



## Hanover Bancorp, Inc. Reports Second Quarter 2020 Results

July 28, 2020

MINEOLA, N.Y., July 28, 2020 (GLOBE NEWSWIRE) -- Hanover Bancorp, Inc. ("Hanover" or "the Company"), the holding company for Hanover Community Bank ("the Bank") today reported results for the quarter ended June 30, 2020.

### Second Quarter Performance Highlights

- **Net Income:** GAAP net income for the quarter ended June 30, 2020 amounted to \$1.4 million or \$0.33 per diluted common share, versus \$2.0 million or \$0.51 per diluted common share recorded in the comparable year ago period. The Company's second quarter results were impacted by a decrease in gain on sale of loans as the secondary market for whole loan sales was negatively impacted by the COVID-19 pandemic. Management also continued to draw down liquidity from the Chinatown Federal Savings Bank ("CFSB") acquisition to retain more loan originations in portfolio, reduced new loan originations and maintained additional liquidity until the impact of the COVID-19 pandemic becomes clearer.
- **Balance Sheet:** Assets totaled \$838.0 million at June 30, 2020, down \$57.6 million from March 31, 2020 and up \$133.3 million from June 30, 2019 as the Company redeployed much of its excess liquidity by June 30, 2020 through a reduction in maturing high-cost time deposits and a corresponding decline in low-yielding interest-earning cash balances.
- **Capital Strength:** The Bank's Tier 1 capital ratio was 10.21% and its Total Risk based capital ratio was 20.29% at June 30, 2020, each significantly above the regulatory minimums for a well-capitalized institution.
- **Tangible Book Value Per Share:** Tangible book value per common share increased by 7.3% to \$17.88 at June 30, 2020 from \$16.66 at the comparable 2019 date.
- **Year-Over-Year Loan Growth:** Total loans outstanding at June 30, 2020 were \$720.3 million or 86.0% of total assets, an increase of \$28.2 million from March 31, 2020 and an increase of \$102.8 million from June 30, 2019. The growth in loans during the second calendar quarter of 2020 versus March 31, 2020 resulted principally from the Bank's participation in the Small Business Administration's Paycheck Protection Program ("PPP"), under which the Bank originated \$16.4 million in loans.
- **Excellent Asset Quality:** At June 30, 2020, the Bank's asset quality was excellent with non-performing loans representing only 0.44% of the total portfolio.
- **Net Interest Income Growth:** Net interest income was \$6.5 million in the quarter ended June 30, 2020, an increase of \$1.1 million, or 21.4%, versus the comparable 2019 quarter.
- **Net Interest Margin and Liquidity:** The Company's net interest margin for the quarter ended June 30, 2020 was 3.13% versus 3.06% in the quarter ended March 31, 2020 and 3.20% in the quarter ended June 30, 2019. The improvement in margin versus the first quarter of 2020 was primarily attributable to a reduction in the Company's cost of interest-bearing liabilities during the second calendar quarter of 2020. The Company's net interest margin for the month of June 2020 was 3.36%.

### Earnings Summary for the Quarter Ended June 30, 2020

The Company reported GAAP net income for the quarter ended June 30, 2020 of \$1.4 million or \$0.33 per diluted common share, versus \$2.0 million or \$0.51 per diluted common share in the comparable 2019 period. The decrease in net income and diluted earnings per common share versus the prior year quarter were primarily attributable to a \$903 thousand reduction in gain on sales of loans held-for-sale as the secondary market for whole loan sales was negatively impacted by the COVID-19 pandemic, coupled with a \$979 thousand increase in operating expenses, principally due to the Bank's growth in personnel and branch facilities relating to the CFSB acquisition in August 2019. A \$1.1 million increase in net interest income and a \$75 thousand reduction in the provision for loan losses in 2020 versus the comparable 2019 quarter partially offset the aforementioned factors.

The \$1.1 million improvement in net interest income during the second quarter of 2020 versus the comparable 2019 period resulted from an increase in average interest-earning assets of \$163.3 million (up 24.3%) resulting principally from growth in average total loans of \$97.6 million, (up 16.1%), and average interest-earning cash of \$66.1 million (up 140.8%). As certain aspects of the economic risks resulting from the impact of the COVID-19 pandemic became clearer, the Company redeployed much of its excess liquidity by June 30, 2020 through a reduction in maturing high-cost time deposits and a corresponding decline in low-yielding interest-earning cash balances. Core returns on average total assets and average stockholders' equity were 0.66% and 7.55%, respectively, in the second calendar quarter of 2020, versus 1.19% and 12.63% a year ago.

