UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2022

OR

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

For the transition period from ______ to ______

Commission File No. 001-41384

HANOVER BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

New York	81-3324480
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

80 East Jericho Turnpike, Mineola, NY 11501
(Address of Principal Executive Offices) (Zip Code)

(516) 548-8500
(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common stock	HNVR	NASDAQ

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
	Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $0.01 par value	5,829,569 Shares
(Title of Class)	(Outstanding as of May 9, 2022)

HANOVER BANCORP, INC.
Form 10-Q
For the Quarterly Period Ended March 31, 2022

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PART I
ITEM 1. – FINANCIAL STATEMENTS

HANOVER BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands, except share and per share amounts)

	March 31, 2022 (unaudited)	September 30, 2021
ASSETS		
Cash and non-interest-bearing deposits due from banks	$ 6,956	$ 8,302
Interest-bearing deposits due from banks	119,826	142,950
Federal funds sold	358	15,292
Total cash and cash equivalents	127,140	166,544
Securities:		
Held to maturity (fair value of $4,581 and $8,865, respectively)	4,629	8,611
Available for sale, at fair value	5,070	7,747
Total securities	9,699	16,358
Loans held for investment	1,289,041	1,247,125
Allowance for loan losses	(9,886)	(8,552)
Loans held for investment, net	1,279,155	1,238,573
Premises and equipment, net	14,833	15,003
Accrued interest receivable	7,894	9,363
Prepaid pension	4,178	4,233
Stock in Federal Home Loan Bank ("FHLB"), at cost	3,612	3,714
Goodwill	19,168	19,168
Other intangible assets	438	480
Loan servicing rights	4,028	3,690
Deferred income taxes	2,676	3,558
Other assets	3,860	3,957
TOTAL ASSETS	$ 1,476,681	$ 1,484,641
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	$ 197,118	$ 191,537
Savings, NOW and money market	746,877	595,289
Time	286,247	377,836
Total deposits	1,230,242	1,164,662
Borrowings	75,823	159,642
Subordinated debentures	24,541	24,513
Accrued interest payable	980	1,290
Other liabilities	10,327	12,005
TOTAL LIABILITIES	1,341,913	1,362,112
COMMITMENTS AND CONTINGENT LIABILITIES	—	—
STOCKHOLDERS' EQUITY		
Preferred stock (par value $0.01; 15,000,000 shares authorized; none issued)	—	—
Common stock (par value $0.01; 17,000,000 shares authorized; issued and outstanding 5,829,569 and 5,563,426, respectively)	58	56
Surplus	97,965	97,246
Retained earnings	36,780	24,971
Accumulated other comprehensive (loss) income, net of tax	(35)	256
TOTAL STOCKHOLDERS' EQUITY	134,768	122,529
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,476,681	$ 1,484,641

See accompanying notes to unaudited consolidated financial statements.

HANOVER BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Dollars in thousands, except per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
INTEREST INCOME				
Loans	$ 15,749	$ 9,133	$ 32,130	$ 18,391
Taxable securities	106	182	260	355
Other interest income	86	65	167	131
Total interest income	15,941	9,380	32,557	18,877
INTEREST EXPENSE				
Savings, NOW and money market deposits	345	157	711	274
Time deposits	401	915	892	2,369
Borrowings	451	506	941	1,105
Total interest expense	1,197	1,578	2,544	3,748
Net interest income	14,744	7,802	30,013	15,129
Provision for loan losses	500	200	1,400	300
Net interest income after provision for loan losses	14,244	7,602	28,613	14,829
NON-INTEREST INCOME				
Loan servicing and fee income	734	139	1,424	222
Service charges on deposit accounts	46	17	109	32
Gain on sale of loans held-for-sale	1,575	295	3,067	476
Gain on sale of securities available for sale	105	240	105	240
Other income	212	1	343	8
Total non-interest income	2,672	692	5,048	978
NON-INTEREST EXPENSE				
Salaries and employee benefits	5,618	3,268	10,557	6,376
Occupancy and equipment	1,370	1,209	2,783	2,380
Data processing	392	270	759	515
Advertising and promotion	153	19	186	67
Acquisition costs	—	151	—	296
Professional fees	640	308	1,139	720
Other expenses	1,184	500	2,198	961
Total non-interest expense	9,357	5,725	17,622	11,315
Income before income tax expense	7,559	2,569	16,039	4,492
Income tax expense	1,699	514	3,642	918
NET INCOME	$ 5,860	$ 2,055	$ 12,397	$ 3,574
EARNINGS PER COMMON SHARE - BASIC	$ 1.02	$ 0.49	$ 2.19	$ 0.85
EARNINGS PER COMMON SHARE - DILUTED	$ 1.00	$ 0.48	$ 2.15	$ 0.84

See accompanying notes to unaudited consolidated financial statements.

HANOVER BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(Dollars in thousands)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
Net income	$ 5,860	$ 2,055	$ 12,397	$ 3,574
Other comprehensive (loss) income, net of tax:				
Change in unrealized (loss) gain on securities available for sale arising during the period, net of tax of ($177), $23, ($159) and $68, respectively	(264)	94	(210)	261
Reclassification adjustment for gains realized in net income, net of tax of ($24), ($49), ($24) and ($49) respectively	(81)	(191)	(81)	(191)
Total other comprehensive (loss) income, net of tax	(345)	(97)	(291)	70
Total comprehensive income, net of tax	$ 5,515	$ 1,958	$ 12,106	$ 3,644

See accompanying notes to unaudited consolidated financial statements.

HANOVER BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
(Dollars in thousands, except share and per share data)

	Three Months Ended March 31, 2022					
	Common Stock (Shares)	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income, Net	Total Stockholders' Equity
Beginning balance as of January 1, 2022	5,562,799	$ 56	$ 97,505	$ 31,508	$ 310	$ 129,379
Net income	—	—	—	5,860	—	5,860
Other comprehensive loss, net of tax	—	—	—	—	(345)	(345)
Cash dividends declared ($0.10 per share)	—	—	—	(588)	—	(588)
Stock-based compensation expense	—	—	462	—	—	462
Stock awards granted, net of forfeitures	266,770	2	(2)	—	—	—
Ending balance as of March 31, 2022	5,829,569	$ 58	$ 97,965	$ 36,780	$ (35)	$ 134,768

	Three Months Ended March 31, 2021					
	Common Stock (Shares)	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income, Net	Total Stockholders' Equity
Beginning balance as of January 1, 2021	4,185,534	$ 42	$ 64,020	$ 15,639	$ 323	$ 80,024
Net income	—	—	—	2,055	—	2,055
Other comprehensive income, net of tax	—	—	—	—	(97)	(97)
Stock-based compensation	7,229	—	216	—	—	216
Issuance of common stock	2,127	—	47	—	—	47
Ending balance as of March 31, 2021	4,194,890	$ 42	$ 64,283	$ 17,694	$ 226	$ 82,245

	Six Months Ended March 31, 2022					
	Common stock (Shares)	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income, Net	Total Stockholders' Equity
Beginning balance as of October 1, 2021	5,563,426	$ 56	$ 97,246	$ 24,971	$ 256	$ 122,529
Net income	—	—	—	12,397	—	12,397
Other comprehensive loss, net of tax	—	—	—	—	(291)	(291)
Cash dividends declared ($0.10 per share)	—	—	—	(588)	—	(588)
Stock-based compensation expense	—	—	679	—	—	679
Stock awards granted, net of forfeitures	263,759	2	(2)	—	—	—
Issuance of common stock in lieu of directors' fees	2,384	—	42	—	—	42

Ending balance as of March 31, 2022	5,829,569	$ 58	$ 97,965	$ 36,780	$ (35)	$ 134,768

	Six Months Ended March 31, 2021					
	Common stock (Shares)	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income, Net	Total Stockholders' Equity
Beginning balance as of October 1, 2020	4,175,144	$ 42	$ 63,725	$ 14,120	$ 156	$ 78,043
Net income	—	—	—	3,574	—	3,574
Other comprehensive income, net of tax	—	—	—	—	70	70
Stock-based compensation	17,619	—	445	—	—	445
Issuance of common stock	2,127	—	113	—	—	113
Ending balance as of March 31, 2021	4,194,890	$ 42	$ 64,283	$ 17,694	$ 226	$ 82,245

See accompanying notes to unaudited consolidated financial statements.

HANOVER BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Dollars in thousands)

	Six Months Ended March 31, 2022	Six Months Ended March 31, 2021
Cash flows from operating activities:		
Net income	$ 12,397	$ 3,574
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,400	300
Depreciation and amortization	819	698
Net gain on sale of securities available for sale	(105)	(240)
Stock-based compensation	679	445
Net gain on sale of loans held-for-sale	(3,067)	(476)
Net accretion of premiums, discounts and loan fees and costs	(2,743)	(229)
Amortization of intangible assets	42	2
Amortization of debt issuance costs	28	43
Loan servicing rights valuation adjustments	235	25
Deferred tax expense (benefit)	978	(170)
Decrease in accrued interest receivable	1,469	276
Increase in other assets	(438)	(2,196)
(Decrease) increase in accrued interest payable	(310)	414
(Decrease) increase in other liabilities	(1,678)	25
Net cash provided by operating activities	9,706	2,491
Cash flows from investing activities:		
Purchases of securities available for sale	—	(4,700)
Purchases of restricted securities	(1,157)	(223)
Proceeds from sales of securities available for sale	2,105	3,240
Principal repayments of securities held to maturity	3,978	1,247
Principal repayments of securities available for sale	298	18
Redemptions of restricted securities	1,259	601
Proceeds from sales of loans	54,512	18,287
Net increase in loans	(91,406)	(57,026)
Purchases of premises and equipment	(649)	(870)
Net cash used in investing activities	(31,060)	(39,426)
Cash flows from financing activities:		
Net increase in deposits	66,225	53,424
Advances of term FHLB borrowings	20,000	—
Repayments of FHLB advances	(24,000)	(12,580)
Repayments of Federal Reserve Bank borrowings	(79,729)	(16,157)
Proceeds from issuance of subordinated debentures, net of issuance costs	—	24,455
Repayment of note payable	—	(15,000)
Cash dividends paid	(588)	—
Net proceeds from issuance of common stock	42	113
Net cash (used in) provided by financing activities	(18,050)	34,255
Net decrease in cash and cash equivalents	(39,404)	(2,680)
Cash and cash equivalents, beginning of period	166,544	80,209
Cash and cash equivalents, end of period	$ 127,140	$ 77,529
Supplemental cash flow information:		
Interest paid	$ 2,854	$ 3,334
Income taxes paid	4,071	514
Supplemental non-cash disclosure:		
Transfers from portfolio loans to loans held-for-sale	$ 51,445	$ 18,704

See accompanying notes to unaudited consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION, RISKS AND UNCERTAINTIES, ACCOUNTING POLICIES AND RECENT ACCOUNTING DEVELOPMENTS

Hanover Bancorp, Inc. (the "Company"), is a New York corporation which became the holding company for Hanover Community Bank (the "Bank") in 2016. The Bank, headquartered in Mineola, New York, is a New York State chartered bank. The Bank commenced operations on November 4, 2008 and is a full-service bank providing personal and business lending and deposit services. As a New York State chartered, non- Federal Reserve member bank, the Bank is subject to regulation by the New York State Department of Financial Services ("DFS") and the Federal Deposit Insurance Corporation. The Company is subject to regulation and examination by the Board of Governors of the Federal Reserve System (the "FRB").

Basis of Presentation

In the opinion of the Company's management, the preceding unaudited interim consolidated financial statements contain all adjustments, consisting of normal accruals, necessary for a fair presentation of the Company's consolidated statement of financial condition as of March 31, 2022, its consolidated statements of income for the three and six months ended March 31, 2022 and 2021, its consolidated statements of comprehensive income for the three and six months ended March 31, 2022 and 2021, its consolidated statements of changes in stockholders' equity for the three and six months ended March 31, 2022 and 2021 and its consolidated statements of cash flows for the six months ended March 31, 2022 and 2021. Certain prior period amounts have been reclassified to conform to the current period presentation.

In addition, the preceding unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, as well as in accordance with predominant practices within the banking industry. They do not include all the information and footnotes required by U.S. GAAP for complete financial statements. The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates. The results of operations for the three and six months ended March 31, 2022 are not necessarily indicative of the results of operations to be expected for the remainder of the year. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2021.

All material intercompany accounts and transactions have been eliminated in consolidation. Unless the context otherwise requires, references herein to the Company include the Company and the Bank on a consolidated basis.

