



Hanover Bancorp, Inc. Reports First Quarter 2020 Results

May 8, 2020

MINEOLA, N.Y., May 08, 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 March 31, 2020.

COVID-19 Response

In February 2020, the Company identified the potential threat of COVID-19 and immediately activated its Business Continuity and Pandemic Plans. By March 23, the Company had moved to a fully remote workforce with substantially all back-office employees working from home. Chairman and CEO Michael Puorro stated "in response to the pandemic, our first priority was and is the safety and well-being of our employees, customers and the communities that we serve both on Long Island and in the boroughs of New York City. We modified branch access and hours to limit exposure and made sure that everyone practiced safe social distancing. In addition, we are focused on supporting our clients who may be experiencing a financial hardship due to the impact of COVID-19, including loan forbearances in the form of deferrals of interest, principal and escrow payments as needed and, most recently, participation in the Small Business Administration's Paycheck Protection Program ("PPP"). Over 150 applications have been funded or are being processed for the current PPP funding tranche. This represents approximately \$30 million in potential loan funding but, most importantly, over two-thousand jobs are potentially being saved for small businesses in the communities that we serve. We believe that our strong capital and liquidity positions, branch network, lending and deposit platforms and focus on internal controls and cybersecurity provide a solid foundation for serving customers during these challenging times."

Mr. Puorro further noted that "the executive management team of Hanover meets on a virtual basis daily or more frequently to discuss this rapidly evolving economic scenario and its impact on each of Hanover's constituencies. Most importantly, we are acutely aware of the human element of this terrible pandemic as members of the Hanover family have lost loved ones due to this dreaded illness. We will come back as a better, stronger and more resilient workforce when this ends. Our staff has proven to be incredibly resilient during this very trying time and, if anything, is even more productive than I could have ever hoped for. I could not be more proud of the effort that they make every day to serve our valued business, consumer and municipal clients. At Hanover, we are truly all in this together."

First Quarter Performance Highlights

- **Net Income:** GAAP net income for the quarter ended March 31, 2020 amounted to \$250 thousand or \$0.06 per diluted common share, versus \$2.3 million or \$0.61 per diluted common share recorded in the same period a year ago. The Company recorded core (non-GAAP) net income of \$663 thousand in the quarter ended March 31, 2020 versus core net income of \$2.3 million in the comparable 2019 quarter. Core diluted earnings per common share were \$0.16 and \$0.61 per share, respectively, in the 2020 and 2019 quarterly periods. Core net income excludes litigation, proxy contest-related and other non-recurring charges, net of tax, recorded in each period. The Company's first quarter results were also impacted by a \$1.0 million provision for loan losses due to the economic uncertainties caused by the COVID-19 pandemic, a decrease in gain on sale of loans as management used liquidity from the Chinatown Federal Savings Bank ("CFSB") acquisition to retain more loan originations in portfolio, and management's decision to reduce new loan originations and maintain significant additional liquidity until the impact of the COVID-19 pandemic becomes clearer.
- **Balance Sheet:** Assets totaled a record \$895.6 million at March 31, 2020, up \$34.0 million from December 31, 2019 and up \$226.0 million from March 31, 2019.
- **Capital Strength:** The Bank's Tier 1 capital ratio was 9.76% and its Total Risk based capital ratio was 20.51% at March 31, 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 6.0% to \$17.53 at March 31, 2020 from \$16.53 at the comparable 2019 date.
- **Year-Over-Year Loan Growth:** Total loans outstanding at March 31, 2020 were \$692.1 million or 77.3% of total assets, a decrease of \$31.1 million from December 31, 2019 and an increase of \$108.2 million from March 31, 2019. The reduction in loans during the first quarter of 2020 versus year-end 2019 resulted from significant loan prepayments, the sale of \$9.9 million of performing credits during the period and management's decision to slow loan originations in the current uncertain economic environment.
- **Excellent Asset Quality:** At March 31, 2020, the Bank's asset quality was excellent with non-performing loans representing only 0.25% of the total portfolio.
- **Net Interest Income Growth:** Net interest income was \$6.5 million in the March 31, 2020 calendar quarter, an increase of \$1.3 million, or 24.7%, versus the comparable 2019 quarter.
- **Net Interest Margin and Liquidity:** The Company's net interest margin for the quarter ended March 31, 2020 was 3.05% versus 3.26% in the quarter ended December 31, 2019 and 3.36% in the quarter ended March 31, 2019. The decrease is primarily attributable to the Company building its liquidity position in response to the impact of the COVID-19 pandemic.
- **Addition of Executive Talent:** The Company has significantly enhanced its management team through the recruitment of

several new executives in credit, lending and loan operations further positioning the Company for continued growth.