Michael P. Puorro, Chairman and Chief Executive Officer, commented on the Company's results: "Overall, I am pleased with our second quarter results, especially in light of the difficult economic and interest rate challenges that we continue to face. We continue to work closely with our borrowers that were granted loan forbearance requests in the first calendar quarter while also carefully managing our new extensions of credit. As I noted last quarter, out of an abundance of caution, we made a decision to reduce originations in some of our traditional commercial and residential lending markets due to a combination of high valuations, cash-out refinancing requests which we were unwilling to accommodate and the uncertainty of economic risks resulting from the impact of the COVID-19 pandemic. While those segments of our loan portfolio have either declined or grown very slowly in the second calendar quarter, I am happy to report that we were active participants in the SBAs Paycheck Protection Program and were able

to help support fifteen hundred jobs in the markets that we serve through over \$16 million in loans that we approved.”

“During the month of June, we carefully re-entered our traditional commercial and residential lending markets with a very conservative outlook and enhanced underwriting standards. We are cognizant of the continued impact of COVID-19 on the local economy and on our borrower base and are proceeding with an abundance of caution in that regard.”

“I am also happy to report that we were recently able to re-open our branches in Forest Hills and Mineola with safety precautions in place for both our customers and our staff. In addition, our executive team, officers and support staff have all returned to their office locations on a rotational basis in order to comply with Governor Cuomo’s regional guidelines for maximum building occupancy. We have a daily COVID-19 screening process in place and have made changes to our facilities and in-office procedures to ensure the health and safety of every member of the Hanover team.”

“We continue to augment our management team with talented executives who will further enhance our ability to execute Hanover’s business plan to prudently and profitably grow the franchise and position the Company for a potential initial public offering.”

Mr. Puorro also noted, “Growth in shareholder value remains our number one priority at Hanover Bancorp. This hallmark of our success is reflected by continued growth in tangible book value per share which increased by \$1.22, or 7.3%, to \$17.88 per share at June 30, 2020 versus the comparable year ago date.”

### **Balance Sheet Growth**

Total assets for the quarter ended June 30, 2020 were \$838.0 million, an increase of \$133.3 million or 18.9% from the comparable 2019 date. The year-over-year balance sheet growth was funded by growth in deposits of \$143.0 million.

Total deposits at June 30, 2020 increased by 27.7% to \$659.3 million versus June 30, 2019, the result of strong growth in both core (Demand, N.O.W., Savings and Money Market) deposits (up \$45.9 million) and time deposits (up \$97.1 million). Total borrowings at June 30, 2020 were \$78.8 million with a weighted average rate and term of 1.50% and 13 months, respectively. At March 31, 2020, total borrowings amounted to \$81.4 million. At June 30, 2020, the Bank also had \$77 million of additional borrowing capacity from the FHLB to draw on as needed.

Stockholders’ equity increased by \$10.0 million to \$76.2 million at June 30, 2020 from the comparable 2019 date resulting in a 7.3% increase in tangible book value per share over the past twelve months to \$17.88 at quarter end. Insiders have made significant investments of their own capital into Hanover Bancorp, Inc. Insider ownership represented approximately 24% of total shares outstanding at June 30, 2020.

### **Loan Portfolio and Asset Quality**

For the twelve months ended June 30, 2020, the Bank’s loan portfolio, net of sales, grew by \$102.8 million, or 16.7%, with the growth due to a combination of new loan originations and loans acquired in the August 2019 CFSB transaction. During the first calendar quarter of 2020, management made a decision to reduce originations in some of our traditional commercial and residential lending markets due to a combination of high valuations, cash-out refinance requests which the Company was unwilling to accommodate and the uncertainty of economic risks resulting from the impact of the COVID-19 pandemic. As previously mentioned, during the month of June, we carefully re-entered those lending markets with a very conservative outlook and enhanced underwriting standards. We are cognizant of the continued impact of COVID-19 on the local economy and on our borrower base and although our combined commercial and residential pipeline is approximately \$65 million, we are proceeding with an abundance of caution in that regard.

