0 million or 16.4% increase in net interest income coupled with a reduction in the Company's effective tax rate to 15.6% in 2020 from 32.4% a year ago. Partially offsetting these positive factors was a \$785 thousand decrease in noninterest income due to a lower gain on sale of loans held-for-sale in 2020 and a \$758 thousand increase in total operating expenses principally resulting from growth in compensation and benefits and occupancy and equipment, due largely to growth in personnel and branch facilities as a result of the acquisition of Chinatown Federal Savings Bank ("CFSB") in August 2019. The year-over-year growth in net interest income was due to a substantial widening of the Company's net interest margin to 3.73% in 2020 from 3.24% in the comparable 2019 quarter. The margin improvement resulted principally from a 68 basis point reduction in the cost of interest-bearing liabilities to 1.46% in 2020 coupled with a 44.0% increase in average noninterest-bearing demand deposit balances in the third calendar quarter of 2020.

Excluding merger-related charges recorded in the third calendar quarter of 2020, core (non-GAAP) operating net income was \$1.7 million or \$0.41 per diluted common share, down \$67 thousand or 3.7% versus 2019 core operating net income. Third calendar quarter returns on average total assets and average stockholders' equity, excluding merger-related charges in each period, were 0.84% and 8.90%, respectively in 2020, versus 0.89% and 10.11% a year ago.

Earnings Summary for the Fiscal Year Ended September 30, 2020

For the fiscal year ended September 30, 2020, the Company reported GAAP net income of \$5.0 million or \$1.18 per diluted common share versus \$8.1 million or \$2.05 per diluted common share a year ago.

The reduction in earnings in 2020 resulted from a \$4.8 million increase in total operating expenses, principally due to growth in personnel and branch facilities as a result of the CFSB acquisition, a \$3.4 million decrease in non-interest income and a \$600 thousand increase in the provision for loan losses due to economic concerns primarily related to the COVID-19 pandemic. Partially offsetting these factors was a \$4.7 million improvement in net interest income and a reduction in the Company's effective income tax rate to 20.2% in 2020 from 24.5% in 2019.

Michael P. Puorro, Chairman and Chief Executive Officer, commented on the Company's results: "Given the ongoing challenges posed by a combination of near zero interest rates and the continued economic uncertainty facing many of our clients, I am extremely pleased with Hanover's third calendar quarter 2020 financial results which produced record levels of net interest income and net interest margin despite reduced balance sheet growth while we continue to err on the side of caution when extending credit until the economy shows signs of sustained improvement. We are working diligently with our borrowers who have been granted loan forbearances and have had great success to date in returning the vast majority of these borrowers back to regular payment status. I am also very excited about our recently announced strategic merger with Savoy Bank that we are confident will create one of the premier community banks in the metro New York City area with under \$5 billion in total assets. We have highly complementary lending niches and we believe that Savoy's funding profile will benefit greatly from Hanover's rapid progress in building out several niche core deposit businesses. I am also looking forward to working closely with Mac Wilcox, Savoy's President and CEO who will join Hanover as Senior Executive Vice President, Head of Commercial Lending and Chief Revenue Officer. The merger is expected to close in the first half of 2021, subject to satisfaction of customary closing conditions, including receipt of required regulatory approvals and approval by Savoy's shareholders."

"I am also pleased to report that, on October 7, 2020, we completed a \$25 million private placement of fixed-to-floating rate subordinated notes. The notes will initially bear an interest rate of 5.00% per annum until October 15, 2025. After that date, the interest rate applicable to the outstanding principal amount due will reset quarterly to the then current three-month secured overnight funding rate plus 487.4 basis points. A portion of the proceeds were used to pay off the Company's \$15 million, 5.85% fixed rate line of credit. The balance of the proceeds will be used for acquisition financing and general corporate purposes, including contributing equity capital to Hanover Community Bank."

Mr. Puorro also noted, "Growth in shareholder value is always our number one priority at Hanover Bancorp. This hallmark of our success continues to be reflected by growth in tangible book value per share which increased by \$1.31, or 7.7%, to \$18.23 per share at September 30, 2020 versus the comparable 2019 date."