Earnings Summary for the Quarter Ended March 31, 2020

The Company reported GAAP net income for the quarter ended March 31, 2020 of \$250 thousand or \$0.06 per diluted common share, versus \$2.3 million or \$0.61 per diluted common share in comparable year ago period. The decrease in net income and diluted earnings per common share from the prior year quarter were primarily attributable to a \$1.0 million provision for loan losses due to the economic uncertainties caused by the COVID-19 pandemic, significant litigation and proxy contest-related expenses incurred in the most recent quarter and management's decision to utilize the additional liquidity provided by the CFSB acquisition to retain more loan production in portfolio which will expand our interest-earning asset base and increase net interest income on an ongoing basis. As a result, the Company sold fewer loans into the secondary market and recognized lower gain on sale income in the first quarter of 2020.

Pre-tax operating expenses increased in the first quarter of 2020 by \$1.7 million (\$790 thousand related to the CFSB acquisition) resulting from growth in compensation and benefits (up \$767 thousand), occupancy and equipment (up \$470 thousand) and professional fees (up \$176 thousand). Further, a \$1.0 million reduction in noninterest income was solely due to management's decision to reduce loan sales and retain more production in portfolio, resulting in a decline in the gain on sale of loans held-for-sale during the first calendar quarter of 2020. In addition, as previously mentioned, the Company recorded a \$1.0 million provision for loan losses due to the uncertainties caused by the COVID-19 pandemic, which represented an \$800 thousand increase in provision from the prior year quarter and also incurred \$413 thousand in after-tax litigation and proxy contest-related expenses in 2020.

The Company used its enhanced liquidity from the new CFSB branches and the continued development of the Flushing branch to retain more of its new loan originations in portfolio rather than selling them in the secondary market. While sales would produce increased noninterest income, retaining the loans should expand our interest-earning asset base which benefits net interest income on an ongoing basis. A \$1.3 million (24.7%) improvement in net interest income in 2020 versus the comparable 2019 quarter partially offset the aforementioned negative factors. An increase in average interest-earning assets of \$226.2 million (up 35.9%) resulting principally from growth in average total loans of \$131.9 million, or 22.7%, accounted for the year-over-year improvement in net interest income. Returns on average total assets and average stockholders' equity were 0.11% and 1.35%, respectively, in the first calendar quarter of 2020.

Excluding litigation and proxy contest-related charges recorded in the first quarter of 2020, core (non-GAAP) operating net income was \$663 thousand or \$0.16 per diluted common share, down 71.6% versus 2019. First quarter returns on average total assets and average stockholders' equity, excluding the aforementioned non-recurring charges, were 0.30% and 3.57%, respectively, in 2020, versus 1.47% and 15.44% a year ago.

Michael P. Puorro, Chairman, President and Chief Executive Officer, commented on the Company's results: "The first quarter of 2020 posed many challenges for the economy, the banking industry and, most importantly, for the well-being of our society. Hanover was not alone in being impacted by COVID-19. We worked diligently with many of our borrowers to approve loan forbearance requests while also adding to our allowance for loan losses through a significant additional provision expense during the first 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 refinance requests which we were unwilling to accommodate and the uncertainty of economic risks resulting from the impact of the COVID-19 pandemic. We also incurred significant legal and shareholder-related expenses in the first quarter of 2020 as a result of litigation with former Bank officers and a proxy contest with a shareholder that sought board representation. We are pleased that shareholders overwhelmingly agreed with the Board's recommendations and we look forward to having this matter behind us and returning our focus to the execution of Hanover's business plan to prudently and profitably grow the franchise and position the Company for a potential initial public offering.