Risks and Uncertainties

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. The COVID-19 pandemic has adversely affected local, national and global economic activity. Various actions taken to help mitigate the spread of COVID-19 included restrictions on travel, quarantines and government-mandated closures of various businesses. The outbreak caused significant disruptions to the economy and disrupted banking and other financial activity in the areas in which the Company operates.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted in March 2020 to, among other things, provide emergency assistance to individuals, families and businesses affected by the COVID-19 pandemic. The ongoing effects of the COVID-19 pandemic may materially and adversely affect the Company's financial condition and results of operations in future periods, and it is unknown what the complete financial impact will be to the Company. The extent of such impact will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the coronavirus, the new "waves" of COVID-19 infections, the spread of new variants of the virus, and the distribution of vaccines and vaccination rates, among others. It is possible that estimates made in the financial statements could be materially and adversely impacted due to these conditions.

Accounting Policies

Allowance for Loan Losses – The Company considers the determination of the allowance for loan losses its most critical accounting policy, practice, and use of estimates. The Company uses available information to recognize probable and reasonably estimable losses on loans. Future additions to the allowance may be necessary based upon changes in economic, market or other conditions. Changes in estimates could result in a material change in the allowance. The allowance for loan losses is increased by a provision for loan losses charged against income and is decreased by charge-offs, net of recoveries. Loan losses are recognized in the period the loans, or portion thereof, are deemed uncollectible. The adequacy of the allowance to cover any inherent loan losses in the portfolio is evaluated on a quarterly basis.

Loans and Loan Interest Income Recognition - Loans that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff, are reported at the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs and an allowance for loan losses. The loan portfolio is segmented into residential real estate, multi-family, commercial real estate, commercial and industrial, construction and land development, and consumer loans.

Interest income on loans is accrued and credited to income as earned. Net loan origination fees and costs are deferred and accreted/amortized to interest income over the loan’s contractual life using the level-yield method, adjusted for actual prepayments.

Loans that are acquired are initially recorded at fair value with no carryover of the related allowance for loan losses. After acquisition, losses are recognized through the allowance for loan losses. Determining the fair value of the loans involves estimating the amount and timing of expected principal and interest cash flows to be collected on the loans and discounting those cash flows at a market interest rate. At March 31, 2022 and September 30, 2021, the Company had loans totaling $1.5 million and $10.2 million, respectively, which at the time of acquisition, showed evidence of credit deterioration since origination.

Loans Held for Sale - Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value as determined by outstanding commitments from investors. Periodically, the Company originates various residential mortgage loans for sale to investors generally on a servicing released basis. The sale of such loans is generally arranged through a master commitment on a best-efforts basis. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Premiums, discounts, origination fees and costs on loans held for sale are deferred and recognized as a component of the gain or loss on sale. Gains and losses on sales of loans held for sale are included in other income, recognized on settlement date and are determined to be the difference between the sale proceeds and the carrying value of the loans. These transactions are accounted for as sales based on satisfaction of the criteria for such accounting which provides that, as transferor, the Company has surrendered control of the loans.

For liquidity purposes generally, there are instances when loans originated with the intent to hold in the portfolio are subsequently transferred to loans held for sale. At transfer, they are carried at the lower of cost or fair value.

Recent Accounting Developments

In June 2016, the FASB issued *ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments.* The amendments introduce an impairment model that is based on current expected credit losses (“CECL”), rather than incurred losses, to estimate credit losses on certain types of financial instruments (i.e. loans and held to maturity securities), including certain off-balance sheet financial instruments (i.e. commitments to extend credit and standby letters of credit that are not unconditionally cancellable). The CECL standard should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments, over the contractual term. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. Financial instruments with similar risk characteristics may be grouped together when estimating credit losses. The allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination that are measured at amortized cost basis is determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial estimate of expected credit loss would be recognized through an allowance for credit losses with an offset (i.e. increase) to the purchase price at acquisition. Only subsequent changes in the allowance for credit losses are recorded as provision for loan losses for these assets. The ASU also amends the current available for sale security impairment model for debt securities whereby credit losses relating to available for sale debt securities should be recorded through an allowance for credit losses. The amendments will be applied through a modified retrospective approach, resulting in a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. As the Company is a smaller-reporting company under SEC regulations, the Company will adopt CECL on October 1, 2023 and the future adoption of this ASU may have a material effect on the Company's consolidated financial statements.

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, Leases. The amendments in this update primarily replace the existing accounting requirements for operating leases for lessees. Lessee accounting requirements for finance leases and lessor accounting requirements for operating leases and sales type and direct financing leases (sales-type and direct financing leases were both previously referred to as capital leases) are largely unchanged. The amendments require the lessee of an operating lease to record a balance sheet gross-up upon lease commencement by recognizing a right-of-use asset and lease liability equal to the present value of the lease payments. The right-of-use asset and lease liability should be derecognized in a manner that effectively yields a straight-line lease expense over the lease term. In addition to the changes to the lessee operating lease accounting requirements, the amendments also change the types of costs that can be capitalized related to a lease agreement for both lessees and lessors. The amendments also require additional disclosures for all lease types for both lessees and lessors. The FASB has subsequently issued additional ASUs intended to clarify guidance, provide implementation support, and provide an additional transition election. The amendments are effective on October 1, 2022, with early adoption permitted. The amendments must be applied on a modified retrospective basis, and we anticipate selecting the transition option that will allow us to record a cumulative adjustment as of the adoption date. We are assessing our current population of lease contracts and upon adoption, our balance sheet will include a right-of-use asset and lease liability for our operating leases where we are the lessee, which primarily include our facilities leases. We do not anticipate the adoption of these amendments will have a material impact to our consolidated financial statements. We plan to adopt these amendments on October 1, 2022 and expect to use the modified retrospective approach as currently required.

2. BUSINESS COMBINATIONS

On May 26, 2021, the Company completed its previously announced acquisition of Savoy Bank ("Savoy") pursuant to an Agreement and Plan of Merger (the "Merger Agreement"), dated as of August 27, 2020, as amended, between the Company, the Bank and Savoy. Pursuant to the Merger Agreement, Savoy was merged with and into the Bank, with the Bank surviving, in a two-step transaction (collectively, the "Merger").

The purchase price in the transaction was based upon the tangible book values of each of the Company and Savoy as of April 30, 2021 and calculated in accordance with the terms of the Merger Agreement. At the effective time of the Merger, each share of Savoy common stock, $1.00 par value was converted into the right to receive (i) $3.246 in cash and (ii) 0.141 shares of the Company's common stock. The final aggregate purchase price was $65.5 million, or $6.49 per Savoy share.

A preliminary summary of the fair value of assets received and liabilities assumed are as follows:

(in thousands)	As Recorded by Savoy	Fair Value Adjustments		As Recorded by Hanover
Assets				
Cash and due from banks	$ 59,155	$ —		$ 59,155
Investment securities available-for-sale	239	—		239
Loans held for sale	3,883	—		3,883
Loans held for investment	569,251	8,612	(a)	577,863
Premises and equipment, net	234	(22)	(b)	212
Core deposit intangible	—	490	(c)	490
Accrued interest receivable	5,171	(650)	(d)	4,521
Other assets	10,432	(2,925)	(e)	7,507
Total assets acquired	$ 648,365	$ 5,505		653,870
Liabilities				
Deposits	$ 340,215	$ 2,527	(f)	342,742
Borrowings	258,247	301	(g)	258,548
Accrued interest payable	1,050	—		1,050
Other liabilities and accrued expenses	3,817	(342)	(h)	3,475
Total liabilities assumed	$ 603,329	$ 2,486		605,815
Net assets acquired				48,055
Total consideration				65,512
Goodwill				$ 17,457

(a) Represents the fair value adjustments on net book value of loans, which includes an interest rate mark and credit mark adjustment, the write-off of deferred fees/costs and premiums and the elimination of Savoy's allowance for loan losses.
(b) Represents the fair value adjustments to reflect the fair value of premises and equipment.
(c) Represents the fair value of core deposit intangible recorded, which will be amortized on an accelerated basis over the estimated average life of the deposit base.
(d) Represents an adjustment to accrued interest receivable acquired.
(e) Represents an adjustment to other assets acquired. The largest adjustment was the net deferred tax assets resulting from the fair value adjustment related to the acquired assets, liabilities assumed, and identifiable intangible assets recorded.
(f) Represents the fair value adjustments on time deposits, which will be treated as a reduction of interest expense over the remaining term of the time deposits.
(g) Represents the fair value adjustments on an FHLB borrowing, which will be treated as a reduction to interest expense over the life of the borrowing.
(h) Represents an adjustment to other liabilities assumed.

A summary of total consideration paid is as follows:

(in thousands, except share data)	
Common stock issued (1,357,567 shares issued)	$ 32,521
Cash payments to common shareholders	32,991
Total consideration paid	$ 65,512

With the Savoy acquisition, the Company significantly expanded its commercial banking and Small Business Administration ("SBA") lending capabilities. None of the goodwill associated with this acquisition is deductible for income tax purposes. All goodwill related to this acquisition was allocated to the Company's only reporting unit, which is the Company as a whole.

The estimated fair values are subject to refinement for up to one year after the closing date of the acquisition as additional information regarding closing date fair value becomes available. During this one-year period, the causes of any changes in cash flow estimates are considered to determine whether the change results from circumstances that existed at the acquisition date or if the change results from an event that occurred after the acquisition date.

The Company has determined the above noted acquisition constitutes a business combination as defined by ASC Topic 805, which establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired and the liabilities assumed. The Company has recorded the assets purchased and liabilities assumed at their estimated fair value in accordance with ASC Topic 805.

The following is a summary of the loans accounted for in accordance with ASC 310-30 that were acquired in the Savoy acquisition as of the merger date:

(in thousands)		
Contractually required principal and interest at acquisition	$	14,416
Contractual cash flows not expected to be collected (non-accretable discount)		(3,467)
Expected cash flows at acquisition		10,949
Interest component of expected cash flows (accretable discount)		(540)
Fair value of acquired purchased credit impaired loans	$	10,409

3. EARNINGS PER COMMON SHARE

Basic earnings per common share is computed based on the weighted-average number of shares outstanding. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. For periods in which a loss is reported, the impact of stock options is not considered as the result would be antidilutive.

The computation of earnings per common share for the three and six months ended March 31, 2022 and 2021 follows. There were no stock options that were antidilutive for the three and six months ended March 31, 2022 and 2021.

	Three Months Ended March 31,		Six Months Ended March 31,	
(in thousands, except share and per share data)	2022	2021	2022	2021
Basic earnings per common share				
Net income	$ 5,860	$ 2,055	$ 12,397	$ 3,574
Weighted average common shares outstanding	5,753,513	4,193,682	5,657,179	4,187,239
Basic earnings per common share	$ 1.02	$ 0.49	$ 2.19	$ 0.85
Diluted earnings per common share				
Net income	$ 5,860	$ 2,055	$ 12,397	$ 3,574
Weighted average common shares outstanding for basic earnings per common share	5,753,513	4,193,682	5,657,179	4,187,239
Add: dilutive effects of assumed exercises of stock options	96,329	65,339	96,108	65,039
Average shares and dilutive potential common shares	5,849,842	4,259,021	5,753,287	4,252,278
Diluted earnings per common share	$ 1.00	$ 0.48	$ 2.15	$ 0.84

4. SECURITIES

At the time of purchase of a security, the Company designates the security as either available for sale or held to maturity, depending upon investment objectives, liquidity needs and intent.

The following table summarizes the amortized cost and fair value of securities available for sale and securities held to maturity at March 31, 2022 and September 30, 2021 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

	March 31, 2022			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. GSE residential mortgage-backed securities	$ 414	$ —	$ (4)	$ 410
Corporate bonds	4,700	—	(40)	4,660
Total available for sale securities	$ 5,114	$ —	$ (44)	$ 5,070
Held to maturity:				
U.S. GSE residential mortgage-backed securities	$ 1,964	$ —	$ (49)	$ 1,915
U.S. GSE commercial mortgage-backed securities	2,665	1	—	2,666
Total held to maturity securities	4,629	1	(49)	4,581
Total investment securities	$ 9,743	$ 1	$ (93)	$ 9,651

	September 30, 2021			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. GSE residential mortgage-backed securities	$ 722	$ 112	$ (1)	$ 833
Corporate bonds	6,700	214	—	6,914
Total available for sale securities	$ 7,422	$ 326	$ (1)	$ 7,747
Held to maturity:				
U.S. GSE residential mortgage-backed securities	$ 2,417	$ 74	$ —	$ 2,491
U.S. GSE commercial mortgage-backed securities	2,694	175	—	2,869
Corporate bonds	3,500	9	(4)	3,505
Total held to maturity securities	8,611	258	(4)	8,865
Total investment securities	$ 16,033	$ 584	$ (5)	$ 16,612

All of the Company's securities with gross unrealized losses at March 31, 2022 and September 30, 2021 had been in a continuous loss position for less than twelve months and such unrealized losses totaling $93 thousand and $5 thousand, respectively are immaterial to the Company's consolidated financial statements. At March 31, 2022 and September 30, 2021, investment securities carried at $1.7 million and $5.1 million, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The amortized cost and fair value of the Company's securities portfolio at March 31, 2022 are presented by contractual maturity in the table below. The expected life of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay the underlying mortgage loans with or without call or prepayment penalties.