Balance Sheet Growth

Total assets for the period ended September 30, 2020 were \$851.6 million versus \$848.8 million at the comparable 2019 date. Total deposits at the same date increased by 2.2% to \$664.8 million when compared to September 30, 2019, the result of growth in core deposits (Demand, N.O.W., Savings and Money Market) of \$5.2 million. Management reduced usage of its Federal Home Loan Bank ("FHLB") borrowing capacity in the third calendar quarter of 2020 as other lower cost funding options were utilized to replace maturing FHLB advances. FHLB borrowings can be used to enhance both the Bank's liquidity position and its interest rate risk profile when the need arises. Total borrowings at September 30, 2020 were \$85.2 million, including \$16.2 million in Federal Reserve Bank Paycheck Protection ("PPP") Liquidity Facility advances, with a weighted average rate and term of 1.17% and 24 months, respectively. At September 30, 2020, the Bank had \$58.5 million of additional borrowing capacity from the FHLB.

Stockholders' equity increased by \$6.1 million to \$78.0 million at September 30, 2020 from the comparable 2019 date resulting in a 7.7% increase in tangible book value per share over the past twelve months to \$18.23 at September 30, 2020. Insiders have made significant investments of their own capital into Hanover Bancorp, Inc. Insider ownership represented approximately 24% of total shares outstanding at September 30, 2020.

The Company's average cost of interest-bearing liabilities decreased to 1.46% for the calendar quarter ended September 30, 2020, from 2.14% a year ago and declined from 1.79% on a linked quarter basis. Partially offsetting the improvement in the Company's average cost of interest-bearing liabilities from the September 2019 quarter was an 11 basis point reduction in the average yield on interest-earning assets to 4.94% during the third calendar quarter of 2020, primarily driven by lower average loan yields (down 13 basis points in 2020) resulting principally from the lower interest rate environment in 2020.

Strong Loan Portfolio and Excellent Asset Quality

For the twelve months ended September 30, 2020, the Bank's loan portfolio, net of sales, grew by \$4.6 million, or 0.6%. Year over year growth was concentrated primarily in PPP and commercial real estate loans. Earlier this year, management made a decision to reduce residential loan originations and maintain additional liquidity until the impact of the COVID-19 pandemic became clearer. Although the local economy has shown preliminary signs of improvement, management continues to cautiously consider opportunities to expand the loan portfolio. At September 30, 2020, the Company's residential loan portfolio amounted to \$453.8 million, with an average loan balance of \$430 thousand and a weighted average loan-to-value ratio of 52%. Commercial real estate loans totaled \$250.5 million at September 30, 2020, with an average loan balance of \$722 thousand and a weighted average loan-to-value ratio of 49%. The Company's commercial real estate concentration ratio was 246% of capital at September 30, 2020 versus 265% of capital at the comparable 2019 date.

Historically, the Bank has been able to generate additional income by strategically originating and selling its primary lending products to other financial institutions at premiums, while also retaining servicing rights in some sales. The Bank expects that it will continue to originate loans, for its own portfolio and for sale, which will result in continued growth in interest income while also realizing gains on sale of loans to others and recording servicing income. The loan sale market was negatively impacted by the COVID-19 pandemic during the past few quarters although current indications are that it continues to improve and may be close to normalizing. During the quarter ended September 30, 2020, the Company sold \$3.4 million in performing loans at par versus recognizing a gain of \$15 thousand in the quarter ended June 30, 2020 and a gain of \$818 thousand in the quarter ended September 30, 2019. During the twelve months ended September 30, 2020, the Company sold \$34.4 million in performing loans held-for-sale and recorded cumulative gains of \$917 thousand.

The Bank's asset quality ratios continue to remain strong and among the best in its peer group of community banks. At September 30, 2020, the Company reported \$953 thousand in non-performing loans which represented 0.13% of total loans outstanding. During the third calendar quarter of 2020, the Bank recorded a provision for loan losses expense of \$100 thousand. The September 30, 2020 allowance for loan losses balance was \$7.9 million versus \$7.1 million a year ago. The allowance for loan losses as a percent of total loans was 1.09% at September 30, 2020 versus 1.11% at June 30, 2020 and 0.99% at September 30, 2019. The allowance for loan losses as a percent of total originated loans was 1.22% at September 30,

2020.

Record Net Interest Margin

The Bank's net interest margin improved to a record 3.73% during the third calendar quarter of 2020, versus 3.24% in the comparable 2019 quarter and 3.13% in the quarter ended June 30, 2020. The 49 basis point increase in the Bank's net interest margin versus 2019 was primarily attributable to a 68 basis point reduction in the yield on average interest-bearing liabilities to 1.46% from 2.14% a year ago. The lower cost of funds in 2020 was the result of a significant reduction in the cost of interest-bearing deposits in 2020 (down 73 basis points), accompanied by a shift in the Company's deposit mix to a greater concentration of non-interest-bearing demand deposit balances. Also contributing to the wider margin in the third calendar quarter of 2020 was a decrease in lower-yielding average interest-bearing cash on the balance sheet (down \$26.9 million). Partially offsetting the positive impact of the foregoing factors, the average rate on total interest-earning assets declined by 11 basis points to 4.94% in the third calendar quarter of 2020 versus the comparable 2019 period. This reduction in yield was largely the result of a 13 basis point decrease in the average loan yield to 5.25% in 2020.