Despite the current economic uncertainty, we believe there are some excellent opportunities for the Company as we move forward in the second quarter and the rest of the year. We have been able to augment our management team through the recruitment of several talented executives who will further our strategic and growth objectives. In January, Kevin Corbett joined Hanover as its new Executive Vice President and Chief Credit Officer. Mr. Corbett was formerly the Senior Vice President and Chief Credit Officer of Dime Community Bank and is an experienced banker with over 35 years of diversified bank credit and management experience. In March, Craig Goldstein joined Hanover as our Senior Vice President and Director of Commercial Real Estate Lending. Mr. Goldstein has over 25 years of diversified commercial real estate lending experience and brings many strong relationships built over years' operating in the metropolitan New York market. More recently, in April, Janet Rohrssen joined Hanover as First Vice President and Director of Loan Operations. Ms. Rohrssen possesses over 25 years' experience in managing all facets of loan operations and their related systems. We believe that these additions significantly enhance our management team and will help drive prudent growth.

In addition, we are active participants in the Small Business Administration's PPP which we believe will not only assist local companies in preserving jobs in the communities in which Hanover operates but will also be an excellent source of new business relationships in the coming months and years. As I've noted in previous quarters, we continue to generate non-interest income through sales of high-quality performing loans, though at a far lesser rate than in the previous quarters as we have elected to retain more of our loan originations in portfolio. Strong deposit growth during the first calendar quarter of 2020 coupled with significant loan prepayments, allowed us to again retain a greater portion of our new loan production on the Company's balance sheet.

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 \$1.00, or 6.0%, to \$17.53 per share at March 31, 2020 versus the comparable year ago date."

Balance Sheet Growth

Total assets for the quarter ended March 31, 2020 amounted to a record \$895.6 million, an increase of \$226.0 million or 33.7% from the comparable 2019 date. The year-over-year balance sheet growth was funded primarily by growth in total deposits of \$244.4 million.

Total deposits at March 31, 2020 increased by 51.7% to a record \$717.1 million when compared to March 31, 2019, the result of significant growth in both core (Demand, N.O.W., Savings and Money Market) deposits (up \$41.0 million) and time deposits (up \$203.5 million). Management also continues to utilize its Federal Home Loan Bank ("FHLB") borrowing capacity to enhance both the Bank's liquidity position and its interest rate risk profile. Total borrowings at March 31, 2020 were \$81.4 million with a weighted average rate and term of 1.86% and 11 months, respectively. At March 31, 2020, the Bank had \$72 million of additional borrowing capacity from the FHLB.

Stockholders' equity increased by \$11.1 million to \$74.5 million at March 31, 2020 from the comparable 2019 date resulting in a 6.0% increase in tangible book value per share over the past twelve months to \$17.53 at the end of the calendar quarter. Insiders have made significant investments of their own capital into Hanover Bancorp, Inc. Insider ownership represented approximately 24% of total shares outstanding at March 31, 2020.

Loan Portfolio and Asset Quality

For the twelve months ended March 31, 2020, the Bank's loan portfolio, net of sales, grew by \$108.2 million, or 18.5%, with the growth due to a combination of new loan originations and loans acquired in the CFSB transaction. During the quarter ended March 31, 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. Combined with the sale of \$9.9 million of performing loans during the first quarter of 2020 and significant loan pre-payments, this resulted in a sequential quarterly decline in the loan portfolio of \$31.1 million. At the date of this release, although our combined commercial and residential loan pipeline is approximately \$90 million, management will continue to maintain a conservative outlook on loan originations during the current economic uncertainty resulting from the impact of COVID-19.

First quarter 2020 organic loan growth was concentrated primarily in adjustable-rate two-to-four family residential loans. Management employs a strategy of concentrating its loan growth in these products with shorter average durations, which provides the Bank with traditionally safe credit quality at acceptable credit spreads, greater liquidity and an enhanced interest-rate-risk profile. Over the past year, originations of our niche adjustable-rate residential product amounted to \$164 million with an average loan balance of approximately \$549 thousand and a weighted average loan-to-value ratio of 58%. At March 31, 2020, the Company's residential loan portfolio amounted to \$460.5 million, with an average loan balance of \$428 thousand and a weighted average loan-to-value ratio of 53%. Commercial real estate loans totaled \$224.8 million at March 31, 2020, with an average loan balance of \$632 thousand and a weighted average loan-to-value ratio of 51%. The Company's commercial real estate concentration ratio was 234% of capital at March 31, 2020 versus 206% of capital at the comparable 2019 date.

The Bank has also 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. During the quarter ended March 31, 2020, the Company sold \$9.9 million in performing loans and recorded gains on the sale of loans held-for-sale of \$332 thousand versus sales of \$20.2 million in performing loans and gains of \$561 thousand in the quarter ended December 31, 2019 and sales of \$68.6 million in performing loans and gains of \$1.4 million in the quarter ended March 31, 2019. During the twelve months ended March 31, 2020, the Company sold \$96.0 million in performing loans held-for-sale and recorded cumulative gains of \$2.6 million.