	March 31, 2022	
(in thousands)	**Amortized Cost**	**Fair Value**
Securities available for sale:		
Five to ten years	$ 4,700	$ 4,660
U.S. GSE residential mortgage-backed securities	414	410
Total securities available for sale	5,114	5,070
Securities held to maturity:		
One to five years	—	—
Five to ten years	—	—
U.S. GSE residential mortgage-backed securities	1,964	1,915
U.S. GSE commercial mortgage-backed securities	2,665	2,666
Total securities held to maturity	4,629	4,581
Total investment securities	$ 9,743	$ 9,651

There were $2.1 million of proceeds on sales of securities available for sale with gross gains of $105 thousand for the three and six months ended March 31, 2022. For the three and six months ended March 31, 2021, proceeds from sales of securities available for sale totaled $3.2 million with gross gains of $240 thousand.

5. LOANS

The following table sets forth the classification of the Company's loans by loan portfolio segment for the periods presented.

(in thousands)	**March 31, 2022**	**September 30, 2021**
Residential real estate	$ 424,271	$ 444,011
Multi-family	388,875	266,294
Commercial real estate	387,811	348,641
Commercial and industrial	72,087	172,274
Construction and land development	15,014	15,374
Consumer	1	11
Gross loans	1,288,059	1,246,605
Net deferred costs (fees)	982	520
Total loans	1,289,041	1,247,125
Allowance for loan losses	(9,886)	(8,552)
Total loans, net	$ 1,279,155	$ 1,238,573

The Company was a participant in the Paycheck Protection Program ("PPP"), administered by the Small Business Administration under the CARES Act, to provide guaranteed loans to qualifying businesses and organizations. These loans carry a fixed rate of 1.00% and a term of two years (loans made before June 5, 2020, subject to extension to five years with the consent of the lender) or five years (loans made on or after June 5, 2020), if not forgiven, in whole or in part. As of March 31, 2022, borrowers had received forgiveness or had made payments on $328.3 million in PPP loans. The Company's PPP loans outstanding, included in commercial and industrial loans in the table above, totaled $37.8 million and $140.4 million at March 31, 2022 and September 30, 2021, respectively.

At March 31, 2022 and September 30, 2021, the Company was servicing approximately $230.1 million and $233.2 million, respectively, of loans for others. The Company had no loans held for sale at March 31, 2022 and September 30, 2021.

Purchased Credit Impaired Loans

The Company has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount for those loans is as follows:

	March 31, 2022	September 30, 2021
(in thousands)		
Commercial real estate	$ 602	$ 8,324
Commercial and industrial	881	1,917
Total recorded investment	$ 1,483	$ 10,241

The Company has not recorded an allowance for loan losses related to these loans at March 31, 2022 and September 30, 2021.

The following table presents a summary of changes in accretable difference on purchased loans accounted for under ASC 310-30:

(in thousands)	Three Months Ended March 31, 2022	Six Months Ended March 31, 2022
Balance at beginning of period	$ 90	$ 346
Accretable differences acquired	—	—
Accretion	(746)	(1,782)
Adjustments to accretable difference due to changes in expected cash flows	(745)	(382)
Other changes, net	1,489	1,906
Ending balance	$ 88	$ 88

For the three months ended March 31, 2022 and 2021, the Company sold loans totaling approximately $16.2 million and $9.4 million, respectively, recognizing net gains of $1.6 million and $295 thousand, respectively. For the six months ended March 31, 2022 and 2021, the Company sold loans totaling approximately $51.4 million and $17.8 million, respectively, recognizing net gains of $3.1 million and $476 thousand, respectively.

The following summarizes the activity in the allowance for loan losses by portfolio segment for the periods indicated:

	Three Months Ended March 31, 2022						
	Residential Real Estate Loans	Multi-Family Loans	Commercial Real Estate Loans	Commercial and Industrial Loans	Construction and Land Development Loans	Consumer Loans	Total
(in thousands)							
Allowance for loan losses:							
Beginning balance	$ 4,115	$ 2,568	$ 2,518	$ 184	$ —	$ 1	$ 9,386
Charge-offs	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—
Provision (credit) for loan losses	(715)	59	809	348	—	(1)	500
Ending Balance	$ 3,400	$ 2,627	$ 3,327	$ 532	$ —	$ —	$ 9,886

(in thousands)	Three Months Ended March 31, 2021 Residential Real Estate Loans	Multi-Family Loans	Commercial Real Estate Loans	Commercial and Industrial Loans	Construction and Land Development Loans	Consumer Loans	Total
Allowance for loan losses:							
Beginning balance	$ 5,094	$ 1,619	$ 1,221	$ 44	$ —	$ 1	$ 7,979
Charge-offs	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—
Provision (credit) for loan losses	(243)	336	89	18	—	—	200
Ending balance	$ 4,851	$ 1,955	$ 1,310	$ 62	$ —	$ 1	$ 8,179

(in thousands)	Six Months Ended March 31, 2022 Residential Real Estate Loans	Multi-Family Loans	Commercial Real Estate Loans	Commercial and Industrial Loans	Construction and Land Development Loans	Consumer Loans	Total
Allowance for loan losses:							
Beginning Balance	$ 4,155	$ 2,433	$ 1,884	$ 79	$ —	$ 1	$ 8,552
Charge-offs	—	(66)	—	—	—	—	(66)
Recoveries	—	—	—	—	—	—	—
Provision (credit) for loan losses	(755)	260	1,443	453	—	(1)	1,400
Ending Balance	$ 3,400	$ 2,627	$ 3,327	$ 532	$ —	$ —	$ 9,886

(in thousands)	Six Months Ended March 31, 2021 Residential Real Estate Loans	Multi-Family Loans	Commercial Real Estate Loans	Commercial and Industrial Loans	Construction and Land Development Loans	Consumer Loans	Total
Allowance for loan losses:							
Beginning Balance	$ 5,103	$ 1,506	$ 1,221	$ 38	$ —	$ 1	$ 7,869
Charge-offs	—	—	—	—	—	—	—
Recoveries	—	—	—	10	—	—	10
Provision (credit) for loan losses	(252)	449	89	14	—	—	300
Ending Balance	$ 4,851	$ 1,955	$ 1,310	$ 62	$ —	$ 1	$ 8,179

The following table represents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment evaluation method. The recorded investment in loans excludes accrued interest receivable due to immateriality.

(in thousands)	March 31, 2022 Residential Real Estate	Multi-Family	Commercial Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
Allowance for loan losses:							
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	3,400	2,627	3,327	532	—	—	9,886
Purchased-credit impaired	—	—	—	—	—	—	—
Total allowance for loan losses	$ 3,400	$ 2,627	$ 3,327	$ 532	$ —	$ —	$ 9,886
Loans:							
Individually evaluated for impairment	$ 5,074	$ 422	$ 5,804	$ 506	$ —	$ —	$ 11,806
Collectively evaluated for impairment	419,422	388,840	381,317	71,114	15,057	2	1,275,752
Purchased-credit impaired	—	—	602	881	—	—	1,483
Total loans held for investment	$ 424,496	$ 389,262	$ 387,723	$ 72,501	$ 15,057	$ 2	$ 1,289,041

(in thousands)	Residential Real Estate	Multi-Family	Commercial Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
	September 30, 2021						
Allowance for loan losses:							
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	4,155	2,433	1,884	79	—	1	8,552
Purchased-credit impaired	—	—	—	—	—	—	—
Total allowance for loan losses	$ 4,155	$ 2,433	$ 1,884	$ 79	$ —	$ 1	$ 8,552
Loans:							
Individually evaluated for impairment	$ 7,198	$ 458	$ 517	$ 500	$ —	$ —	$ 8,673
Collectively evaluated for impairment	436,942	266,256	339,966	169,660	15,374	13	1,228,211
Purchased-credit impaired	—	—	8,324	1,917	—	—	10,241
Total loans held for investment	$ 444,140	$ 266,714	$ 348,807	$ 172,077	$ 15,374	$ 13	$ 1,247,125

No allowance was recorded on purchased-credit impaired loans.

The following presents information related to the Company's impaired loans by portfolio segment for the periods shown.

(in thousands)	March 31, 2022 Unpaid Principal Balance	Recorded Investment	Allowance Allocated	September 30, 2021 Unpaid Principal Balance	Recorded Investment	Allowance Allocated
With no related allowance recorded:						
Residential real estate	$ 5,074	$ 5,079	$ —	$ 7,382	$ 7,198	$ —
Multi-family	422	422	—	382	458	—
Commercial real estate	5,804	5,804	—	522	517	—
Commercial and industrial	506	506	—	535	500	—
Total	$ 11,806	$ 11,811	$ —	$ 8,821	$ 8,673	$ —

(in thousands)	Three Months Ended March 31, 2022 Average Recorded Investment	Interest Income Recognized	2021 Average Recorded Investment	Interest Income Recognized	Six Months Ended March 31, 2022 Average Recorded Investment	Interest Income Recognized[(1)]	2021 Average Recorded Investment	Interest Income Recognized[(1)]
Residential real estate	$ 5,089	$ 17	$ 7,880	$ 21	$ 4,956	$ 34	$ 6,767	$ 43
Multi-family	425	—	1,328	2	432	—	687	3
Commercial real estate	2,279	—	671	1	1,400	—	350	2
Commercial and industrial	507	—	—	—	494	—	—	—
Total	$ 8,300	$ 17	$ 9,879	$ 24	$ 7,282	$ 34	$ 7,804	$ 48

(1) Accrual basis interest income recognized approximates cash basis income.

At March 31, 2022 and September 30, 2021, past due and non-accrual loans disaggregated by portfolio segment were as follows:

(in thousands)	Past Due and Non-Accrual							
March 31, 2022	**30 - 59 days past due and accruing**	**60 - 89 days past due and accruing**	**Greater than 89 days past due and accruing**	**Non-accrual**	**Total past due and non-accrual**	**Purchased-credit impaired**	**Current**	**Total**
Residential real estate	$ 2,261	$ —	$ —	$ 3,737 (1)	$ 5,998	$ —	$ 418,498	$ 424,496
Multi-family	—	—	—	422 (2)	422	—	388,840	389,262
Commercial real estate	—	—	—	5,805 (3)	5,805	602	381,316	387,723
Commercial and industrial	1,064	—	—	506 (4)	1,570	881	70,050	72,501
Construction and land development	—	—	—	—	—	—	15,057	15,057
Consumer	—	—	—	—	—	—	2	2
Total	$ 3,325	$ —	$ —	$ 10,470	$ 13,795	$ 1,483	$ 1,273,763	$ 1,289,041

(1) Of the residential real estate non-accrual loans, $851 were current and $2,886 were greater than 89 days past due.
(2) Multi-family non-accrual loans at March 31, 2022 were greater than 89 days past due.
(3) Commercial real estate non-accrual loans at March 31, 2022 were greater than 89 days past due.
(4) Commercial and industrial non-accrual loans at March 31, 2022 were greater than 89 days past due.

(in thousands)	Past Due and Non-Accrual							
September 30, 2021	**30 - 59 days past due and accruing**	**60 - 89 days past due and accruing**	**Greater than 89 days past due and accruing**	**Non-accrual**	**Total past due and non-accrual**	**Purchased-credit Impaired**	**Current**	**Total**
Residential real estate	$ 1,032	$ 1,601	$ —	$ 5,554 (1)	$ 8,187	$ —	$ 435,953	$ 444,140
Multi-family	—	—	—	458 (2)	458	—	266,256	266,714
Commercial real estate	1,939	—	—	1,016 (3)	2,955	8,324	337,528	348,807
Commercial and industrial	3,641	—	—	—	3,641	1,917	166,519	172,077
Construction and land development	—	—	—	—	—	—	15,374	15,374
Consumer	—	—	—	—	—	—	13	13
Total	$ 6,612	$ 1,601	$ —	$ 7,028	$ 15,241	$ 10,241	$ 1,221,643	$ 1,247,125

(1) Of the residential real estate non-accrual loans, $1,026 were 61 days past due and $4,528 were greater than 89 days past due.
(2) Multi-family non-accrual loans at September 30, 2021 were greater than 89 days past due.
(3) Commercial real estate non-accrual loans at September 30, 2021 were greater than 89 days past due.