Operating Efficiency Ratio

The Bank's GAAP operating efficiency ratio was 74.3% in the third calendar quarter of 2020 versus 71.3% a year ago. The third calendar quarter 2020 core operating efficiency ratio, which excludes merger-related charges, was 71.4%.

Continued Growth Through Acquisition

On August 27, 2020, the Company announced that it had entered into a definitive agreement to acquire Savoy Bank ("Savoy") in a stock and cash transaction valued at approximately \$63 million. Savoy is a community commercial bank with total assets of \$588 million, total loans of \$547 million and total deposits of \$334 million at September 30, 2020. Savoy operates one branch in midtown Manhattan. This transaction is expected to be completed in the first half of 2021, subject to regulatory approvals and other customary closing conditions.

The merger combines two complementary banking platforms to create one of the premier sub- \$5 billion asset sized community banks serving the greater New York City metro market. The combined company will be uniquely positioned to capitalize on market opportunities due to recent and ongoing consolidation and broaden the channels and customers it serves through increased scale, expanded product offerings and employment of digital initiatives. The combined company will have approximately \$1.6 billion in assets, \$1.1 billion in total deposits and 8 branches, including 6 branches in the New York City market, with the expectation that an additional branch in New Jersey will be opened prior to closing. Hanover will continue to operate Savoy's single midtown Manhattan branch office and it will become the focal point and headquarters for Hanover's business development efforts in the New York City market.

About Hanover Community Bank and Hanover Bancorp, Inc.

Hanover Bancorp, Inc., is a locally owned and operated privately held stock bank holding company for Hanover Community Bank, a community commercial bank focusing on highly personalized and efficient services and products responsive to local needs. Management and the Board of Directors are comprised of a select group of successful local businessmen and women who are committed to the success of the Bank by knowing and understanding the metro-New York area's financial needs and opportunities. Backed by state-of-the-art technology, Hanover offers a full range of financial services. Hanover employs a complete suite of consumer and commercial banking products and services, including multi-family and commercial mortgages, residential loans, business loans and lines of credit. Hanover also offers its customers access to 24-hour ATM service with no fees attached, free checking with interest, telephone banking, advanced technologies in mobile and internet banking for our consumer and business customers, safe deposit boxes and much more. The Company's corporate administrative office is located in Mineola, New York where it also operates a full service branch office along with additional branch locations in Garden City Park, Forest Hills, Flushing, Sunset Park, and Chinatown, New York.

Hanover Community Bank is a member of the Federal Deposit Insurance Corporation and is an Equal Housing/Equal Opportunity Lender. For further information, call 516-548-8500 or visit the Bank's website at www.hanoverbank.com.

Non-GAAP Disclosure

This discussion includes non-GAAP financial measures of the Company's core operating earnings, core net interest margin, core returns on average assets and shareholders' equity, and core operating efficiency ratio. A non-GAAP financial measure is a numerical measure of historical or future performance, financial position or cash flows that excludes or includes amounts that are required to be disclosed in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The Company's management believes that the presentation of non-GAAP financial measures provides both management and investors with a greater understanding of the Company's operating results and trends in addition to the results measured in accordance with GAAP. While management uses non-GAAP financial measures in its analysis of the Company's performance, this information is not meant to be considered in isolation or as a substitute for the numbers prepared in accordance with U.S. GAAP or considered to be more important than financial results determined in accordance with U.S. GAAP. The Company's non-GAAP financial measures may not be comparable to similarly titled measures used by other financial institutions.

With respect to the calculations of core operating net income and core operating efficiency ratio for the periods presented in this discussion, reconciliations to the most comparable U.S. GAAP measures are provided in the tables that follow.

Forward-Looking Statements

This release may contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, and may be identified by the use of such words as "may," "believe," "expect," "anticipate," "should," "plan," "estimate," "predict," "continue," and "potential" or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, estimates with respect to the financial condition, results of operations and business of Hanover Bancorp, Inc. Any or all of the forward-looking statements in this release and in any other public statements made by Hanover Bancorp, Inc. may turn out to be incorrect. They can be affected by inaccurate assumptions Hanover Bancorp, Inc. might make or by known or unknown risks and uncertainties. Further, the adverse effect of the COVID-19 pandemic on the Company, its customers and the communities where it operates may adversely affect the Company's business, results of operations and financial condition for an indefinite period of time. Consequently, no forward-looking statement can be guaranteed. Hanover Bancorp, Inc. does not intend to update any of the forward-looking statements after the date of this release or to conform these statements to actual events.