The Bank's asset quality ratios continue to remain strong and among the best in its peer group of community banks. At March 31, 2020, the Company reported \$1.7 million in non-performing loans which represented 0.25% of total loans outstanding. During the first week of April 2020, the Company sold a \$740 thousand non-accrual loan included in the foregoing quarter-end total at its carrying value. The March 31, 2020 allowance for loan losses balance was \$7.8 million versus \$6.9 million a year ago. The allowance for loan losses as a percent of total loans was 1.13% at March 31, 2020, 0.99% at December 31, 2019 and 1.18% at March 31, 2019. The allowance for loan losses as a percent of total originated loans was 1.29% at March 31, 2020. During the first calendar quarter of 2020, the Bank recorded a \$1.0 million provision for loan losses expense due to the economic uncertainties caused by the COVID-19 pandemic and made a determination to incur a \$300 thousand charge-off on a legacy commercial loan.

Net Interest Margin and Liquidity

The Bank's net interest margin declined to 3.05% during the first calendar quarter of 2020, versus 3.36% in the comparable 2019 quarter and 3.26% in the quarter ended December 31, 2019 as the Company increased its cash position in response to the uncertainties caused by the COVID-19 pandemic. The net interest margin was also impacted by management's decision to temporarily reduce loan originations during the current economic uncertainty. These factors, coupled with improved organic deposit generation across the Hanover branch network, resulted in a significant increase in the percentage of low yielding average interest-earning cash on the balance sheet in the first calendar quarter of 2020 versus the year ago period. Interest-earning cash represented 14.7% of average interest-earning assets in 2020 at an average rate of 1.16% versus 4.9% and 2.46%, respectively, in the first calendar quarter of 2019. The Bank's cost of interest-bearing liabilities was unchanged at 2.06% in the first calendar quarter of 2020 versus the comparable 2019 period. Management expects the average cost of interest-bearing liabilities to decline in the coming quarters as significant volumes of high-rate certificates of deposits are maturing in a lower rate environment in 2020. Partially offsetting the impact of the foregoing factors, the average rate on the Company's loan portfolio improved by 18 basis points to 5.47% in the first calendar quarter of 2020 versus the comparable 2019 period. Year-over-year growth in average core deposits, including average demand deposit growth of 76.7%, partially mitigated the higher cost of time deposits in the 2020 calendar first quarter.

Operating Efficiency Ratio

The Bank's GAAP operating efficiency ratio was 80.9% in the first calendar quarter of 2020 versus 50.6% a year ago. The first quarter 2020 core operating efficiency ratio, which excludes merger-related and other non-recurring charges, was 73.2%.

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.

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)

	March 31, 2020	December 31, 2019	March 31, 2019
Assets			
Cash and cash equivalents	\$ 162,223	\$ 98,415	\$ 54,856
Securities-available for sale, at fair value	966	914	159
Investments-held to maturity	11,535	11,768	12,508
Loans held for sale	2,433	-	-
Loans, net of deferred loan fees and costs	692,114	723,241	583,963
Less: allowance for loan losses	(7,843)	(7,143)	(6,917)
Loans, net	684,271	716,098	577,046
Goodwill	1,542	1,482	-
Premises & fixed assets	14,359	14,396	14,429
Other assets	18,277	18,502	10,634
Assets	\$ 895,606	\$ 861,575	\$ 669,632
Liabilities and stockholders' equity			
Core deposits	\$ 241,820	\$ 258,379	\$ 200,859
Time deposits	475,276	411,144	271,823
Total deposits	717,096	669,523	472,682
Borrowings	81,446	95,086	115,745
Note payable	14,982	14,982	14,980
Other liabilities	7,569	8,088	2,783
Liabilities	821,093	787,679	606,190

Stockholders' equity	74,513	73,896	63,442
Liabilities and stockholders' equity	<u>\$ 895,606</u>	<u>\$ 861,575</u>	<u>\$ 669,632</u>