Troubled debt restructurings ("TDRs") are loan modifications where the Company has granted a concession to a borrower in financial difficulty. To assess whether a borrower is experiencing financial difficulty, an evaluation is performed to determine if that borrower is currently in payment default under any of its obligations or whether there is a probability that the borrower will be in payment default in the foreseeable future without the modification. At March 31, 2022 and September 30, 2021, the Company had a recorded investment in TDRs totaling $1.3 million and $1.6 million, consisting solely of residential real estate loans with no specific reserves allocated to such loans and no commitment to lend additional funds under those loans, at either March 31, 2022 or September 30, 2021.

For the three and six months ended March 31, 2022 and 2021, there were no TDRs for which there was a payment default within twelve months of restructuring. A loan is considered to be in payment default once it is 90 days contractually past due under its modified terms. For the three and six months ended March 31, 2022 and 2021, the Company had no new TDRs.

In June 2020, New York's then-Governor Andrew Cuomo signed SB 8243C and SB 8428 into law, which created Section 9-x of the New York Banking Law. Section 9-x requires New York regulated banking institutions and New York regulated mortgage servicers to make available applications for forbearance of any payment due on certain residential mortgages to qualified borrowers for their primary residence located in New York. In general, qualified borrowers will be granted forbearance of all monthly payments for a period of up to 180 days, to be extended for up to an additional 180 days provided that the borrower demonstrates continued financial hardship.

The Company has been prudently working with borrowers negatively impacted by the COVID-19 pandemic while managing credit risks and recognizing an appropriate allowance for loan losses. The Company modified 519 loans totaling $367.1 million under the CARES Act which are excluded from TDR classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking agencies. As of March 31, 2022, 2 loans totaling $1.0 million were still in forbearance, both of which were subject to Section 9-x of the New York Banking Law.

The Company continuously monitors the credit quality of its loan receivables. Credit quality is monitored by reviewing certain credit quality indicators. Management has determined that internally assigned credit risk ratings by loan segment are the key credit quality indicators that best assist management in monitoring the credit quality of the Company's loan receivables.

The Company has adopted a credit risk rating system as part of the risk assessment of its loan portfolio. The Company's lending officers are required to assign a credit risk rating to each loan in their portfolio at origination. When the lender learns of important financial developments, the risk rating is reviewed and adjusted if necessary. In addition, the Company engages a third-party independent loan reviewer that performs quarterly reviews of a sample of loans, validating the credit risk ratings assigned to such loans. The credit risk ratings play an important role in the establishment of the loan loss provision and to confirm the adequacy of the allowance for loan losses.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes commercial loans individually by classifying the loans as to credit risk. The Company uses the following definitions for risk ratings:

Special Mention: The loan has potential weaknesses that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects for the asset or in the Company's credit position at some future date.

Substandard: The loan is inadequately protected by current sound worth and paying capacity of the obligor or collateral pledged, if any. Loans classified as Substandard must have a well-defined weakness or weaknesses that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: The loan has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing factors, conditions, and values, highly questionable and improbable.

Loans not having a credit risk rating of Special Mention, Substandard or Doubtful are considered pass loans.

At March 31, 2022 and September 30, 2021, the Company's loan portfolio by credit risk rating disaggregated by portfolio segment were as follows:

	March 31, 2022				
(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real Estate:					
Residential	$ 418,828	$ 1,166	$ 4,277	$ —	$ 424,271
Multi-family	382,810	3,720	2,345	—	388,875
Commercial	369,533	9,619	8,659	—	387,811
Commercial and industrial	68,201	655	3,231	—	72,087
Construction and land development	12,682	2,332	—	—	15,014
Consumer	1	—	—	—	1
Total	$ 1,252,055	$ 17,492	$ 18,512	$ —	$ 1,288,059

	September 30, 2021				
(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real Estate:					
Residential	$ 433,299	$ 5,115	$ 5,594	$ 3	$ 444,011
Multi-family	262,984	2,852	458	—	266,294
Commercial	316,727	16,274	15,640	—	348,641
Commercial and industrial	168,104	540	3,630	—	172,274
Construction and land development	13,607	1,767	—	—	15,374
Consumer	11	—	—	—	11
Total	$ 1,194,732	$ 26,548	$ 25,322	$ 3	$ 1,246,605

6. EQUITY COMPENSATION PLANS

The Company's 2021 and 2018 Equity Compensation Plans ("the 2021 Plan" and "the 2018 Plan," respectively), provide for the grant of stock-based compensation awards to members of management, including employees and management officials, and members of the Board. Under the 2021 Plan, a total of 427,500 shares of the Company's common stock or equivalents were approved for issuance, of which 274,208 shares remain available for issuance at March 31, 2022. Of the total 346,000 shares of common stock approved for issuance under the 2018 Plan, 33,884 shares remain available for issuance at March 31, 2022. Hanover assumed the 2013 Savoy Bank Stock Option Plan solely in connection with options to purchase Savoy common stock held by the former Chief Executive Officer of Savoy and which, under the terms of the Agreement and Plan of Merger between the Company and Savoy, were converted into options to purchase 71,900 shares of Hanover common stock.

Stock Options

Stock options are granted with an exercise price equal to the fair market value of the Company's common stock at the date of grant, and generally with vesting periods of three years and contractual terms of ten years. All stock options fully vest upon a change in control.

The fair value of stock options is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. Expected volatilities are based on historical volatilities of the common stock of the Company's peers. The Company uses historical data to estimate option exercise and post-vesting termination behavior. Expected terms are based on historical data and represent the periods in which the options are expected to be outstanding. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

No stock options were exercised during the three and six months ended March 31, 2022 and 2021.

A summary of stock option activity follows (aggregate intrinsic value in thousands):

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term
Outstanding, October 1, 2021	227,406	$ 9.50	$ 2,043	3.51 years
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding, March 31, 2022 (1)	227,406	$ 9.50	$ 2,325	2.95 years

(1) All outstanding options are fully vested and exercisable.

There was no compensation expense attributable to stock options for the three and six months ended March 31, 2022 and 2021.

Restricted Stock Awards

During the six months ended March 31, 2022, restricted stock awards of 44,642 shares were granted with a three-year vesting period and 224,678 were granted with a five-year vesting period. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at issue date. Since there is no active market for the Company's stock, the fair value of the restricted stock awards was estimated on the date of grant based on prior quarter end tangible book value.

A summary of restricted stock awards activity follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested, October 1, 2021	75,833	$ 19.87
Granted	269,930	19.73
Vested	(15,146)	20.81
Forfeited	(5,771)	19.35
Unvested, March 31, 2022	324,846	$ 19.72

Compensation expense attributable to restricted stock awards was $401 thousand and $216 thousand for the three months ended March 31, 2022 and 2021, respectively. Compensation expense attributable to restricted stock was $618 thousand and $445 thousand for the six months ended March 31, 2022 and 2021, respectively. As of March 31, 2022, there was $5.7 million of total unrealized compensation cost related to unvested restricted stock, expected to be recognized over a weighted-average term of 4.24 years. The total fair value of shares vested during the six months ended March 31, 2022 and 2021 was $296 thousand and $349 thousand, respectively.

Restricted Stock Units

Long Term Incentive Plan

Restricted stock units (RSUs) represent an obligation to deliver shares to a grantee at a future date if certain vesting conditions are met. RSUs are subject to a time-based vesting schedule, and/or the satisfaction of performance conditions, and are settled in shares of the Company's common stock. RSUs do not provide voting rights and RSUs may accrue dividends from the date of grant.

The following table summarizes the unvested performance-based RSU activity for the six months ended March 31, 2022:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested, October 1, 2021	—	$ —
Granted	51,097	19.73
Vested	—	—
Forfeited	—	—
Unvested, March 31, 2022	51,097	$ 19.73

During the six months ended March 31, 2022, the Company granted 51,097 RSUs. These performance-based RSUs cliff vest after three years and are subject to the achievement of the Company's pre-defined performance goals for the three-year period ending December 31, 2024.

Compensation expense attributable to RSUs was $57 thousand for the three and six months ended March 31, 2022. There was no compensation expense related to RSUs for the three and six months ended March 31, 2021, as no RSUs were granted in 2021. As of March 31, 2022, there was $951 thousand of total unrecognized compensation cost related to non-vested RSUs. The cost is expected to be recognized over a weighted-average period of 2.9 years.

7. REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of March 31, 2022, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized or worse, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At March 31, 2022 and September 30, 2021, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution’s category.

Under a policy of the Federal Reserve applicable to bank holding companies with less than $3.0 billion in consolidated assets, the Company is not subject to consolidated regulatory capital requirements.

The following table sets forth the Bank's capital amounts (in thousands) and ratios under current regulations:

	Actual Capital		Minimum Capital Adequacy Requirement		Minimum Capital Adequacy Requirement with Capital Conservation Buffer		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2022								
Total capital to risk-weighted assets	$ 150,305	15.85 %	$ 75,857	8.00 %	$ 99,562	10.50 %	$ 94,821	10.00 %
Tier 1 capital to risk-weighted assets	139,959	14.76 %	56,893	6.00 %	80,598	8.50 %	75,857	8.00 %
Common equity tier 1 capital to risk-weighted assets	139,959	14.76 %	42,670	4.50 %	66,375	7.00 %	61,634	6.50 %
Tier 1 capital to adjusted average assets (leverage)	139,959	10.06 %	55,657	4.00 %	N/A	N/A	69,572	5.00 %
September 30, 2021								
Total capital to risk-weighted assets	$ 132,554	15.59 %	$ 68,040	8.00 %	$ 89,303	10.50 %	$ 85,050	10.00 %
Tier 1 capital to risk-weighted assets	123,666	14.54 %	51,030	6.00 %	72,293	8.50 %	68,040	8.00 %
Common equity tier 1 capital to risk-weighted assets	123,666	14.54 %	38,273	4.50 %	59,535	7.00 %	55,283	6.50 %
Tier 1 capital to adjusted average assets (leverage)	123,666	9.45 %	52,338	4.00 %	N/A	N/A	65,423	5.00 %

Dividend restrictions - The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. As of March 31, 2022, the Bank had $41.3 million of retained net income available for dividends to the Company.

8. FAIR VALUE

FASB ASC No. 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined using quoted market prices. However, in many instances, quoted market prices are not available. In such instances, fair values are determined using appropriate valuation techniques. Various assumptions and observable inputs must be relied upon in applying these techniques. Accordingly, categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. As such, the fair value estimates may not be realized in an immediate transfer of the respective asset or liability.

FASB ASC 820-10 also establishes a fair value hierarchy and describes three levels of inputs that may be used to measure fair values: The three levels within the fair value hierarchy are as follows:

- Level 1: Valuation is based upon unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- Level 2: Fair value is calculated using significant inputs other than quoted market prices that are directly or indirectly observable for the asset or liability. The valuation may rely on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, rate volatility, prepayment speeds, credit ratings,) or inputs that are derived principally or corroborated by market data, by correlation, or other means.

- Level 3: Inputs for determining the fair value of the respective assets or liabilities are not observable. Level 3 valuations are reliant upon pricing models and techniques that require significant management judgment or estimation.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Assets Measured at Fair Value on a Recurring Basis

The following presents fair value measurements on a recurring basis at March 31, 2022 and September 30, 2021:

	March 31, 2022			
		Fair Value Measurements Using:		
(In thousands)	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Available-for-sale securities:				
U.S. GSE residential mortgage-backed securities	$ 410	$ —	$ 410	$ —
Corporate bonds	4,660	—	4,660	—
Mortgage servicing rights	4,028	—	—	4,028
Total	**$ 9,098**	**$ —**	**$ 5,070**	**$ 4,028**

	September 30, 2021			
		Fair Value Measurements Using:		
(In thousands)	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Available-for-sale securities:				
U.S. GSE residential mortgage-backed securities	$ 833	$ —	$ 833	$ —
Corporate bonds	6,914	—	6,914	—
Mortgage servicing rights	3,690	—	—	3,690
Total	$ 11,437	$ —	$ 7,747	$ 3,690

The fair value for the securities available-for-sale were obtained from an independent broker based upon matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. The Company has determined these are classified as Level 2 inputs within the fair value hierarchy.