On a sequential quarter basis, second quarter loan growth of \$28.2 million was primarily due to the Bank’s participation in the PPP. The Bank originated \$16.4 million in PPP loans in phase two of the program which supported 1,500 local jobs. In addition, the Bank recorded growth of \$11.8 million in multi-family and commercial real estate loans in the second quarter of 2020. At June 30, 2020, the Company’s residential loan portfolio amounted to \$460.1 million, with an average loan balance of \$430 thousand and a weighted average loan-to-value ratio of 53%. Commercial real estate loans totaled \$236.5 million at June 30, 2020, with an average loan balance of \$696 thousand and a weighted average loan-to-value ratio of 50%. The Company’s commercial real estate concentration ratio was 242% of capital at June 30, 2020 versus 201% 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 engage in loan sales, but on a more limited basis than in the past as it retains more of its loan originations in portfolio, 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 second calendar quarter of 2020 although current indications are that it appears to once again be normalizing. During the quarter ended June 30, 2020, the Bank sold \$1.7 million in loans, including a \$740 thousand non-accrual loan at par, and recorded \$15 thousand in gain on sale income. Sales of \$9.9 million in performing loans and gains of \$339 thousand were recorded in the quarter ended March 31, 2020 and sales of \$40.1 million in performing loans and gains of \$918 thousand were recorded in the quarter ended June 30, 2019. During the twelve months ended June 30, 2020, the Company sold \$57.6 million in performing loans held-for-sale and recorded cumulative gains of \$1.7 million.

The Bank’s asset quality ratios continue to remain strong and among the best in its community bank peer group. At June 30, 2020, the Company reported \$3.2 million in non-performing loans which represented 0.44% of total loans outstanding. The June 30, 2020 allowance for loan losses balance was \$8.0 million versus \$7.1 million a year ago. The allowance for loan losses as a percent of total loans outstanding was 1.11% at June 30, 2020, 1.13% at March 31, 2020 and 1.16% at June 30, 2019. The allowance for loan losses as a percent of total originated loans was 1.25% at June 30, 2020.

### **Net Interest Margin and Liquidity**

The Bank’s net interest margin was 3.13% during the second calendar quarter of 2020, a decline of seven basis points versus 3.20% in the comparable 2019 quarter but an improvement from 3.06% reported in the quarter ended March 31, 2020. The Company increased its cash liquidity position in 2020 in response to the uncertainties caused by the COVID-19 pandemic. The net interest margin has also been negatively impacted by management’s decision to temporarily reduce loan originations during the current economic uncertainty. These factors, coupled with strong organic deposit generation, resulted in a significant increase in the percentage of low yielding average interest-earning cash on the balance sheet in the second calendar quarter of 2020 versus the year ago period. Interest-earning cash represented 13.5% of average interest-earning assets in the

second calendar quarter of 2020 at an average rate of 0.10% versus 7.0% and 2.33%, respectively, in the second calendar quarter of 2019. This shift in the asset mix resulted in a 39 basis point reduction in the average rate on interest-earning assets to 4.65% in the second calendar quarter of 2020. The Bank's cost of interest-bearing liabilities declined by 36 basis points to 1.79% in the second calendar quarter of 2020 versus the comparable 2019 period. Year-over-year growth in average core deposits of 13.6%, including average demand deposit growth of 52.8%, coupled with lower market rates in 2020, accounted for the improvement in the Bank's cost of funds. Management expects the average cost of interest-bearing liabilities to continue to decline in the coming quarters as significant volumes of FHLB borrowings and high-rate certificates of deposits are maturing in a much lower interest rate environment. Partially offsetting the impact of the elevated cash position in 2020, the average rate on the Company's loan portfolio improved by 12 basis points to 5.40% in the second calendar quarter of 2020 versus the comparable 2019 period. These factors continue to enhance the Bank's net interest rate margin which expanded to 3.36% in the month of June.

### Operating Efficiency Ratio

The Bank's GAAP operating efficiency ratio was 70.7% in the second calendar quarter of 2020 versus 58.5% a year ago, principally due to a reduction in noninterest income in the 2020 period resulting from the lower level of loan sales in the current year period.

### 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 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](http://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, core net interest income, core net interest margin 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.