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

	Three Months Ended		Six Months Ended	
	3/31/2020	3/31/2019	3/31/2020	3/31/2019
Interest income	\$ 10,281	\$ 7,983	\$ 20,717	\$ 16,165
Interest expense	3,764	2,758	7,463	5,412
Net interest income	<u>6,517</u>	<u>5,225</u>	<u>13,254</u>	<u>10,753</u>
Provision for loan losses	1,000	200	1,000	425
Net interest income after provision for loan losses	<u>5,517</u>	<u>5,025</u>	<u>12,254</u>	<u>10,328</u>
Loan fees and service charges	57	37	137	90
Service charges on deposit accounts	17	5	37	12
Gain on sale of loans held-for-sale	332	1,367	893	2,625
Other operating income	32	48	63	89
Non-interest income	<u>438</u>	<u>1,457</u>	<u>1,130</u>	<u>2,816</u>
Compensation and benefits	2,886	2,119	5,474	4,094
Occupancy and equipment	1,083	613	2,215	1,213
Data processing	250	133	466	251
Marketing and advertising	111	109	217	267
Professional fees	327	151	634	360
Other operating expenses	437	265	797	559
Non-interest expense	<u>5,094</u>	<u>3,390</u>	<u>9,803</u>	<u>6,744</u>
Income before income taxes	861	3,092	3,581	6,400
Income tax expense	198	754	805	1,548
Core operating net income (1)	<u>663</u>	<u>2,338</u>	<u>2,776</u>	<u>4,852</u>
Litigation, proxy contest-related expenses and other non-recurring charges, net of tax	413	-	756	189
Net income	<u>\$ 250</u>	<u>\$ 2,338</u>	<u>\$ 2,020</u>	<u>\$ 4,663</u>
Basic earnings per share - GAAP	\$ 0.06	\$ 0.62	\$ 0.49	\$ 1.25
Diluted earnings per share - GAAP	\$ 0.06	\$ 0.61	\$ 0.48	\$ 1.22
Basic earnings per share - Core	\$ 0.16	\$ 0.62	\$ 0.67	\$ 1.30
Diluted earnings per share - Core	\$ 0.16	\$ 0.61	\$ 0.66	\$ 1.27

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				
	3/31/2020	12/31/2019	9/30/2019	6/30/2019	3/31/2019
Interest income	\$ 10,281	\$ 10,436	\$ 9,888	\$ 8,444	\$ 7,983
Interest expense	3,764	3,699	3,558	3,089	2,758
Net interest income	6,517	6,737	6,330	5,355	5,225
Provision for loan losses	1,000	-	-	225	200
Net interest income after provision for loan losses	5,517	6,737	6,330	5,130	5,025
Loan fees and service charges	57	80	39	57	37
Service charges on deposit accounts	17	20	30	5	5
Gain on sale of loans held-for-sale	332	561	818	918	1,367
Other operating income	32	31	33	37	48
Non-interest income	438	692	920	1,017	1,457
Compensation and benefits	2,886	2,588	2,813	2,134	2,119
Occupancy and equipment	1,083	1,132	940	682	613
Data processing	250	216	235	176	133
Marketing and advertising	111	106	112	108	109
Professional fees	327	307	210	205	151
Other operating expenses	437	360	288	385	265
Non-interest expense	5,094	4,709	4,598	3,690	3,390
Income before income taxes	861	2,720	2,652	2,457	3,092
Income tax expense	198	607	858	413	754
Core operating net income (1)	663	2,113	1,794	2,044	2,338
Litigation, proxy-related expenses and other non-recurring charges, net of tax	413	343	384	33	-
Net income	\$ 250	\$ 1,770	\$ 1,410	\$ 2,011	\$ 2,338
Basic earnings per share - GAAP	\$ 0.06	\$ 0.43	\$ 0.33	\$ 0.51	\$ 0.62
Diluted earnings per share - GAAP	\$ 0.06	\$ 0.42	\$ 0.32	\$ 0.51	\$ 0.61

Basic earnings per share - Core	\$	0.16	\$	0.51	\$	0.44	\$	0.52	\$	0.62
Diluted earnings per share - Core	\$	0.16	\$	0.50	\$	0.43	\$	0.52	\$	0.61

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 accounting principles generally accepted 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)