Investor and Press Contact:
 Brian K. Finneran
 President & Chief Financial Officer
 (516) 548-8500

HANOVER BANCORP, INC.
STATEMENTS OF CONDITION - (unaudited)
(dollars in thousands)

	<u>September 30,</u> <u>2020</u>	<u>June 30,</u> <u>2020</u>	<u>September 30,</u> <u>2019</u>
Assets			
Cash and cash equivalents	\$ 80,209	\$ 68,965	\$ 87,831
Securities-available for sale, at fair value	6,035	5,980	911
Investments-held to maturity	10,727	11,178	12,030
Loans held for sale	-	3,204	-
Loans, net of deferred loan fees and costs	725,019	720,315	720,442
Less: allowance for loan losses	(7,869)	(7,993)	(7,143)
Loans, net	<u>717,150</u>	<u>712,322</u>	<u>713,299</u>
Goodwill	1,901	1,577	1,482
Premises & fixed assets	14,156	14,188	14,406
Other assets	21,428	20,600	18,877
Assets	<u><u>\$ 851,606</u></u>	<u><u>\$ 838,014</u></u>	<u><u>\$ 848,836</u></u>
Liabilities and stockholders' equity			
Core deposits	\$ 270,007	\$ 256,072	\$ 264,772
Time deposits	394,753	403,260	385,514
Total deposits	<u>664,760</u>	<u>659,332</u>	<u>650,286</u>
Borrowings	85,154	78,766	100,745
Note payable	14,984	14,983	14,981
Other liabilities	8,665	8,777	10,874
Liabilities	<u>773,563</u>	<u>761,858</u>	<u>776,886</u>
Stockholders' equity	<u>78,043</u>	<u>76,156</u>	<u>71,950</u>
Liabilities and stockholders' equity	<u><u>\$ 851,606</u></u>	<u><u>\$ 838,014</u></u>	<u><u>\$ 848,836</u></u>

HANOVER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME (unaudited)
(dollars in thousands, except per share data)

	<u>Three Months Ended</u>		<u>Fiscal Year Ended</u>	
	<u>9/30/2020</u>	<u>9/30/2019</u>	<u>9/30/2020</u>	<u>9/30/2019</u>
Interest income	\$ 9,751	\$ 9,888	\$ 40,133	\$ 34,497
Interest expense	2,385	3,558	13,011	12,058
Net interest income	<u>7,366</u>	<u>6,330</u>	<u>27,122</u>	<u>22,439</u>
Provision for loan losses	<u>100</u>	<u>-</u>	<u>1,250</u>	<u>650</u>

Net interest income after provision for loan losses	7,266	6,330	25,872	21,789
Loan fees and service charges	111	39	301	186
Service charges on deposit accounts	12	30	62	46
Gain on sale of investments	-	-	-	-
Gain on sale of loans held-for-sale	-	818	917	4,361
Other operating income	12	33	84	159
Non-interest income	<u>135</u>	<u>920</u>	<u>1,364</u>	<u>4,752</u>
Compensation and benefits	3,020	2,813	11,182	9,041
Occupancy and equipment	1,169	940	4,462	2,835
Data processing	234	235	911	662
Marketing and advertising	16	112	296	487
Professional fees	438	210	1,362	775
Other operating expenses	479	288	1,615	1,231
Non-interest expense	<u>5,356</u>	<u>4,598</u>	<u>19,828</u>	<u>15,031</u>
Income before income taxes	2,045	2,652	7,408	11,510
Income tax expense	318	858	1,497	2,819
Core operating net income (1)	<u>1,727</u>	<u>1,794</u>	<u>5,911</u>	<u>8,691</u>
Litigation, proxy-related expenses and other non-recurring charges, net of tax	-	-	573	90
Merger-related expenses, net of tax	181	384	364	516
Net income	<u>\$ 1,546</u>	<u>\$ 1,410</u>	<u>\$ 4,974</u>	<u>\$ 8,085</u>
Basic earnings per share - GAAP	\$ 0.38	\$ 0.33	\$ 1.20	\$ 2.10
Diluted earnings per share - GAAP	\$ 0.37	\$ 0.32	\$ 1.18	\$ 2.05
Basic earnings per share - Core	\$ 0.41	\$ 0.44	\$ 1.42	\$ 2.25
Diluted earnings per share - Core	\$ 0.41	\$ 0.43	\$ 1.40	\$ 2.21

Note: Prior period information has been adjusted to conform to current period presentation.