The fair value of mortgage servicing rights are based on a valuation model that calculates the present value of estimated future servicing income. The valuation model utilizes interest rate, prepayment speed, and default rate assumptions that market participants would use in estimating future net servicing income. Fair value of loan servicing rights related to residential mortgage loans at March 31, 2022 was determined based on discounted expected future cash flows using discount rates ranging from 12.0% to 14.5%, a prepayment speed of 26.25% and a weighted average life ranging from 1.73 to 3.02 years. Fair value at September 30, 2021 for mortgage servicing rights was determined based on discounted expected future cash flows using discount rates ranging from 12.0% to 14.5%, prepayment speeds ranging from 24.18% to 24.33% and a weighted average life ranging from 1.96 to 3.30 years.

The fair value of loan servicing rights for SBA loans at March 31, 2022 was determined based on discounted expected future cash flows using discount rates ranging from 1.33% to 22.68%, prepayment speeds ranging from 9.23% to 23.63% and a weighted average life ranging from 0.16 to 5.91 years.

The Company has determined these are mostly unobservable inputs and considers them Level 3 inputs within the fair value hierarchy.

The following table presents the changes in mortgage servicing rights for the periods presented:

(in thousands)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021	Six Months Ended March 31, 2022	Six Months Ended March 31, 2021
Balance, October 1	$ 3,741	$ 144	$ 3,690	$ 155
Additions	405	—	573	—
Adjustment to fair value	(118)	(14)	(235)	(25)
Balance, March 31	$ 4,028	$ 130	$ 4,028	$ 130

Assets Measured at Fair Value on a Non-recurring Basis

The Company had no financial instruments measured at fair value on a non-recurring basis at March 31, 2022 and September 30, 2021. The Company's impaired loans had no related specific allowances recorded at March 31, 2022 and September 30, 2021.

Financial Instruments Not Measured at Fair Value

The following presents the carrying amounts and estimated fair values of the Company's financial instruments not carried at fair value at March 31, 2022 and September 30, 2021:

	March 31, 2022				
		Fair Value Measurements Using:			
(In thousands)	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 127,140	$ 127,140	$ —	$ —	$ 127,140
Securities held-to-maturity	4,629	—	4,581	—	4,581
Securities available-for-sale	5,070	—	5,070	—	5,070
Loans, net	1,279,155	—	—	1,260,283	1,260,283
FHLB stock	3,612	N/A	N/A	N/A	N/A
Accrued interest receivable	7,894	—	105	7,789	7,894
Financial Liabilities:					
Time deposits	286,247	—	282,653	—	282,653
Demand and other deposits	943,995	943,995	—	—	943,995
Borrowings	75,823	—	76,057	—	76,057
Subordinated debentures	24,541	—	24,666	—	24,666
Accrued interest payable	980	1	979	—	980

(In thousands)	September 30, 2021				
		Fair Value Measurements Using:			
	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 166,544	$ 166,544	$ —	$ —	$ 166,544
Securities held-to-maturity	8,611	—	8,865	—	8,865
Securities available-for-sale	7,747	—	7,747	—	7,747
Loans, net	1,238,573	—	—	1,278,056	1,278,056
FHLB stock	3,714	N/A	N/A	N/A	N/A
Accrued interest receivable	9,363	—	211	9,152	9,363
Financial Liabilities:					
Time deposits	377,836	—	378,333	—	378,333
Demand and other deposits	786,826	786,826	—	—	786,826
Borrowings	159,642	—	159,608	—	159,608
Subordinated debentures	24,513	—	27,092	—	27,092
Accrued interest payable	1,290	1	713	576	1,290

9. LOSS CONTINGENCIES

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of a loss is probable and an amount or range of loss can be reasonably estimated. The Company's management does not believe there now are such matters that will have a material effect on the financial statements.

10. BORROWINGS

Federal Home Loan Bank ("FHLB") Advances

At March 31, 2022 and September 30, 2021, FHLB advances outstanding were $37.9 million and $42.0 million, respectively. The advances were all at fixed rates ranging from 0.37% to 2.96%, and with maturities ranging from January 2023 to August 2025 and from October 2021 to August 2025, respectively, at March 31, 2022 and September 30, 2021.

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $622.5 million and $432.7 million of residential and commercial mortgage loans under a blanket lien arrangement at March 31, 2022 and September 30, 2021, respectively. Based on this collateral and the Company's holdings of FHLB stock, the Company was eligible to borrow up to an additional total of $165.9 million at March 31, 2022.

The following table sets forth the contractual maturities and weighted average interest rates of the Company's fixed rate FHLB advances (in thousands):

Contractual Maturity	Balance at March 31, 2022	
	Amount	Weighted Average Rate
2022	$ —	— %
2023	11,950	2.23 %
2024	18,860	0.98 %
2025	7,080	0.58 %
Total	$ 37,890	1.30 %

Contractual Maturity	Balance at September 30, 2021 Amount	Weighted Average Rate
2022	$ 4,000	2.02 %
2023	12,040	2.23 %
2024	18,860	0.98 %
2025	7,080	0.58 %
Total	$ 41,980	1.37 %

Federal Reserve Borrowings

At March 31, 2022 and September 30, 2021, the Company's borrowings from the Federal Reserve's Paycheck Protection Program Liquidity Facility ("PPPLF") were $37.9 million and $117.7 million, respectively. The borrowings have a rate of 0.35% and the maturity date will equal the maturity date of the underlying PPP loan pledged to secure the extension of credit. The maturity date of a PPP loan is either two or five years from origination date. The Company utilized the PPPLF to fund PPP loan production. The borrowings are fully secured by pledged PPP loans as of March 31, 2022 and September 30, 2021.

Correspondent Bank Borrowings

At March 31, 2022, approximately $55 million in unsecured lines of credit extended by correspondent banks were available to be utilized for short-term funding purposes. No borrowings were outstanding under lines of credit with correspondent banks at March 31, 2022 and September 30, 2021.

11. SUBORDINATED DEBENTURES

In October 2020, the Company completed the private placement of $25.0 million in aggregate principal amount of fixed-to-floating rate subordinated notes due 2030 (the "Notes") to certain qualified institutional buyers and accredited investors. The Notes will initially bear interest, payable semi-annually, at the rate of 5.00% per annum, until October 15, 2025. From and including October 15, 2025 through maturity, the interest rate applicable to the outstanding principal amount due will reset quarterly to the then current three-month secured overnight financing rate ("SOFR") plus 487.4 basis points. The Company may, at its option, beginning with the interest payment date of October 15, 2025 but not generally prior thereto, and on any scheduled interest payment date thereafter, redeem the Notes, in whole or in part, subject to the receipt of any required regulatory approval. The Notes are not subject to redemption at the option of the holder. The portion of the proceeds of these subordinated notes contributed to the Bank are included as a component of the Bank's Tier 1 capital for regulatory reporting.

At March 31, 2022 and September 30, 2021, the unamortized issuance costs of the Notes were $0.5 million and $0.5 million, respectively. For the three and six months ended March 31, 2022, $21 thousand and $42 thousand, respectively, in issuance costs were recorded in interest expense. For the three and six months ended March 31, 2021, $14 thousand and $27 thousand, respectively, in issuance costs were recorded in interest expense. The Notes are presented net of unamortized issuance costs in the Company's Consolidated Statements of Financial Condition.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents changes in accumulated other comprehensive income (loss) by component, net of tax, for the three and six months ended March 31, 2022 and 2021:

(in thousands)	Unrealized Gains and Losses on Available-for-Sale Debt Securities	Total
Balance at January 1, 2022	$ 310	$ 310
Other comprehensive loss	(264)	(264)
Amount reclassified from accumulated other comprehensive income	(81)	(81)
Balance at March 31, 2022	$ (35)	$ (35)

(in thousands)	Unrealized Gains and Losses on Available-for-Sale Debt Securities	Total
Balance at January 1, 2021	$ 323	$ 323
Other comprehensive income	94	94
Amount reclassified from accumulated other comprehensive income	(191)	(191)
Balance at March 31, 2021	$ 226	$ 226

(in thousands)	Unrealized Gains and Losses on Available-for-Sale Debt Securities	Total
Balance at October 1, 2021	$ 256	$ 256
Other comprehensive loss	(210)	(210)
Amount reclassified from accumulated other comprehensive income	(81)	(81)
Balance at March 31, 2022	$ (35)	$ (35)

(in thousands)	Unrealized Gains and Losses on Available-for-Sale Debt Securities	Total
Balance at October 1, 2020	$ 156	$ 156
Other comprehensive income	261	261
Amount reclassified from accumulated other comprehensive income	(191)	(191)
Balance at March 31, 2021	$ 226	$ 226

The following represents the reclassification out of accumulated other comprehensive income for the three and six months ended March 31, 2022 and 2021.

	Three Months Ended March 31,		Six Months Ended March 31,		
(in thousands)	2022	2021	2022	2021	Affected Line Item in Consolidated Statements of Income
Realized gains on securities available-for-sale	$ 105	$ 240	$ 105	$ 240	Gain on sale of investment securities available-for-sale, net
Tax effect	24	49	24	49	Income tax expense
Net of tax	$ 81	$ 191	$ 81	$ 191	

13. SUBSEQUENT EVENTS

On May 10, 2022, the Company completed an initial public offering ("IPO") of its common stock and sold 1,275,000 shares of common stock at the public offering price of $21.00 per share. In addition, the Company has granted the underwriters a 30-day option to purchase up to 191,250 additional shares to cover any overallotments. The IPO resulted in gross proceeds of $26.8 million. The net proceeds to the Company, after deducting the underwriting discount and offering expenses is estimated at $24.0 million.

ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Regarding Forward-Looking Statements - This document contains a number of forward-looking statements, including statements about the financial condition, results of operations, earnings outlook and prospects of the Company. Forward-looking statements are typically identified by words such as "should," "likely," "plan," "believe," "expect," "anticipate," "intend," "outlook," "estimate," "forecast," "target," "project," "goal" and other similar words and expressions. The forward-looking statements involve certain risks and uncertainties. The ability of the Company to predict results or the actual effects of its plans and strategies is subject to inherent uncertainty.

Factors that may cause actual results or earnings to differ materially from such forward-looking statements include those set forth in Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2021, as updated by the Company's subsequent filings with the SEC and, among others, the following:

- Changes in monetary and fiscal policies of the FRB and the U. S. Government, particularly related to changes in interest rates;
- Changes in general economic conditions;
- The ability to enhance revenue through increased market penetration, expanded lending capacity and product offerings;
- Occurrence of natural or man-made disasters or calamities, including health emergencies, the spread of infectious diseases, pandemics such as COVID-19, or outbreaks of hostilities, such as between Russia and Ukraine, or the effects of climate change, and the ability of the Company to deal effectively with disruptions caused by the foregoing;
- The effects of COVID-19, including, but not limited to, the length of time that the pandemic continues, the effectiveness of the vaccination program and accompanying vaccination rates, the development of new variants of the virus and their impact, the potential future imposition of further restrictions on travel, the measures adopted by federal, state and local governments, the health of employees and the potential inability of employees to work due to illness, quarantine or government mandates, the business continuity plans of customers and vendors, the increased likelihood of cybersecurity risk, data breaches, or fraud due to employees working from home, the ability of borrowers to repay their loans and the effect of the pandemic on the general economy and businesses of borrowers;
- Legislative or regulatory changes;
- Downturns in demand for loan, deposit and other financial services in the Company's market area;
- Increased competition from other banks and non-bank providers of financial services;
- Technological changes and increased technology-related costs; and
- Changes in accounting principles, or the application of generally accepted accounting principles.

Because these forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this document or the date of any document incorporated by reference in this document. All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this document and attributable to the Company or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this document. Except to the extent required by applicable law or regulation, the Company undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

Non-GAAP Disclosure - This discussion includes discussions of the Company's tangible common equity ("TCE") ratio, tangible common equity and tangible assets, non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of historical or future financial performance, financial position or cash flows that excludes or modifies amounts that are required to be disclosed in the most directly comparable measure calculated and presented in accordance with U.S. GAAP. The Company believes that these non-GAAP financial measures provide both management and investors a more complete understanding of the underlying operational results and trends and the Company's marketplace performance. The presentation of this additional information is not meant to be considered in isolation or as a substitute for the numbers prepared in accordance with U.S. GAAP and may not be comparable to similarly titled measures used by other financial institutions.