	3/31/2020	12/31/2019	9/30/2019	6/30/2019
Asset quality:				
Allowance for loan losses	\$ 7,843	\$ 7,143	\$ 7,143	\$ 7,143
Allowance for loan losses to total loans (1)	1.13%	0.99%	0.99%	1.16%
Allowance for loan losses to originated loans (1)	1.29%	1.12%	1.13%	1.16%
Non-performing loans	\$ 1,730	\$ 1,062	\$ 2,242	\$ 634
Non-performing loans/total loans	0.25%	0.15%	0.31%	0.10%
Non-performing loans/total assets	0.19%	0.12%	0.26%	0.09%
Allowance for loan losses/non-performing loans	453.35%	672.60%	318.60%	1126.66%
Capital (Bank only):				
Tier 1 Capital	\$ 86,191	\$ 85,514	\$ 83,423	\$ 79,100
Tier 1 leverage ratio	9.76%	10.11%	10.47%	11.50%
Common equity tier 1 capital ratio	19.26%	18.43%	17.81%	21.35%
Tier 1 risk based capital ratio	19.26%	18.43%	17.81%	21.35%
Total risk based capital ratio	20.51%	19.68%	19.07%	22.61%
Equity data:				
Common shares outstanding	4,162,269	4,141,902	4,162,904	3,968,248
Stockholders' equity	\$ 74,513	\$ 73,896	\$ 71,950	\$ 66,123
Book value per common share	17.90	17.84	17.28	16.66
Tangible common equity	72,947	72,389	70,442	66,123
Tangible book value per common share	17.53	17.48	16.92	16.66

(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		Six Months Ended	
	3/31/2020	3/31/2019	3/31/2020	3/31/2019
Profitability:				
Return on average assets	0.30% ⁽¹⁾	1.47%	0.64% ⁽³⁾	1.49% ⁽⁵⁾
Return on average equity	3.57% ⁽¹⁾	15.44%	7.52% ⁽³⁾	16.37% ⁽⁵⁾
Yield on average interest-earning assets	4.81%	5.13%	4.94%	5.09%
Cost of average interest-bearing liabilities	2.06%	2.06%	2.09%	1.99%
Net interest rate spread (7)	2.75%	3.07%	2.85%	3.10%
Net interest margin (8)	3.05%	3.36%	3.16%	3.39%
Non-interest expense to average assets	2.32% ⁽²⁾	2.13%	2.26% ⁽⁴⁾	2.07% ⁽⁶⁾
Operating efficiency ratio	73.24% ⁽²⁾	50.72%	68.15% ⁽⁴⁾	49.70% ⁽⁶⁾
Average balances:				
Interest-earning assets	\$ 856,961	\$ 630,737	\$ 838,321	\$ 636,342
Interest-bearing liabilities	734,129	542,831	713,770	546,157
Loans	713,712	581,804	723,191	585,795
Deposits	697,837	461,441	675,221	466,687
Borrowings	104,706	120,103	109,019	121,965

(1) Calculation excludes the non-recurring after tax litigation and proxy contest expense of \$413,000.

(2) Calculation excludes the non-recurring pre-tax merger-related, litigation and proxy contest expense of \$536,000.

(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 \$99,000.

(6) Calculation excludes the non-recurring pre-tax asset write down of \$119,000 and merger-related expense of \$131,000.

(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)

	3/31/2020	12/31/2019	9/30/2019	6/30/2019
<u>Loan distribution (1):</u>				
Residential mortgages	\$ 441,173	\$ 461,034	\$ 448,834	\$ 418,646
Multifamily	121,307	131,474	139,685	127,558
Commercial real estate	103,461	104,951	108,302	50,757
Commercial & industrial	6,842	7,472	7,377	7,614
Home equity	19,287	17,809	15,739	12,404

Consumer	44	500	505	498
Total loans	\$ 692,114	\$ 723,240	\$ 720,442	\$ 617,477
Sequential quarter growth rate	-4.30%	0.39%	16.68%	5.74%
Loans sold during the quarter	\$ 9,898	\$ 20,198	\$ 25,806	\$ 40,135
Funding distribution :				
Demand	\$ 65,841	\$ 73,018	\$ 69,606	\$ 41,174
N.O.W	32,943	42,432	53,564	42,237
Savings	40,208	41,249	39,548	18,336
Money market	102,828	101,680	102,054	108,432
Total core deposits	241,820	258,379	264,772	210,179
Time	475,276	411,144	385,514	306,159
Total deposits	717,096	669,523	650,286	516,338
Borrowings	81,446	95,086	100,745	104,245
Note payable	14,982	14,982	14,981	14,980
Total funding sources	\$ 813,524	\$ 779,591	\$ 766,012	\$ 635,563
Sequential quarter growth rate - total deposits	7.11%	2.96%	25.94%	9.24%
Period-end core deposits/total deposits ratio	33.72%	38.59%	40.72%	40.71%
Period-end demand deposits/total deposits ratio	9.18%	10.91%	10.70%	7.97%