(1) Core operating earnings is a non-GAAP financial measure. A non-GAAP financial measure is a numerical measure of historical or future financial performance, financial position or cash flows that excludes or includes amounts that are required to be disclosed in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The Company's management believes the presentation of non-GAAP financial measures provide investors with a greater understanding of the Company's operating results in addition to the results measured in accordance with GAAP. While management uses non-GAAP measures in its analysis of the Company's performance, this information should not be viewed as a substitute for financial results determined in accordance with GAAP or considered to be more important than financial results determined in accordance with GAAP.

HANOVER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME (unaudited)
QUARTERLY TREND
(dollars in thousands, except per share data)

Three Months Ended

	9/30/2020	6/30/2020	3/31/2020	12/31/2019	9/30/2019
Interest income	\$ 9,751	\$ 9,665	\$ 10,281	\$ 10,436	\$ 9,888
Interest expense	2,385	3,163	3,764	3,699	3,558
Net interest income	7,366	6,502	6,517	6,737	6,330
Provision for loan losses	100	150	1,000	-	-
Net interest income after provision for loan losses	7,266	6,352	5,517	6,737	6,330
Loan fees and service charges	111	53	57	80	39
Service charges on deposit accounts	12	13	17	20	30
Gain on sale of loans held-for-sale	-	15	339	563	818
Other operating income	12	18	25	29	33
Non-interest income	135	99	438	692	920
Compensation and benefits	3,020	2,688	2,886	2,588	2,813
Occupancy and equipment	1,169	1,078	1,083	1,132	940
Data processing	234	211	250	216	235
Marketing and advertising	16	63	111	106	112
Professional fees	438	290	327	307	210
Other operating expenses	479	339	437	360	288
Non-interest expense	5,356	4,669	5,094	4,709	4,598
Income before income taxes	2,045	1,782	861	2,720	2,652
Income tax expense	318	374	198	607	858
Core operating net income (1)	1,727	1,408	663	2,113	1,794
Litigation, proxy-related expenses and other non-recurring charges, net of tax	-	-	413	160	-
Merger-related expenses, net of tax	181	-	-	183	384
Net income	\$ 1,546	\$ 1,408	\$ 250	\$ 1,770	\$ 1,410
Basic earnings per share - GAAP	\$ 0.38	\$ 0.34	\$ 0.06	\$ 0.43	\$ 0.33
Diluted earnings per share - GAAP	\$ 0.37	\$ 0.33	\$ 0.06	\$ 0.42	\$ 0.32
Basic earnings per share - Core	\$ 0.41	\$ 0.34	\$ 0.16	\$ 0.51	\$ 0.44
Diluted earnings per share - Core	\$ 0.41	\$ 0.33	\$ 0.16	\$ 0.50	\$ 0.43

Note: Prior period information has been adjusted to conform to current period presentation.

(1) Core operating earnings is a non-GAAP financial measure. A non-GAAP financial measure is a numerical measure of historical or future financial performance, financial position or cash flows that excludes or includes amounts that are required to be disclosed in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The Company's management believes the presentation of non-GAAP financial measures provide investors with a greater understanding of the Company's operating results in addition to the results measured in accordance with GAAP. While management uses non-GAAP measures in its analysis of the Company's performance, this information should not be viewed as a substitute for financial results determined in accordance with GAAP or considered to be more important than financial results determined in accordance with GAAP.

SELECTED FINANCIAL DATA (unaudited)
(dollars in thousands, except per share data)