## HANOVER BANCORP, INC.

### STATEMENTS OF CONDITION - (unaudited)

(dollars in thousands)

	June 30, 2020	March 31, 2020	June 30, 2019
<b>Assets</b>			
Cash and cash equivalents	\$ 68,965	\$ 162,223	\$ 56,571
Securities-available for sale, at fair value	5,980	966	902
Investments-held to maturity	11,178	11,535	12,299
Loans held for sale	3,204	2,433	-

Loans, net of deferred loan fees and costs	720,315	692,114	617,477
Less: allowance for loan losses	(7,993)	(7,843)	(7,143)
Loans, net	<u>712,322</u>	<u>684,271</u>	<u>610,334</u>
Goodwill	1,577	1,542	-
Premises & fixed assets	14,188	14,359	14,409
Other assets	20,600	18,277	10,245
<b>Assets</b>	<u><u>\$838,014</u></u>	<u><u>\$895,606</u></u>	<u><u>\$704,760</u></u>
<b>Liabilities and stockholders' equity</b>			
Core deposits	\$256,072	\$241,820	\$210,179
Time deposits	<u>403,260</u>	<u>475,276</u>	<u>306,159</u>
Total deposits	659,332	717,096	516,338
Borrowings	78,766	81,446	104,245
Note payable	14,983	14,982	14,980
Other liabilities	<u>8,777</u>	<u>7,569</u>	<u>3,074</u>
<b>Liabilities</b>	761,858	821,093	638,637
Stockholders' equity	<u>76,156</u>	<u>74,513</u>	<u>66,123</u>
<b>Liabilities and stockholders' equity</b>	<u><u>\$838,014</u></u>	<u><u>\$895,606</u></u>	<u><u>\$704,760</u></u>

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

	Three Months Ended		Nine Months Ended	
	6/30/2020	6/30/2019	6/30/2020	6/30/2019
Interest income	\$ 9,665	\$ 8,444	\$ 30,382	\$ 24,609
Interest expense	<u>3,163</u>	<u>3,089</u>	<u>10,626</u>	<u>8,501</u>
<b>Net interest income</b>	6,502	5,355	19,756	16,108
Provision for loan losses	<u>150</u>	<u>225</u>	<u>1,150</u>	<u>650</u>
<b>Net interest income after provision for loan losses</b>	6,352	5,130	18,606	15,458
Loan fees and service charges	53	57	190	147
Service charges on deposit accounts	13	5	50	17
Gain on sale of investments	-	-	-	-
Gain on sale of loans held-for-sale	15	918	917	3,543
Other operating income	<u>18</u>	<u>37</u>	<u>72</u>	<u>126</u>
<b>Non-interest income</b>	99	1,017	1,229	3,833
Compensation and benefits	2,688	2,134	8,162	6,228
Occupancy and equipment	1,078	682	3,293	1,895
Data processing	211	176	677	427
Marketing and advertising	63	108	280	375
Professional fees	290	205	924	565
Other operating expenses	<u>339</u>	<u>385</u>	<u>1,136</u>	<u>943</u>

<b>Non-interest expense</b>	4,669	3,690	14,472	10,433
<b>Income before income taxes</b>	1,782	2,457	5,363	8,858
Income tax expense	374	413	1,179	1,961
<b>Core operating net income (1)</b>	<u>1,408</u>	<u>2,044</u>	<u>4,184</u>	<u>6,897</u>
Litigation, proxy-related expenses and other non-recurring charges, net of tax	-	33	756	222
<b>Net income</b>	<u>\$ 1,408</u>	<u>\$ 2,011</u>	<u>\$ 3,428</u>	<u>\$ 6,675</u>
Basic earnings per share - GAAP	\$ 0.34	\$ 0.51	\$ 0.82	\$ 1.77
Diluted earnings per share - GAAP	\$ 0.33	\$ 0.51	\$ 0.81	\$ 1.73
Basic earnings per share - Core	\$ 0.34	\$ 0.52	\$ 1.01	\$ 1.82
Diluted earnings per share - Core	\$ 0.33	\$ 0.52	\$ 0.99	\$ 1.79