(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			
	3/31/2020	12/31/2019	9/30/2019	6/30/2019
Net income, GAAP	\$ 250	\$ 1,770	\$ 1,410	\$ 2,011
Adjustments, net of tax:				
Merger-related expense	-	183	384	33
Litigation and proxy contest expenses	413	160	-	-
Core operating net income	\$ 663	\$ 2,113	\$ 1,794	\$ 2,044

Three Months Ended

	<u>3/31/2020</u>	<u>12/31/2019</u>	<u>9/30/2019</u>	<u>6/30/2019</u>
Net-interest income, GAAP	\$ 6,517	\$ 6,737	\$ 6,330	\$ 5,355
Adjustments:	-	-	-	-
Core net interest income	<u>6,517</u>	<u>6,737</u>	<u>6,330</u>	<u>5,355</u>
Non-interest income, GAAP	438	692	920	1,017
Adjustments:	-	-	-	-
Core non-interest income	<u>438</u>	<u>692</u>	<u>920</u>	<u>1,017</u>
Core total revenue	<u>\$ 6,955</u>	<u>\$ 7,429</u>	<u>\$ 7,250</u>	<u>\$ 6,372</u>
Operating expenses, GAAP	\$ 5,630	\$ 5,151	\$ 5,166	\$ 3,728
Adjustments:				
Litigation and proxy contest expenses	536	206	-	-
Merger-related expenses	-	236	568	38
Core operating expenses	<u>\$ 5,094</u>	<u>\$ 4,709</u>	<u>\$ 4,598</u>	<u>\$ 3,690</u>
GAAP operating efficiency ratio	<u>80.95%</u>	<u>69.34%</u>	<u>71.26%</u>	<u>58.51%</u>
Core operating efficiency ratio	<u>73.24%</u>	<u>63.39%</u>	<u>63.42%</u>	<u>57.91%</u>

	Three Months Ended							
	<u>3/31/2020</u>		<u>12/31/2019</u>		<u>9/30/2019</u>		<u>6/30/2019</u>	
Net interest income / margin	\$ 6,517	3.05%	\$ 6,737	3.26%	\$ 6,330	3.24%	\$ 5,355	3.20%
Adjustments:	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Core net interest income / margin	<u>\$ 6,517</u>	<u>3.05%</u>	<u>\$ 6,737</u>	<u>3.26%</u>	<u>\$ 6,330</u>	<u>3.24%</u>	<u>\$ 5,355</u>	<u>3.20%</u>

HANOVER BANCORP, INC.

NON-GAAP DISCLOSURE (unaudited)

(dollars in thousands)

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

	<u>Six Months Ended 3/31/2020</u>	<u>Six Months Ended 3/31/2019</u>
Net income, GAAP	\$ 2,020	\$ 4,663
Adjustments:		
Merger-related expenses	236	131
Litigation and proxy contest expenses	742	-
Non-recurring asset writedown	-	119
Total adjustments, before income taxes	<u>978</u>	<u>250</u>
Adjustment for reported effective tax rate	222	61
Total adjustments, after income taxes	<u>\$ 756</u>	<u>\$ 189</u>
Core operating net income	<u>\$ 2,776</u>	<u>\$ 4,852</u>

	Six Months Ended 3/31/2020	Six Months Ended 3/31/2019
Net-interest income, GAAP	\$ 13,254	\$ 10,753
Non-interest income, GAAP	1,130	2,816
Core total revenue	<u>\$ 14,384</u>	<u>\$ 13,569</u>
Operating expenses, GAAP	\$ 10,781	\$ 6,994
Adjustments:		
Merger-related expenses	236	131
Litigation and proxy contest expenses	742	-
Non-recurring asset writedown	-	119
Core Operating expenses	<u>\$ 9,803</u>	<u>\$ 6,744</u>
GAAP operating efficiency ratio	<u>74.95%</u>	<u>51.54%</u>
Core operating efficiency ratio	<u>68.15%</u>	<u>49.70%</u>