	9/30/2020	6/30/2020	3/31/2020	12/31/2019
Asset quality:				
Allowance for loan losses	\$ 7,869	\$ 7,993	\$ 7,843	\$ 7,143
Allowance for loan losses to total loans (1)	1.09%	1.11%	1.13%	0.99%
Allowance for loan losses to originated loans (1)	1.22%	1.25%	1.29%	1.12%
Non-performing loans	\$ 953	\$ 3,172	\$ 1,730	\$ 1,062
Non-performing loans/total loans	0.13%	0.44%	0.25%	0.15%
Non-performing loans/total assets	0.11%	0.38%	0.19%	0.12%
Allowance for loan losses/non-performing loans	825.71%	251.99%	453.35%	672.60%
Capital (Bank only):				
Tier 1 Capital	\$ 89,275	\$ 87,829	\$ 86,211	\$ 85,514
Tier 1 leverage ratio	11.22%	10.21%	9.76%	10.11%
Common equity tier 1 capital ratio	19.49%	19.04%	19.26%	18.43%
Tier 1 risk based capital ratio	19.49%	19.04%	19.26%	18.43%
Total risk based capital ratio	20.75%	20.29%	20.52%	19.68%
Equity data:				
Common shares outstanding	4,175,144	4,169,269	4,162,269	4,141,902
Stockholders' equity	\$ 78,043	\$ 76,156	\$ 74,513	\$ 73,896
Book value per common share	18.69	18.27	17.90	17.84
Tangible common equity	76,120	74,556	72,947	72,389
Tangible book value per common share	18.23	17.88	17.53	17.48

(1) Calculation excludes loans held for sale.

Note: Prior period information has been adjusted to conform to current period presentation

HANOVER BANCORP, INC.
SELECTED FINANCIAL DATA (unaudited)
(dollars in thousands, except per share data)

	Three Months Ended		Fiscal Year Ended	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019
Profitability:				
Return on average assets	0.84% (1)	0.89% (3)	0.69% (5)	1.25% (7)
Return on average equity	8.90% (1)	10.11% (3)	7.88% (5)	13.67% (7)
Yield on average interest-earning assets	4.94%	5.05%	4.87%	5.07%
Cost of average interest-bearing liabilities	1.46%	2.14%	1.87%	2.07%
Net interest rate spread (9)	3.48%	2.91%	3.00%	3.00%
Net interest margin (10)	3.73%	3.24%	3.29%	3.30%
Non-interest expense to average assets	2.62% (2)	2.28% (4)	2.33% (6)	2.15% (8)
Operating efficiency ratio	71.40% (2)	63.42% (4)	69.61% (6)	55.28% (8)
Average balances:				
Interest-earning assets	\$ 785,486	\$ 776,087	\$ 824,247	\$ 680,413

Interest-bearing liabilities	648,285	661,106	697,040	582,573
Loans	720,730	686,532	717,834	616,353
Deposits	638,354	600,100	669,497	508,329
Borrowings	90,313	116,823	99,550	120,376

- (1) Calculation excludes the non-recurring after tax merger-related, litigation and proxy contest expense of \$181,000.
(2) Calculation excludes the non-recurring pre-tax merger-related, litigation and proxy contest expense of \$214,000.
(3) Calculation excludes the non-recurring after tax merger-related \$384,000.
(4) Calculation excludes the non-recurring pre-tax merger-related expense of \$568,000.
(5) Calculation excludes the non-recurring after tax merger-related, litigation and proxy contest expense of \$937,000.
(6) Calculation excludes the non-recurring pre-tax merger-related, litigation and proxy contest expense of \$1,192,000.
(7) Calculation excludes the non-recurring after tax write down of \$90,000 and merger-related expense of \$516,000.
(8) Calculation excludes the non-recurring pre-tax asset write down of \$119,000 and merger-related expense of \$737,000.
(9) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(10) Net interest margin represents net interest income divided by average interest-earning assets.

HANOVER BANCORP, INC.

STATISTICAL SUMMARY

QUARTERLY TREND

(unaudited,dollars in thousands, except share data)

	<u>9/30/2020</u>	<u>6/30/2020</u>	<u>3/31/2020</u>	<u>12/31/2019</u>
Loan distribution (1) :				
Residential mortgages	\$ 432,988	\$ 439,996	\$ 441,173	\$ 461,034
Multifamily	136,737	125,597	121,307	131,474
Commercial real estate	113,758	110,948	103,461	104,951
Commercial & industrial	20,737	23,680	6,842	7,472
Home equity	20,772	20,056	19,287	17,809
Consumer	27	38	44	500
Total loans	\$ 725,019	\$ 720,315	\$ 692,114	\$ 723,240
Sequential quarter growth rate	<u>0.65%</u>	<u>4.07%</u>	<u>-4.30%</u>	<u>0.39%</u>
Loans sold during the quarter	<u>\$ 5,326</u>	<u>\$ 1,721</u>	<u>\$ 9,898</u>	<u>\$ 20,198</u>
Funding distribution :				
Demand	\$ 82,350	\$ 84,049	\$ 65,841	\$ 73,018
N.O.W	34,086	33,364	32,943	42,432
Savings	43,218	42,469	40,208	41,249
Money market	110,353	96,190	102,828	101,680
Total core deposits	270,007	256,072	241,820	258,379
Time	394,753	403,260	475,276	411,144
Total deposits	664,760	659,332	717,096	669,523
Borrowings	85,154	78,766	81,446	95,086