**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)

	<b>Three Months Ended</b>				
	<b>6/30/2020</b>	<b>3/31/2020</b>	<b>12/31/2019</b>	<b>9/30/2019</b>	<b>6/30/2019</b>
Interest income	\$ 9,665	\$ 10,281	\$ 10,436	\$ 9,888	\$ 8,444
Interest expense	3,163	3,764	3,699	3,558	3,089
<b>Net interest income</b>	<u>6,502</u>	<u>6,517</u>	<u>6,737</u>	<u>6,330</u>	<u>5,355</u>
Provision for loan losses	150	1,000	-	-	225
<b>Net interest income after provision for loan losses</b>	<u>6,352</u>	<u>5,517</u>	<u>6,737</u>	<u>6,330</u>	<u>5,130</u>
Loan fees and service charges	53	57	80	39	57
Service charges on deposit accounts	13	17	20	30	5
Gain on sale of investments	-	-	-	-	-
Gain on sale of loans held-for-sale	15	339	563	818	918
Other operating income	18	25	29	33	37
<b>Non-interest income</b>	<u>99</u>	<u>438</u>	<u>692</u>	<u>920</u>	<u>1,017</u>

Compensation and benefits	2,688	2,886	2,588	2,813	2,134
Occupancy and equipment	1,078	1,083	1,132	940	682
Data processing	211	250	216	235	176
Marketing and advertising	63	111	106	112	108
Professional fees	290	327	307	210	205
Other operating expenses	339	437	360	288	385
<b>Non-interest expense</b>	<b>4,669</b>	<b>5,094</b>	<b>4,709</b>	<b>4,598</b>	<b>3,690</b>
<b>Income before income taxes</b>	<b>1,782</b>	<b>861</b>	<b>2,720</b>	<b>2,652</b>	<b>2,457</b>
Income tax expense	374	198	607	858	413
<b>Core operating net income (1)</b>	<b>1,408</b>	<b>663</b>	<b>2,113</b>	<b>1,794</b>	<b>2,044</b>
Litigation, proxy-related expenses and other non-recurring charges, net of tax	-	413	343	384	33
Non-recurring tax expense	-	-	-	-	-
<b>Net income</b>	<b>\$ 1,408</b>	<b>\$ 250</b>	<b>\$ 1,770</b>	<b>\$ 1,410</b>	<b>\$ 2,011</b>
Basic earnings per share - GAAP	\$ 0.34	\$ 0.06	\$ 0.43	\$ 0.33	\$ 0.51
Diluted earnings per share - GAAP	\$ 0.33	\$ 0.06	\$ 0.42	\$ 0.32	\$ 0.51
Basic earnings per share - Core	\$ 0.34	\$ 0.16	\$ 0.51	\$ 0.44	\$ 0.52
Diluted earnings per share - Core	\$ 0.33	\$ 0.16	\$ 0.50	\$ 0.43	\$ 0.52

**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.

## HANOVER BANCORP, INC.

### SELECTED FINANCIAL DATA (unaudited)

(dollars in thousands, except per share data)

	<u>6/30/2020</u>	<u>3/31/2020</u>	<u>12/31/2019</u>	<u>9/30/2019</u>
<b>Asset quality:</b>				
Allowance for loan losses	\$ 7,993	\$ 7,843	\$ 7,143	\$ 7,143
Allowance for loan losses to total loans (1)	1.11%	1.13%	0.99%	0.99%
Allowance for loan losses to originated loans (1)	1.25%	1.29%	1.12%	1.13%
Non-performing loans	\$ 3,172	\$ 1,730	\$ 1,062	\$ 2,242
Non-performing loans/total loans	0.44%	0.25%	0.15%	0.31%
Non-performing loans/total assets	0.38%	0.19%	0.12%	0.26%
Allowance for loan losses/non-performing loans	251.99%	453.35%	672.60%	318.60%

**Capital (Bank only):**

Tier 1 Capital	\$ 87,829	\$ 86,211	\$ 85,514	\$ 83,423
Tier 1 leverage ratio	10.21%	9.76%	10.11%	10.47%
Common equity tier 1 capital ratio	19.04%	19.26%	18.43%	17.81%
Tier 1 risk based capital ratio	19.04%	19.26%	18.43%	17.81%
Total risk based capital ratio	20.29%	20.52%	19.68%	19.07%

**Equity data:**

Common shares outstanding	4,169,269	4,162,269	4,141,902	4,162,904
Stockholders' equity	\$ 76,156	\$ 74,513	\$ 73,896	\$ 71,950
Book value per common share	18.27	17.90	17.84	17.28
Tangible common equity	74,556	72,947	72,389	70,442
Tangible book value per common share	17.88	17.53	17.48	16.92