	Six Months Ended 3/31/2020		Six Months Ended 3/31/2019	
Net interest income / margin	\$ 13,254	3.16%	\$ 10,753	3.39%
Non-recurring debt restructuring charge	-	0.00%	-	0.00%
Core net interest income / margin	<u>\$ 13,254</u>	<u>3.16%</u>	<u>\$ 10,753</u>	<u>3.39%</u>

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

**Net Interest Income Analysis
For the Three Months Ended March 31, 2020 and 2019**

	2020			2019		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets:						
Interest-earning assets:						
Loans	\$ 713,712	\$ 9,728	5.47%	\$ 581,804	\$ 7,591	5.29%
Investment securities	12,532	111	3.55%	12,740	107	3.41%
Interest-earning cash	125,657	364	1.16%	30,666	186	2.46%
FHLB stock and other investments	5,060	78	6.18%	5,527	99	7.26%
Total interest-earning assets	<u>856,961</u>	<u>10,281</u>	<u>4.81%</u>	<u>630,737</u>	<u>7,983</u>	<u>5.13%</u>
Non interest-earning assets:						
Cash and due from banks	6,417			4,521		

Other assets	21,268			11,503		
Total assets	<u>\$ 884,646</u>			<u>\$ 646,761</u>		
<u>Liabilities and stockholders' equity:</u>						
Interest-bearing liabilities:						
Savings, N.O.W and money market deposits	\$ 180,846	\$ 517	1.15%	\$ 147,690	\$ 610	1.68%
Time deposits	448,577	2,607	2.33%	275,038	1,454	2.14%
Total savings and time deposits	629,423	3,124	1.99%	422,728	2,064	1.98%
Fed funds purchased & FHLB advances	89,724	418	1.87%	105,124	474	1.83%
Note payable	14,982	222	5.94%	14,979	220	5.96%
Total interest-bearing liabilities	734,129	3,764	2.06%	542,831	2,758	2.06%
Demand deposits	68,414			38,713		
Other liabilities	7,356			3,799		
Total liabilities	809,899			585,343		
Stockholders' equity	74,747			61,418		
Total liabilities & stockholders' equity	<u>\$ 884,646</u>			<u>\$ 646,761</u>		
Net interest rate spread			2.75%			3.07%
Net interest income/margin		\$ 6,517	3.05%		\$ 5,225	3.36%

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

Net Interest Income Analysis
For the Six Months Ended March 31, 2020 and 2019

	2020			2019		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<u>Assets:</u>						
Interest-earning assets:						
Loans	\$ 723,191	\$ 19,674	5.44%	\$ 585,795	\$ 15,369	5.26%
Investment securities	12,647	221	3.49%	12,858	216	3.37%
Interest-earning cash	97,228	655	1.35%	32,079	384	2.40%
FHLB stock and other investments	5,255	167	6.36%	5,610	196	7.01%
Total interest-earning assets	838,321	20,717	4.94%	636,342	16,165	5.09%
Non interest-earning assets:						
Cash and due from banks	6,398			4,100		
Other assets	21,297			11,446		
Total assets	<u>\$ 866,016</u>			<u>\$ 651,888</u>		
<u>Liabilities and stockholders' equity:</u>						
Interest-bearing liabilities:						
Savings, N.O.W and money market deposits	\$ 183,701	\$ 1,152	1.25%	\$ 143,065	\$ 1,141	1.60%
Time deposits	421,050	4,977	2.36%	281,127	2,854	2.04%
Total savings and time deposits	604,751	6,129	2.03%	424,192	3,995	1.89%
Fed funds purchased & FHLB advances	94,038	887	1.89%	106,986	972	1.82%

Note payable	14,981	447	5.97%	14,979	445	5.96%
Total interest-bearing liabilities	<u>713,770</u>	<u>7,463</u>	<u>2.09%</u>	<u>546,157</u>	<u>5,412</u>	<u>1.99%</u>
Demand deposits	70,470			42,495		
Other liabilities	<u>7,943</u>			<u>3,779</u>		
Total liabilities	792,183			592,431		
Stockholders' equity	<u>73,833</u>			<u>59,457</u>		
Total liabilities & stockholders' equity	<u>\$ 866,016</u>			<u>\$ 651,888</u>		
Net interest rate spread			<u>2.85%</u>			<u>3.10%</u>
Net interest income/margin		<u>\$ 13,254</u>	<u>3.16%</u>		<u>\$ 10,753</u>	<u>3.39%</u>

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