Note payable	14,984	14,983	14,982	14,982
Total funding sources	\$ 764,898	\$ 753,081	\$ 813,524	\$ 779,591
Sequential quarter growth rate - total deposits	0.82%	-8.06%	7.11%	2.96%
Period-end core deposits/total deposits ratio	40.62%	38.84%	33.72%	38.59%
Period-end demand deposits/total deposits ratio	12.39%	12.75%	9.18%	10.91%

(1) Excluding loans held for sale

HANOVER BANCORP, INC.

NON-GAAP DISCLOSURE (unaudited)

(dollars in thousands)

Reconciliation of As Reported (GAAP) and Non-GAAP Financial Measures

	Three Months Ended			
	<u>9/30/2020</u>	<u>6/30/2020</u>	<u>3/31/2020</u>	<u>12/31/2019</u>
Net income, GAAP	\$ 1,546	\$ 1,408	\$ 250	\$ 1,770
Adjustments, net of tax:				
Merger-related expense	181	-	-	183
Litigation and proxy contest expenses	-	-	413	160
Core operating net income	<u>\$ 1,727</u>	<u>\$ 1,408</u>	<u>\$ 663</u>	<u>\$ 2,113</u>

	Three Months Ended			
	<u>9/30/2020</u>	<u>6/30/2020</u>	<u>3/31/2020</u>	<u>12/31/2019</u>
Net-interest income, GAAP	\$ 7,366	\$ 6,502	\$ 6,517	\$ 6,737
Adjustments:	-	-	-	-
Core net interest income	7,366	6,502	6,517	6,737
Non-interest income, GAAP	135	99	438	692
Adjustments:	-	-	-	-
Core non-interest income	135	99	438	692
Core total revenue	<u>\$ 7,501</u>	<u>\$ 6,601</u>	<u>\$ 6,955</u>	<u>\$ 7,429</u>
Operating expenses, GAAP	\$ 5,570	\$ 4,669	\$ 5,630	\$ 5,151
Adjustments:				
Litigation and proxy contest expenses	-	-	536	206
Merger-related expenses	214	-	-	236
Core operating expenses	<u>\$ 5,356</u>	<u>\$ 4,669</u>	<u>\$ 5,094</u>	<u>\$ 4,709</u>

GAAP operating efficiency ratio	<u>74.26%</u>	<u>70.73%</u>	<u>80.95%</u>	<u>69.34%</u>
Core operating efficiency ratio	<u>71.40%</u>	<u>70.73%</u>	<u>73.24%</u>	<u>63.39%</u>
	Three Months Ended			
	<u>9/30/2020</u>	<u>6/30/2020</u>	<u>3/31/2020</u>	<u>12/31/2019</u>
Net interest income / margin	<u>\$ 7,366</u> <u>3.73%</u>	<u>\$ 6,502</u> <u>3.13%</u>	<u>\$ 6,517</u> <u>3.06%</u>	<u>\$ 6,737</u> <u>3.27%</u>

HANOVER BANCORP, INC.

NON-GAAP DISCLOSURE (unaudited)

(dollars in thousands)

Reconciliation of As Reported (GAAP) and Non-GAAP Financial Measures

	Fiscal Year Ended 9/30/2020	Fiscal Year Ended 9/30/2019
Net income, GAAP	\$ 4,974	\$ 8,085
Adjustments:		
Merger-related expenses	450	737
Litigation and proxy contest expenses	742	
Non-recurring asset writedown	-	119
Total adjustments, before income taxes	<u>1,192</u>	<u>856</u>
Adjustment for reported effective tax rate	255	250
Total adjustments, after income taxes	<u>\$ 937</u>	<u>\$ 606</u>
Core operating net income	<u>\$ 5,911</u>	<u>\$ 8,691</u>

	Fiscal Year Ended 9/30/2020	Fiscal Year Ended 9/30/2019
Net-interest income, GAAP	\$ 27,122	\$ 22,439
Non-interest income, GAAP	<u>1,364</u>	<u>4,752</u>
Core total revenue	<u>\$ 28,486</u>	<u>\$ 27,191</u>
Operating expenses, GAAP	\$ 21,020	\$ 15,887
Adjustments:		
Merger-related expenses	450	737
Litigation and proxy contest expenses	742	-
Non-recurring asset writedown	-	119
Core Operating expenses	<u>\$ 19,828</u>	<u>\$ 15,031</u>
GAAP operating efficiency ratio	<u>73.79%</u>	<u>58.43%</u>
Core operating efficiency ratio	<u>69.61%</u>	<u>55.28%</u>