With respect to the calculations and reconciliations of tangible common equity, tangible assets and the TCE ratio, please see Liquidity and Capital Resources contained herein for a reconciliation to the most directly comparable GAAP measure.

Executive Summary –The Company is a one-bank holding company incorporated in 2016. The Company operates as the parent for its wholly owned subsidiary, the Bank, which commenced operations in 2008. The income of the Company is primarily derived through the operations of the Bank. Unless the context otherwise requires, references herein to the Company include the Company and the Bank on a consolidated basis.

The Bank operates as a locally headquartered, community-oriented bank, serving customers throughout the New York metro area from offices in Nassau, Queens, Kings (Brooklyn) and New York (Manhattan) Counties, New York and Freehold in Monmouth County New Jersey. We principally focus our lending activities on loans that we originate to borrowers located in our market areas. We seek to be the premier provider of lending products and services in our market area, meeting the credit needs of business and individual borrowers in the communities that we serve. We offer personal and commercial business loans on a secured and unsecured basis, SBA and USDA guaranteed loans, revolving lines of credit, commercial mortgage loans, and one- to four-family non-qualified mortgages secured by primary and secondary residences that may be owner occupied or investment properties, home equity loans, bridge loans and other personal purpose loans.

The Bank works to provide more direct, personal attention than management believes is offered by competing financial institutions, the majority of which are branch offices of banks headquartered outside of the Bank's primary trade area. By striving to employ professional, responsive and knowledgeable staff, the Bank believes it offers a superior level of service to its customers. As of result of senior management's availability for consultation on a daily basis, the Bank believes it offers customers a quicker response on loan applications and other banking transactions, as well as greater certainty that these transactions will actually close, than competitors, whose decisions may be made in distant headquarters.

The COVID-19 pandemic has caused widespread economic disruption in the Bank's metropolitan New York trade area. The Company has actively participated in state and local programs designed to mitigate the impacts of the COVID-19 pandemic on individuals and small businesses and it continues to prudently work with borrowers negatively impacted by the COVID-19 pandemic while managing credit risks and recognizing an appropriate allowance for loan losses on its loan portfolio. Although the local economy has continued to recover, management continues to cautiously consider opportunities to expand the loan portfolio.

The Bank has historically been able to generate additional income by strategically originating and selling its primary lending products to other financial institutions at premiums. In December 2021, the SBA approved the Bank's application to process loans under the SBA's Preferred Lender Program, enabling the Bank to process SBA applications under delegated authority from the SBA and enhancing the Bank's ability to compete more effectively for SBA lending opportunities. 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 the sale of loans to others.

The Bank finances most of its activities through a combination of deposits, including non-interest-bearing demand, savings, NOW and money market deposits as well as time deposits, and both short- and long-term borrowings. The

Company’s chief competition includes local banks within its market area, as well as New York City money center banks and regional banks, as well as non-bank lenders, including fintech lenders.

On May 26, 2021, the acquisition of Savoy was completed. Historical financial information prior to the June 30, 2021 quarter includes only the operations of Hanover.

Financial Performance Summary
As of or for the three and six months ended March 31, 2022 and 2021
(dollars in thousands, except per share data)

	Three months ended March 31,		Six months ended March 31,	
	2022	**2021**	**2022**	**2021**
Revenue [1]	**$ 17,416**	$ 8,494	**$ 35,061**	$ 16,107
Non-interest expense	**9,357**	5,725	**17,622**	11,315
Provision for loan losses	**500**	200	**1,400**	300
Net income	**5,860**	2,055	**12,397**	3,574
Net income per common share - diluted	**1.00**	0.48	**2.15**	0.84
Return on average assets	**1.63 %**	0.97 %	**1.72 %**	0.84 %
Return on average common stockholders' equity	**17.83 %**	10.28 %	**19.16 %**	8.95 %
Tier 1 leverage ratio	**10.06 %**	12.00 %	**10.06 %**	12.00 %
Common equity tier 1 risk-based capital ratio	**14.76 %**	21.23 %	**14.76 %**	21.23 %
Tier 1 risk-based capital ratio	**14.76 %**	21.23 %	**14.76 %**	21.23 %
Total risk-based capital ratio	**15.85 %**	22.49 %	**15.85 %**	22.49 %
Tangible common equity ratio (non-GAAP)	**7.90 %**	9.06 %	**7.90 %**	9.06 %
Total common stockholders' equity/total assets [2]	**9.13 %**	9.24 %	**9.13 %**	9.24 %

(1) Represents net interest income plus total non-interest income.
(2) The ratio of total common stockholders’ equity to total assets is the most comparable GAAP measure to the non-GAAP tangible common equity ratio presented herein.

At March 31, 2022 the Company, on a consolidated basis, had total assets of $1.5 billion, total deposits of $1.2 billion and total stockholders’ equity of $134.8 million. The Company recorded net income of $5.9 million, or $1.00 per diluted common share, for the three months ended March 31, 2022 compared to net income of $2.1 million, or $0.48 per diluted common share, for the same period in 2021 and $12.4 million, or $2.15 per diluted share, for the six months ended March 31, 2022 compared to net income of $3.6 million, or $0.84 per diluted share, for the same period in 2021.

The $3.8 million increase in earnings for the three months ended March 31, 2022 versus the comparable 2021 period was primarily due to a $6.9 million increase in net interest income coupled with a $2.0 million improvement in non-interest income. Partially offsetting these positive factors was a $3.7 million increase in total operating expenses, principally resulting from growth in compensation and benefits due largely to an increase in personnel from the acquisition of Savoy in May 2021, a $1.1 million increase in the provision for income taxes, coupled with a $300 thousand increase in the provision for loan losses expense due to growth in the loan portfolio in the quarter ended March 31, 2022.

The $8.8 million increase in net income for the six months ended March 31, 2022 versus the year ago was primarily due to a $14.9 million increase in net interest income coupled with a $4.0 million improvement in non-interest income. Partially offsetting these positive factors was a $6.3 million increase in total operating expenses, principally resulting from growth in compensation and benefits due largely to an increase in personnel from the acquisition of Savoy in May 2021, a $2.7 million increase in provision for income taxes, coupled with an $1.1 million increase in the provision for loan losses expense due to growth in the loan portfolio.

The Company’s return on average assets and return on average common stockholders’ equity were 1.63% and 17.83%, respectively, for the three months ended March 31, 2022 versus 0.97% and 10.28%, respectively, for the comparable 2021 period, and 1.72% and 19.16% for the six months ended March 31, 2022, versus 0.84% and 8.95%, respectively, for the prior year period.

Total non-accrual loans at March 31, 2022 were $10.5 million, or 0.81% of total loans, compared to $7.0 million, or 0.56% of total loans at September 30, 2021 and $9.4 million, or 1.22% of total loans, at March 31, 2021. Management believes all of the Company's non-accrual loans at March 31, 2022 are well collateralized and no specific reserves have been taken with regard to these loans. The allowance for loan losses as a percentage of total non-accrual loans amounted to 94%, 122% and 87% at March 31, 2022, September 30, 2021 and March 31, 2021, respectively.

The Company's operating efficiency ratio was 54.1% for the three months ended March 31, 2022 versus 69.4% a year ago. The significant improvement in the operating efficiency ratio was due to a $6.9 million increase in net interest income and $2.0 million increase in non-interest income (primarily gain on sale of loans held-for-sale) partially offset by a $3.6 million increase in operating expenses (primarily compensation and benefits).

Critical Accounting Policies, Judgments and Estimates - To prepare financial statements in conformity with U.S. GAAP, the Company's management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. Critical accounting estimates are accounting estimates where (a) the nature of the estimate is material due to levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and (b) the impact of the estimate on financial condition or operating performance is material.

The Company considers the determination of the allowance for loan losses its most critical accounting policy, practice and use of estimates. The Company uses available information to recognize probable and reasonably estimable losses on loans. Future additions to the allowance may be necessary based upon changes in economic, market or other conditions. Changes in estimates could result in a material change in the allowance. The allowance for loan losses is increased by a provision for loan losses charged against income and is decreased by charge-offs, net of recoveries. Loan losses are recognized in the period the loans, or portion thereof, are deemed uncollectible. The adequacy of the allowance to cover any inherent loan losses in the portfolio is evaluated on a quarterly basis.

Financial Condition – Total assets of the Company were $1.5 billion at March 31, 2022 and September 30, 2021. Total loans at March 31, 2022 were $1.3 billion, compared to total loans of $1.2 billion at September 30, 2021. Total deposits were $1.2 billion at March 31, 2022 and September 30, 2021. Total borrowings at March 31, 2022 were $100.4 million, including $37.9 million of outstanding FHLB advances.

For the six months ended March 31, 2022, the Company's loan portfolio, net of sales, grew by $40.6 million to $1.3 billion. At March 31, 2022, the residential loan portfolio amounted to $424.5 million, or 32.9% of total loans. Commercial real estate loans, including multi-family loans and construction and land development loans, totaled $792.0 million or 61.4% of total loans at March 31, 2022. Commercial loans, including PPP loans, totaled $72.5 million or 5.6% of total loans.

Total deposits were $1.2 billion at March 31, 2022 and September 30, 2021. Core deposit balances, which consist of demand, NOW, savings and money market deposits, represented 76.7% and 67.6% of total deposits at March 31, 2022 and September 30, 2021, respectively. At those dates, demand deposit balances represented 16.0% and 16.4% of total deposits. Beginning in late 2020, we began a municipal deposit program. The program is based upon relationships of our management team, rather than bid based transactions. At March 31, 2022, total municipal deposits were $405.0 million, representing 19 separate governmental clients, compared to $350.5 million at September 30, 2021, representing 18 separate governmental clients. The average rate on the municipal deposit portfolio was 0.18% at March 31, 2022.

Borrowings at March 31, 2022 were $75.8 million, including $37.9 million in PPPLF funding, versus $159.6 million at September 30, 2021. At March 31, 2022, the Company had $37.9 million of outstanding FHLB advances as compared to $42.0 million at September 30, 2021. At September 30, 2021, the Company's borrowings from the PPPLF were $117.7 million, and have declined as PPP loans are forgiven by the SBA.

Liquidity and Capital Resources – Liquidity management is defined as both the Company's and the Bank's ability to meet their financial obligations on a continuous basis without material loss or disruption of normal operations. These obligations include the withdrawal of deposits on demand or at their contractual maturity, the repayment of borrowings as they mature, funding new and existing loan commitments and the ability to take advantage of business opportunities as they arise. Asset liquidity is provided by short-term investments, such as fed funds sold, the marketability of securities available for sale and interest-bearing deposits due from the Federal Reserve, FHLB and correspondent banks, which totaled $127.1 million and $166.5 million at March 31, 2022 and September 30, 2021, respectively. These liquid assets may include assets that have been pledged primarily against municipal deposits or borrowings. Liquidity is also provided by the maintenance of a base of core deposits, cash and non-interest-bearing deposits due from banks, the ability to sell or pledge marketable assets and access to lines of credit.

Liquidity is continuously monitored, thereby allowing management to better understand and react to emerging balance sheet trends, including temporary mismatches with regard to sources and uses of funds. After assessing actual and projected cash flow needs, management seeks to obtain funding at the most economical cost. These funds can be obtained by converting liquid assets to cash or by attracting new deposits or other sources of funding. Many factors affect the Company's ability to meet liquidity needs, including variations in the markets served, loan demand, its asset/liability mix, its reputation and credit standing in its markets and general economic conditions. Borrowings and the scheduled amortization of investment securities and loans are more predictable funding sources. Deposit flows and securities prepayments are somewhat less predictable as they are often subject to external factors. Among these are changes in the local and national economies, competition from other financial institutions and changes in market interest rates.

The Company's primary sources of funds are cash provided by deposits, which may include brokered and listing service deposits, and borrowings, proceeds from maturities and sales of securities and cash provided by operating activities. At March 31, 2022, total deposits were $1.2 billion, of which $203.9 million were time deposits scheduled to mature within the next 12 months. Based on historical experience, the Company expects to be able to replace a substantial portion of those maturing deposits with comparable deposit products. At March 31, 2022 and September 30, 2021, the Company had $75.8 million and $159.6 million, respectively, in borrowings used to fund the growth in the Company's loan portfolio.