(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		Nine Months Ended	
	6/30/2020	6/30/2019	6/30/2020	6/30/2019
<b>Profitability:</b>				
Return on average assets	0.66%	1.19% <sup>(1)</sup>	0.65% <sup>(3)</sup>	1.39% <sup>(5)</sup>
Return on average equity	7.55%	12.63% <sup>(1)</sup>	7.53% <sup>(3)</sup>	15.05% <sup>(5)</sup>
Yield on average interest-earning assets	4.65%	5.04%	4.85%	5.08%
Cost of average interest-bearing liabilities	1.79%	2.15%	1.99%	2.04%
Net interest rate spread (7)	2.86%	2.89%	2.86%	3.04%
Net interest margin (8)	3.13%	3.20%	3.15%	3.32%
Non-interest expense to average assets	2.18%	2.15% <sup>(2)</sup>	2.24% <sup>(4)</sup>	2.10% <sup>(6)</sup>
Operating efficiency ratio	70.73%	57.91% <sup>(2)</sup>	68.96% <sup>(4)</sup>	52.32% <sup>(6)</sup>

**Average balances:**

Interest-earning assets	\$ 835,129	\$ 671,830	\$ 837,262	\$ 648,172
Interest-bearing liabilities	712,686	576,010	713,410	556,107
Loans	704,132	606,522	716,861	592,704
Deposits	689,470	498,835	679,953	477,403
Borrowings	89,847	120,791	102,652	121,573

(1) Calculation excludes the non-recurring after tax merger-related \$33,000.

(2) Calculation excludes the non-recurring pre-tax merger-related expense of \$38,000.

(3) Calculation excludes the non-recurring after tax merger-related, litigation and proxy contest expense of \$756,000.

(4) Calculation excludes the non-recurring pre-tax merger-related, litigation and proxy contest expense of \$978,000.

(5) Calculation excludes the non-recurring after tax write down of \$90,000 and merger-related expense of \$132,000.

(6) Calculation excludes the non-recurring pre-tax asset write down of \$119,000 and merger-related expense of \$169,000.

(7) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(8) 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>6/30/2020</u>	<u>3/31/2020</u>	<u>12/31/2019</u>	<u>9/30/2019</u>
<b>Loan distribution (1):</b>				
Residential mortgages	\$439,996	\$441,173	\$461,034	\$448,834
Multifamily	125,597	121,307	131,474	139,685
Commercial real estate	110,948	103,461	104,951	108,302
Commercial & industrial	23,680	6,842	7,472	7,377
Home equity	20,056	19,287	17,809	15,739
Consumer	38	44	500	505
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total loans</b>	<b><u>\$720,315</u></b>	<b><u>\$692,114</u></b>	<b><u>\$723,240</u></b>	<b><u>\$720,442</u></b>
Sequential quarter growth rate	<u>4.07%</u>	<u>-4.30%</u>	<u>0.39%</u>	<u>16.68%</u>
Loans sold during the quarter	<u>\$ 1,721</u>	<u>\$ 9,898</u>	<u>\$ 20,198</u>	<u>\$ 25,806</u>
<b>Funding distribution :</b>				
Demand	\$ 84,049	\$ 65,841	\$ 73,018	\$ 69,606
N.O.W.	33,364	32,943	42,432	53,564
Savings	42,469	40,208	41,249	39,548
Money market	96,190	102,828	101,680	102,054
Total core deposits	<u>256,072</u>	<u>241,820</u>	<u>258,379</u>	<u>264,772</u>
Time	<u>403,260</u>	<u>475,276</u>	<u>411,144</u>	<u>385,514</u>
Total deposits	<u>659,332</u>	<u>717,096</u>	<u>669,523</u>	<u>650,286</u>
Borrowings	78,766	81,446	95,086	100,745
Note payable	14,983	14,982	14,982	14,981
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total funding sources</b>	<b><u>\$753,081</u></b>	<b><u>\$813,524</u></b>	<b><u>\$779,591</u></b>	<b><u>\$766,012</u></b>
Sequential quarter growth rate - total deposits	<u>-8.06%</u>	<u>7.11%</u>	<u>2.96%</u>	<u>25.94%</u>
Period-end core deposits/total deposits ratio	<u>38.84%</u>	<u>33.72%</u>	<u>38.59%</u>	<u>40.72%</u>
Period-end demand deposits/total deposits ratio	<u>12.75%</u>	<u>9.18%</u>	<u>10.91%</u>	<u>10.70%</u>