**Fiscal Year Ended
9/30/2020**

**Fiscal Year Ended
9/30/2019**

Net interest income / margin	\$	27,122	3.29%	\$	22,439	3.30%
------------------------------	----	--------	-------	----	--------	-------

HANOVER BANCORP, INC.
(unaudited, dollars in thousands)

Net Interest Income Analysis
For the Three Months Ended September 30, 2020 and 2019

	2020			2019		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets:						
Interest-earning assets:						
Loans	\$ 720,730	\$ 9,516	5.25%	\$ 686,532	\$ 9,309	5.38%
Investment securities	16,895	177	4.17%	13,025	104	3.17%
Interest-earning cash	44,103	10	0.09%	70,969	387	2.16%
FHLB stock and other investments	3,758	48	5.08%	5,561	88	6.28%
Total interest-earning assets	785,486	9,751	4.94%	776,087	9,888	5.05%
Non interest-earning assets:						
Cash and due from banks	4,645			4,953		
Other assets	23,946			17,787		
Total assets	\$ 814,077			\$ 798,827		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Savings, N.O.W and money market deposits	\$ 176,428	\$ 138	0.31%	\$ 186,960	\$ 680	1.44%
Time deposits	381,544	1,758	1.83%	357,323	2,171	2.41%
Total savings and time deposits	557,972	1,896	1.35%	544,283	2,851	2.08%
Fed funds purchased & FHLB & FRB advances	75,330	264	1.39%	101,843	482	1.88%
Note payable	14,983	225	5.97%	14,980	225	5.96%
Total interest-bearing liabilities	648,285	2,385	1.46%	661,106	3,558	2.14%
Demand deposits	80,382			55,817		
Other liabilities	8,286			11,475		
Total liabilities	736,953			728,398		
Stockholders' equity	77,124			70,429		
Total liabilities & stockholders' equity	\$ 814,077			\$ 798,827		
Net interest rate spread			3.48%			2.91%
Net interest income/margin	\$ 7,366	3.73%		\$ 6,330	3.24%	

HANOVER BANCORP, INC.
(unaudited, dollars in thousands)

Net Interest Income Analysis
For the Fiscal Year Ended September 30, 2020 and 2019

	2020			2019		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets:						
Interest-earning assets:	0.00			0.00		
Loans	\$ 717,834	\$ 38,640	5.38%	\$ 616,353	\$ 32,660	5.30%
Investment securities	13,907	523	3.76%	12,851	427	3.32%
Interest-earning cash	87,828	693	0.79%	45,598	1,044	2.29%
FHLB stock and other investments	4,678	277	5.92%	5,611	366	6.52%
Total interest-earning assets	<u>824,247</u>	<u>40,133</u>	<u>4.87%</u>	<u>680,413</u>	<u>34,497</u>	<u>5.07%</u>
Non interest-earning assets:						
Cash and due from banks	5,588			4,320		
Other assets	22,219			13,133		
Total assets	<u>\$ 852,054</u>			<u>\$ 697,866</u>		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Savings, N.O.W and money market deposits	\$ 179,106	\$ 1,445	0.81%	\$ 160,073	\$ 2,510	1.57%
Time deposits	418,384	9,180	2.19%	302,124	6,707	2.22%
Total savings and time deposits	<u>597,490</u>	<u>10,625</u>	<u>1.78%</u>	<u>462,197</u>	<u>9,217</u>	<u>1.99%</u>
Fed funds purchased & FHLB & FRB advances	84,568	1,491	1.76%	105,397	1,949	1.85%
Note payable	14,982	895	5.97%	14,979	892	5.96%
Total interest-bearing liabilities	<u>697,040</u>	<u>13,011</u>	<u>1.87%</u>	<u>582,573</u>	<u>12,058</u>	<u>2.07%</u>
Demand deposits	72,007			46,132		
Other liabilities	8,031			5,573		
Total liabilities	<u>777,078</u>			<u>634,278</u>		
Stockholders' equity	74,976			63,588		
Total liabilities & stockholders' equity	<u>\$ 852,054</u>			<u>\$ 697,866</u>		
Net interest rate spread			<u>3.00%</u>			<u>3.00%</u>
Net interest income/margin		<u>\$ 27,122</u>	<u>3.29%</u>		<u>\$ 22,439</u>	<u>3.30%</u>