The Liquidity and Wholesale Funding Policy of the Bank establishes specific policies and operating procedures governing liquidity levels to assist management in developing plans to address future and current liquidity needs. Management monitors the rates and cash flows from the loan and investment portfolios while also examining the maturity structure and volatility characteristics of liabilities to develop an optimum asset/liability mix. Available funding sources include retail, commercial and municipal deposits, purchased liabilities and stockholders' equity. At March 31, 2022, the Bank had access to approximately $622.5 million in FHLB lines of credit for overnight or term borrowings, of which $418.7 million of municipal letters of credit and $37.9 million in term borrowings were outstanding. At March 31, 2022, the Bank had access to approximately $55 million in unsecured lines of credit extended by correspondent banks, if needed, for short-term funding purposes. No borrowings were outstanding under lines of credit with correspondent banks at March 31, 2022.

The Company strives to maintain an efficient level of capital, commensurate with its risk profile, on which a competitive rate of return to stockholders will be realized over both the short and long term. Capital is managed to enhance stockholder value while providing flexibility for management to act opportunistically in a changing marketplace. Management continually evaluates the Company's capital position in light of current and future growth objectives and regulatory guidelines. Total stockholders' equity increased to $134.8 million at March 31, 2022 from $122.5 million at September 30, 2021, primarily due to net income recorded during the six months ended March 31, 2022.

The Bank is subject to regulatory capital requirements. The Bank's tier 1 leverage, common equity tier 1 risk-based, tier 1 risk-based and total risk-based capital ratios were 10.06%, 14.76%, 14.76% and 15.85%, respectively, at March 31, 2022, exceeding all the regulatory guidelines for a well-capitalized institution, the highest regulatory capital category. Moreover, capital rules also place limits on capital distributions and certain discretionary bonus payments if a banking organization does not maintain a buffer of common equity tier 1 capital above minimum capital requirements. At March 31, 2022, the Bank's capital buffer was in excess of requirements.

The Company did not repurchase any shares of its common stock during the six months ended March 31, 2022.

The Company's total stockholders' equity to total assets ratio and the Company's tangible common equity to tangible assets ratio ("TCE ratio") were 9.13% and 7.90%, respectively, at March 31, 2022 versus 8.25% and 7.02%, respectively, at September 30, 2021 and 9.24% and 9.06%, respectively, at March 31, 2021. The ratio of total stockholders' equity to total assets is the most comparable U.S. GAAP measure to the non-GAAP TCE ratio presented herein. The ratio of tangible common equity to tangible assets, or TCE ratio, is calculated by dividing total common stockholders' equity by total assets, after reducing both amounts by intangible assets. The TCE ratio is not required by U.S. GAAP or by applicable bank regulatory requirements, but is a metric used by management to evaluate the adequacy of our capital levels. Since there is no authoritative requirement to calculate the TCE ratio, our TCE ratio is not necessarily comparable to similar capital measures disclosed or used by other companies in the financial services industry. Tangible common equity and tangible assets are non-GAAP financial measures and should be considered in addition to, not as a substitute for or superior to, financial measures determined in accordance with U.S. GAAP. Set forth below are the reconciliations of tangible common equity to U.S. GAAP total common stockholders' equity and tangible assets to U.S. GAAP total assets at March 31, 2022 (in thousands). (See also Non-GAAP Disclosure contained herein.)

				Ratios
Total common stockholders' equity	$ 134,768	Total assets	$ 1,476,681	9.13% (1)
Less: goodwill	(19,168)	Less: goodwill	(19,168)	
Less: core deposit intangible	(438)	Less: core deposit intangible	(438)	
Tangible common equity	$ 115,162	**Tangible assets**	$ 1,457,075	7.90% (2)

(1) The ratio of total common stockholders' equity to total assets is the most comparable GAAP measure to the non-GAAP tangible common equity ratio presented herein.

(2) TCE ratio

All dividends must conform to applicable statutory requirements. The Company's ability to pay dividends to stockholders depends on the Bank's ability to pay dividends to the Company. Additionally, the ability of the Bank to pay dividends to the Company is subject to certain regulatory restrictions. Under New York law, a bank may pay a dividend on its common stock only out of net profits, and must obtain the approval of the Superintendent of the DFS if the total of all dividends declared by a bank or trust company in any calendar year exceeds the total of its net profits for that year combined with its retained net profits of the preceding two years, less any required transfer to surplus or a fund for the retirement of any preferred stock.

No cash dividends were declared by the Company during the six months ended March 31, 2021. On January 25, 2022 the Company's Board of Directors approved the payment of a $0.10 per common share cash dividend payable on February 15, 2022, to stockholders of record on February 8, 2022. This was the Company's first cash dividend.

Off-Balance Sheet Arrangements - The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. Collateral required varies, but may include accounts receivable, inventory, equipment, real estate and income-producing commercial properties. At March 31, 2022 and September 30, 2021, commitments to originate loans and commitments under unused lines of credit for which the Bank is obligated amounted to approximately $71 million and $106 million, respectively.

Letters of credit are conditional commitments guaranteeing payments of drafts in accordance with the terms of the letter of credit agreements. Commercial letters of credit are used primarily to facilitate trade or commerce and are also issued to support public and private borrowing arrangements, bond financing and similar transactions. Collateral may be required to support letters of credit based upon management's evaluation of the creditworthiness of each customer. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. At March 31, 2022 and September 30, 2021, letters of credit outstanding were approximately $1.4 million and $786 thousand, respectively.

Results of Operations – Comparison of the Three Months Ended March 31, 2022 and 2021 – The Company recorded net income of $5.9 million during the three months ended March 31, 2022 versus net income of $2.1 million in the comparable three month period a year ago. The increase in earnings for the three months ended March 31, 2022 versus the comparable 2021 period was primarily due to a $6.9 million, or 89.0%, increase in net interest income coupled with a $2.0 million improvement in non-interest income. Partially offsetting these positive factors was a $3.7 million increase in total operating expenses, principally resulting from growth in compensation and benefits due largely to an increase in personnel from the acquisition of Savoy in May 2021, coupled with an $300 thousand increase in the provision for loan losses expense due to growth in the loan portfolio in the second fiscal quarter of 2022.

Net Interest Income and Margin

The $6.9 million improvement in net interest income was largely attributable to growth in average interest-earning assets of 68.5%, primarily loans, and a 47 basis point increase in the net interest margin to 4.26% in 2022 from 3.79% in the year ago period. The wider net interest margin was largely due to a 52 basis point reduction in the average cost of interest-bearing liabilities to 0.44% in the 2022 period. Included in net interest income was accretion and amortization of purchase accounting adjustments of $1.3 million during the three months ended March 31, 2022 arising from the acquisition of Savoy. Excluding these purchase accounting adjustments, the adjusted net interest margin was 3.86% and 3.80% in the quarter ended March 31, 2022 and 2021, respectively.

The lower cost of average interest-bearing liabilities in 2022 resulted from an improved deposit mix. Lower cost core deposits (demand, NOW, savings and money market accounts) increased by $531.0 million while higher cost certificates of deposit declined by $18.9 million compared to the year ago period.

NET INTEREST INCOME ANALYSIS
For the Three Months Ended March 31, 2022 and 2021
(dollars in thousands)

	2022			2021		
(in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets:						
Interest-earning assets						
Loans	$ 1,274,485	$ 15,749	5.01 %	$ 742,004	$ 9,133	4.99 %
Investment securities	11,547	106	3.72 %	17,595	182	4.20 %
Interest-earning balances and other	114,889	45	0.16 %	70,465	19	0.11 %
FHLB stock and other investments	4,062	41	4.09	3,714	46	5.02
Total interest-earning assets	1,404,983	15,941	4.60 %	833,778	9,380	4.56 %
Non interest-earning assets:						
Cash and due from banks	8,405			5,576		
Other assets	47,243			23,797		
Total assets	$ 1,460,631			$ 863,151		
Liabilities and stockholders' equity:						
Interest-bearing liabilities						
Savings, NOW and money market deposits	$ 696,240	$ 345	0.20 %	$ 247,336	$ 157	0.26 %
Time deposits	306,363	401	0.53 %	334,804	915	1.11 %
Total interest-bearing deposits	1,002,603	746	0.30 %	582,140	1,072	0.75 %
Fed funds purchased & FHLB & FRB advances	87,948	117		58,807	180	1.24
Subordinated debentures	24,527	334	5.52 %	24,476	326	5.40 %
Total interest-bearing liabilities	1,115,078	1,197	0.44 %	665,423	1,578	0.96 %
Demand deposits	199,630			107,884		
Other liabilities	12,662			8,764		
Total liabilities	1,327,370			782,071		
Stockholders' equity	133,261			81,080		
Total liabilities and stockholders' equity	$ 1,460,631			$ 863,151		
Net interest income and interest rate spread			4.16 %			3.60 %
Net interest margin		$ 14,744	4.26 %		$ 7,802	3.79 %

Provision and Allowance for Loan Losses

The Company recorded a $500 thousand provision for loan losses expense for the three months ended March 31, 2022 versus a $200 thousand expense recorded for the comparable period in 2021. The adequacy of the provision and the resulting allowance for loan losses, which was $9.9 million at March 31, 2022, is determined by management's ongoing review of the loan portfolio including, among other things, impaired loans, past loan loss experience, known and inherent risks in the portfolio, existing adverse situations that may affect the borrower's ability to repay and estimated fair value of any underlying collateral securing loans. Moreover, management evaluates changes, if any, in underwriting standards, collection, charge-off and recovery practices, the nature or volume of the portfolio, lending staff, concentration of loans, as well as current economic conditions and other relevant factors. Management believes the allowance for loan losses is adequate to provide for probable and reasonably estimable losses at March 31, 2022. (See also Critical Accounting Policies, Judgments and Estimates and Asset Quality contained herein.)

Non-interest Income

Non-interest income increased by $2.0 million for the three months ended March 31, 2022 versus 2021. This increase was largely driven by increases in net gain on sale of loans and loan servicing and fee income. For the three months ended March 31, 2022 and 2021, the Company sold loans totaling approximately $16.2 million and $9.4 million, respectively, recognizing net gains of $1.6 million and $295 thousand, respectively. The increase in loan fees and deposit service charges was primarily driven by increases in loan and deposit balances, primarily as a result of the acquisition of Savoy. The increase in income related to loan servicing rights was due to growth in the volume of loans serviced by the Company, primarily due to the acquisition of Savoy.

Non-Interest Income
For the three and six months ended March 31, 2022 and 2021
(dollars in thousands)

	Three months ended March 31,		Six months ended March 31,	
	2022	2021	2022	2021
Loan servicing and fee income	$ 734	$ 139	**$ 1,424**	$ 222
Service charges on deposit accounts	46	17	**109**	32
Net gain on sale of investments available-for-sale	105	240	**105**	240
Net gain on sale of loans held for sale	1,575	295	**3,067**	476
Other income	212	1	**343**	8
Total non-interest income	$ 2,672	$ 692	**$ 5,048**	$ 978

Non-interest Expense

Total non-interest expense increased by $3.6 million for the three months ended March 31, 2022 versus 2021. The overall increase in non-interest expenses was primarily driven by the additional headcount, facilities and transaction volume associated with the acquisition of Savoy. The increase in other non-interest expenses is primarily due to increased assessment charges and correspondent banking fees due to the increased size of the Company.

Non-Interest Expense
For the three and six months ended March 31, 2022 and 2021
(dollars in thousands)

	Three months ended March 31,		Six months ended March 31,	
	2022	2021	2022	2021
Salaries and employee benefits	**$ 5,618**	$ 3,268	**$ 10,557**	$ 6,376
Occupancy and equipment	**1,370**	1,209	**2,783**	2,380
Data processing	**392**	270	**759**	515
Advertising and promotion	**153**	19	**186**	67
Acquisition costs	**—**	151	**—**	296
Professional fees	**640**	308	**1,139**	720
Other expenses	**1,184**	500	**2,198**	961
Total non-interest expense	**$ 9,357**	$ 5,725	**$ 17,622**	$ 11,315

The Company recorded income tax expense of $1.7 million for an effective tax rate of 22.5% for the three months ended March 31, 2022 versus income tax expense of $514 thousand for an effective tax rate of 20.0% in the comparable 2021 period.

Results of Operations – Comparison of the Six Months Ended March 31, 2022 and 2021 –The Company recorded net income of $12.4 million during the six months ended March 31, 2022 versus $3.6 million in the comparable six months a year ago. The $8.8 million increase in earnings for the six months ended March 31, 2022 versus the comparable 2021 period was primarily due to a $14.9 million or 98.4% increase in net interest income and a $4.1 million increase in non-interest income, partially offset by a $1.1 million increase in the provision for loan losses, a $6.3 million increase in non-interest expense and a $3.6 million increase in provision for income taxes versus the comparable 2021 period. The Company's effective tax rate increased to 22.7% in 2022 from 20.4% a year ago.