(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>6/30/2020</u>	<u>3/31/2020</u>	<u>12/31/2019</u>	<u>9/30/2019</u>
Net income, GAAP	\$ 1,408	\$ 250	\$ 1,770	\$ 1,410
Adjustments, net of tax:				
Merger-related expense	-	-	183	384
Litigation and proxy contest expenses	-	413	160	-
<b>Core operating net income</b>	<b><u>\$ 1,408</u></b>	<b><u>\$ 663</u></b>	<b><u>\$ 2,113</u></b>	<b><u>\$ 1,794</u></b>

	Three Months Ended			
	<u>6/30/2020</u>	<u>3/31/2020</u>	<u>12/31/2019</u>	<u>9/30/2019</u>
Net-interest income, GAAP	\$ 6,502	\$ 6,517	\$ 6,737	\$ 6,330
Adjustments:	-	-	-	-
Core net interest income	6,502	6,517	6,737	6,330
Non-interest income, GAAP	99	438	692	920
Adjustments:	-	-	-	-
Core non-interest income	99	438	692	920
Core total revenue	<u>\$ 6,601</u>	<u>\$ 6,955</u>	<u>\$ 7,429</u>	<u>\$ 7,250</u>
Operating expenses, GAAP	\$ 4,669	\$ 5,630	\$ 5,151	\$ 5,166
Adjustments:				
Litigation and proxy contest expenses	-	536	206	-
Merger-related expenses	-	-	236	568
Core operating expenses	<u>\$ 4,669</u>	<u>\$ 5,094</u>	<u>\$ 4,709</u>	<u>\$ 4,598</u>
<b>GAAP operating efficiency ratio</b>	<b><u>70.73%</u></b>	<b><u>80.95%</u></b>	<b><u>69.34%</u></b>	<b><u>71.26%</u></b>
<b>Core operating efficiency ratio</b>	<b><u>70.73%</u></b>	<b><u>73.24%</u></b>	<b><u>63.39%</u></b>	<b><u>63.42%</u></b>

	Three Months Ended							
	<u>6/30/2020</u>		<u>3/31/2020</u>		<u>12/31/2019</u>		<u>9/30/2019</u>	
Net interest income / margin	\$ 6,502	3.13%	\$ 6,517	3.06%	\$ 6,737	3.27%	\$ 6,330	3.24%
Adjustments:	-	0.00%	-	0.00%	-	0.00%	-	0.00%
<b>Core net interest income / margin</b>	<b><u>\$ 6,502</u></b>	<b><u>3.13%</u></b>	<b><u>\$ 6,517</u></b>	<b><u>3.06%</u></b>	<b><u>\$ 6,737</u></b>	<b><u>3.27%</u></b>	<b><u>\$ 6,330</u></b>	<b><u>3.24%</u></b>

**HANOVER BANCORP, INC.**

**NON-GAAP DISCLOSURE (unaudited)**

(dollars in thousands)

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

	<b>Nine Months Ended 6/30/2020</b>	<b>Nine Months Ended 6/30/2019</b>		
Net income, GAAP	\$ 3,428	\$ 6,675		
Adjustments:				
Merger-related expenses	236	169		
Litigation and proxy contest expenses	742	-		
Non-recurring asset writedown	-	119		
Total adjustments, before income taxes	978	288		
Adjustment for reported effective tax rate	222	66		
Total adjustments, after income taxes	\$ 756	\$ 222		
<b>Core operating net income</b>	<b>\$ 4,184</b>	<b>\$ 6,897</b>		
	<b>Nine Months Ended 6/30/2020</b>	<b>Nine Months Ended 6/30/2019</b>		
Net-interest income, GAAP	\$ 19,756	\$ 16,108		
Non-interest income, GAAP	1,229	3,833		
Core total revenue	\$ 20,985	\$ 19,941		
Operating expenses, GAAP	\$ 15,450	\$ 10,721		
Adjustments:				
Merger-related expenses	236	169		
Litigation and proxy contest expenses	742	-		
Non-recurring asset writedown	-	119		
Core Operating expenses	\$ 14,472	\$ 10,433		
<b>GAAP operating efficiency ratio</b>	<b>73.62%</b>	<b>53.76%</b>		
<b>Core operating efficiency ratio</b>	<b>68.96%</b>	<b>52.32%</b>		
	<b>Nine Months Ended 6/30/2020</b>	<b>Nine Months Ended 6/30/2019</b>		
Net interest income / margin	\$ 19,756	3.15%	\$ 16,108	3.32%
Adjustments:	-	0.00%	-	0.00%
<b>Core net interest income / margin</b>	<b>\$ 19,756</b>	<b>3.15%</b>	<b>\$ 16,108</b>	<b>3.32%</b>

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

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

	2020			2019		
	Average Balance	Average Interest	Average Rate	Average Balance	Average Interest	Average Rate
<b>Assets:</b>						
Interest-earning assets:						
Loans	\$704,132	\$ 9,450	5.40%	\$606,522	\$ 7,982	5.28%
Investment securities	13,419	125	3.75%	12,658	107	3.39%
Interest-earning cash	113,132	29	0.10%	46,987	273	2.33%
FHLB stock and other investments	4,446	61	5.52%	5,663	82	5.81%
Total interest-earning assets	835,129	9,665	4.65%	671,830	8,444	5.04%
Non interest-earning assets:						
Cash and due from banks	4,912			4,121		
Other assets	22,330			11,798		
Total assets	\$862,371			\$687,749		
<b>Liabilities and stockholders' equity:</b>						
Interest-bearing liabilities:						
Savings, N.O.W. and money market deposits	\$172,573	\$ 155	0.36%	\$166,907	\$ 689	1.66%
Time deposits	450,266	2,444	2.18%	288,312	1,683	2.34%
Total savings and time deposits	622,839	2,599	1.68%	455,219	2,372	2.09%
Fed funds purchased & FHLB advances	74,865	341	1.83%	105,811	495	1.88%
Note payable	14,982	223	5.99%	14,980	222	5.94%
Total interest-bearing liabilities	712,686	3,163	1.79%	576,010	3,089	2.15%
Demand deposits	66,631			43,616		
Other liabilities	7,953			3,191		
Total liabilities	787,270			622,817		
Stockholders' equity	75,101			64,932		
Total liabilities & stockholders' equity	\$862,371			\$687,749		
Net interest rate spread			2.86%			2.89%
<b>Net interest income / margin</b>		<b>\$ 6,502</b>	<b>3.13%</b>		<b>\$ 5,355</b>	<b>3.20%</b>

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

**Net Interest Income Analysis**  
For the Nine Months Ended June 30, 2020 and 2019

	2020			2019		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<b>Assets:</b>						
Interest-earning assets:	0.00			0.00		
Loans	\$716,861	\$29,124	5.43%	\$592,704	\$23,351	5.27%
Investment securities	12,904	346	3.58%	12,792	323	3.38%
Interest-earning cash	102,510	684	0.89%	37,048	657	2.37%
FHLB stock and other investments	4,987	228	6.11%	5,628	278	6.60%
Total interest-earning assets	<u>837,262</u>	<u>30,382</u>	<u>4.85%</u>	<u>648,172</u>	<u>24,609</u>	<u>5.08%</u>
Non interest-earning assets:						
Cash and due from banks	5,905			4,107		
Other assets	21,638			11,563		
Total assets	<u>\$864,805</u>			<u>\$663,842</u>		
<b>Liabilities and stockholders' equity:</b>						
Interest-bearing liabilities:						
Savings, N.O.W. and money market deposits	\$180,005	\$ 1,307	0.97%	\$151,012	\$ 1,830	1.62%
Time deposits	430,753	7,421	2.30%	283,522	4,537	2.14%
Total savings and time deposits	610,758	8,728	1.91%	434,534	6,367	1.96%
Fed funds purchased & FHLB advances	87,670	1,228	1.87%	106,594	1,467	1.84%
Note payable	14,982	670	5.97%	14,979	667	5.95%
Total interest-bearing liabilities	<u>713,410</u>	<u>10,626</u>	<u>1.99%</u>	<u>556,107</u>	<u>8,501</u>	<u>2.04%</u>
Demand deposits	69,195			42,869		
Other liabilities	7,946			3,584		
Total liabilities	<u>790,551</u>			<u>602,560</u>		
Stockholders' equity	74,254			61,282		
Total liabilities & stockholders' equity	<u>\$864,805</u>			<u>\$663,842</u>		
Net interest rate spread			<u>2.86%</u>			<u>3.04%</u>
<b>Net interest income / margin</b>		<u><b>\$19,756</b></u>	<u><b>3.15%</b></u>		<u><b>\$16,108</b></u>	<u><b>3.32%</b></u>

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Source: Hanover Bancorp