The $14.9 million or 98.4% improvement in net interest income was largely attributable to growth in average interest-earning assets of $564.1 million, primarily in loans and a 66-basis point reduction in the yield on average total interest-bearing liabilities to 0.46% from 1.12% a year ago, largely due to a 58-basis point decline in the average cost of savings and time deposits. Reflecting the improvement in net interest income, the Company's net interest margin widened to 4.32% for the six months ended March 31, 2022 versus 3.66% for the same period a year ago.

The lower cost of interest-bearing liabilities in 2022 was also the result of a $36.8 million reduction in average time deposit balances, coupled with increases in lower cost average savings deposits and non-interest-bearing demand deposit balances of $17.3 million and $100.2 million, respectively.

NET INTEREST INCOME ANALYSIS
For the Six Months Ended March 31, 2022 and 2021
(dollars in thousands)

	2022			2021		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets:						
Loans	$ 1,264,043	$ 32,130	5.10 %	$ 733,283	$ 18,391	5.03 %
Investment securities	13,613	260	3.83 %	17,052	355	4.18 %
Interest-earning cash	110,729	84	0.15 %	74,758	40	0.11 %
FHLB stock and other investments	4,664	83	3.57 %	3,819	91	4.78 %
Total interest-earning assets	1,393,049	32,557	4.69 %	828,912	18,877	4.57 %
Non interest-earning assets:						
Cash and due from banks	8,334			5,138		
Other assets	48,136			24,051		
Total assets	$ 1,449,519			$ 858,101		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Savings, NOW and money market deposits	$ 652,268	$ 711	0.22 %	$ 216,783	$ 274	0.25 %
Time deposits	326,626	892	0.55 %	363,434	2,369	1.31 %
Total savings and time deposits	978,894	1,603	0.33 %	580,217	2,643	0.91 %
Fed funds purchased & FHLB & FRB advances	107,213	277	0.52 %	68,983	401	1.17 %
Note payable	—	—	— %	659	73	22.22 % (1)
Subordinated debentures	24,513	664	5.43 %	23,678	631	5.34 %
Total interest-bearing liabilities	1,110,620	2,544	0.46 %	673,537	3,748	1.12 %
Demand deposits	195,854			95,659		
Other liabilities	13,254			8,844		
Total liabilities	1,319,728			778,040		
Stockholders' equity	129,791			80,061		
Total liabilities & stockholders' equity	$ 1,449,519			$ 858,101		
Net interest rate spread			4.23 %			3.45 %
Net interest income/margin		$ 30,013	4.32 %		$ 15,129	3.66 %

(1) Includes impact of debt extinguishment charges. Excluding the impact of these charges, the average rate was 5.78%.

The Company recorded a $1.4 million expense to the provision for loan losses for the six months ended March 31, 2022 versus a $300 thousand expense recorded for the comparable period in 2021. (See also Critical Accounting Policies, Judgments and Estimates and Asset Quality contained herein.)

Non-interest income increased by $4.0 million for the six months ended March 31, 2022 versus 2021. This increase was principally due to a $2.6 million increase in net gain on sale of loans held for sale and a $1.2 million increase in loan servicing and fee income. For the six months ended March 31, 2022 and 2021, the Company sold loans totaling approximately $51.4 million and $17.8 million, respectively, recognizing net gains of $3.1 million and $476 thousand, respectively.

Total non-interest expense increased by $6.3 million or 55.7% for the six months ended March 31, 2022 versus 2021, principally resulting from higher salaries and employee benefits of $4.2 million as the Company continued to grow and a $1.2 million increase in other expenses. The operating efficiency ratio, defined as total non-interest expense as a percentage of total revenue, was 50.4% for the six months ended March 31, 2022 compared to 71.3% in the comparable period of 2021.

The Company recorded income tax expense of $3.6 million for the six months ended March 31, 2022 resulting in an effective tax rate of 22.7%, versus income tax expense of $918 thousand and an effective tax rate of 20.4% in the comparable 2021 period.

Asset Quality - Total non-accrual loans at March 31, 2022 were $10.5 million, or 0.81% of total loans, compared to $7.0 million, or 0.56% of total loans at September 30, 2021 and $9.4 million, or 1.22% of total loans, at March 31, 2021. Management believes all of the Company's non-accrual loans at March 31, 2022 are well collateralized and no specific reserves have been taken with regard to these loans. The allowance for loan losses as a percentage of total non-accrual loans amounted to 94%, 122% and 87% at March 31, 2022, September 30, 2021 and March 31, 2021, respectively.

Total accruing loans, excluding purchased credit-impaired loans, delinquent 30 days or more amounted to $3.3 million, $8.2 million and $1.3 million at March 31, 2022, September 30, 2021 and March 31, 2021, respectively.

Total loans having credit risk ratings of Special Mention or Substandard were $36.0 million at March 31, 2022 versus $51.9 million at September 30, 2021. These were mainly from the acquired loan portfolio of Savoy Bank. The acquired portfolio has a large component of SBA loans, which have been supported through the COVID-pandemic with assistance from the SBA. The high level of criticized loans in the Savoy portfolio results in part from a conservative view of these borrowers' ability to perform once government assistance ends, as well as specific instances of borrowers seeking assistance/deferrals/modifications due to the impact to their business. The Company's Special Mention and Substandard loans were comprised of residential real estate, multi-family, commercial real estate loans and commercial and industrial loans (including SBA facilities) at March 31, 2022. The Company had no loans with a credit risk rating of Doubtful for the periods presented. All loans not having credit risk ratings of Special Mention, Substandard or Doubtful are considered pass loans.

At March 31, 2022, the Company had $1.3 million in troubled debt restructurings ("TDRs"), consisting of residential real estate loans. The Company had TDRs amounting to $1.6 million and $1.7 million at September 30, 2021 and March 31, 2021, respectively.

At March 31, 2022, the Company's allowance for loan losses amounted to $9.9 million or 0.77% of period-end total loans outstanding. The allowance as a percentage of loans outstanding was 0.69% at September 30, 2021 and 1.07% at March 31, 2021. The Company recorded no loan charge-offs or recoveries during the three months ended March 31, 2022, September 30, 2021 and March 31, 2021.

The Company recorded a $500 thousand provision for loan losses expense for the three months ended March 31, 2022 versus a $200 thousand expense recorded for the comparable period in 2021. Adjustments to the Company's loss experience is based on management's evaluation of several environmental factors, including: changes in local, regional, national, and international economic and business conditions and developments that affect the collectability of the loan portfolio, including the condition of various market segments; changes in the nature and volume of the Company's portfolio and in the terms of the Company's loans; changes in the experience, ability, and depth of lending management and other relevant staff; changes in the volume and severity of past due loans, the volume of nonaccrual loans and the volume and severity of adversely classified or graded loans; changes in the quality of the Company's loan review system; changes in lending policies, procedures and strategies; changes in the value of underlying collateral for collateral-dependent loans; the existence and effect of any concentrations of credit and changes in the level of such concentrations; and the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the Company's existing portfolio.

Management has determined that the current level of the allowance for loan losses is adequate in relation to the probable and reasonably estimable losses present in the portfolio. While management uses available information to recognize probable and reasonably estimable losses on loans, future additions to the allowance may be necessary and management may need to record loan charge-offs in future periods. Changes in estimates could result in a material change in the allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. (See also Critical Accounting Policies, Judgments and Estimates contained herein).

ASSET QUALITY
March 31, 2022 versus September 30, 2021 and March 31, 2021
(dollars in thousands)

	As of or for the three months ended		
	3/31/2022	9/30/2021	3/31/2021
Non-accrual loans	$ 10,470	$ 7,028	$ 9,350
Non-accrual loans held for sale	—	—	—
Other real estate owned	—	—	—
Total non-performing assets (1)	$ 10,470	$ 7,028	$ 9,350
Purchased credit-impaired loans 90 days or more past due and still accruing	$ 1,483	$ 2,519	$ 322
Performing TDRs	1,336	455	455
Loans held for sale	—	—	893
Loans held for investment	1,289,041	1,247,125	763,596
Allowance for loan losses:			
Beginning balance	$ 9,386	$ 7,852	$ 7,979
Provision	500	700	200
Charge-offs	—	—	—
Recoveries	—	—	—
Ending balance	$ 9,886	$ 8,552	$ 8,179
Allowance for loan losses as a % of total loans (2)	0.77 %	0.69 %	1.07 %
Allowance for loan losses as a % of non-accrual loans (2)	94 %	122 %	87 %
Non-accrual loans as a % of total loans (2)	0.81 %	0.56 %	1.22 %
Non-performing assets as a % of total loans, loans held for sale and other real estate owned	0.81 %	0.56 %	1.22 %
Non-performing assets as a % of total assets	0.71 %	0.47 %	1.05 %
Non-performing assets, purchased credit-impaired loans 90 days or more past due and still accruing and performing TDRs, to total loans held for sale and investment	1.03 %	0.80 %	1.32 %

(1) Non-performing assets defined as non-accrual loans, non-accrual loans held for sale and other real estate owned.
(2) Excludes loans held for sale.

ITEM 3. - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company originates and invests in interest-earning assets and solicits interest-bearing deposit accounts. The Company's operations are subject to market risk resulting from fluctuations in interest rates to the extent that there is a difference between the amounts of interest-earning assets and interest-bearing liabilities that are prepaid, withdrawn, matured or repriced in any given period of time. The Company's earnings or the net value of its portfolio will change under different interest rate scenarios. The principal objective of the Company's asset/liability management program is to maximize net interest income within an acceptable range of overall risk, including both the effect of changes in interest rates and liquidity risk.

The following presents the Company's economic value of equity ("EVE") and net interest income ("NII") sensitivities at March 31,2022 (dollars in thousands). The results are within the Company's policy limits.

At March 31, 2022							
Interest Rates (basis points)	Estimated EVE	Estimated Change in EVE		Interest Rates (basis points)	Estimated NII(1)	Estimated Change in NII(1)	
		Amount	%			Amount	%
+400	$ 112,728	$ (47,825)	(29.8)	+400	$ 58,098	$ (386)	(0.7)
+300	124,862	(35,691)	(22.2)	+300	58,410	(74)	(0.1)
+200	137,402	(23,151)	(14.4)	+200	58,683	199	0.3
+100	149,844	(10,709)	(6.7)	+100	58,803	319	0.5
0	160,553			0	58,484		
-100	176,597	16,044	10.0	-100	56,372	(2,112)	(3.6)

(1) Assumes 12 month time horizon.

ITEM 4. – CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of its principal executive officer and principal financial officer, of the effectiveness of the design and operation of its disclosure controls and procedures as defined in Rule l3a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective in timely alerting them to material information required to be included in the Company's periodic reports filed with the Securities and Exchange Commission. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

There were no changes to the Company's internal control over financial reporting as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1. - LEGAL PROCEEDINGS

The Company is not subject to any legal proceedings, which could have a materially adverse impact on its results of operations and financial condition.

ITEM 1A. – RISK FACTORS

There have been no changes to the risks disclosed in the “Risk Factors” section of the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2021, as filed with the Securities and Exchange Commission.

ITEM 2. – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. – DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. – MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. – OTHER INFORMATION

Not applicable.

ITEM 6. – EXHIBITS

31.1	Certification of principal executive officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of principal financial officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

EXHIBIT INDEX

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	HANOVER BANCORP, INC.
Dated: May 16, 2022	/s/ Michael P. Puorro Michael P. Puorro Chairman & Chief Executive Officer (principal executive officer)
Dated: May 16, 2022	/s/ Lance P. Burke Lance P. Burke Executive Vice President & Chief Financial Officer (principal financial and accounting officer)

EXHIBIT 31.1

CERTIFICATION PURSUANT TO RULE 13A-14(A) OR 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael P. Puorro, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hanover Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 16, 2022
/s/ Michael P. Puorro
Michael P. Puorro
Chairman & Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

CERTIFICATION PURSUANT TO RULE 13A-14(A) OR 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Lance P. Burke, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hanover Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 16, 2022
/s/ Lance P. Burke
Lance P. Burke
Executive Vice President & Chief Financial Officer
(principal financial and accounting officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael P. Puorro, Chairman & Chief Executive Officer of Hanover Bancorp, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that: (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 16, 2022
/s/ Michael P. Puorro
Michael P. Puorro
Chairman & Chief Executive Officer
(principal executive officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Lance P. Burke, Executive Vice President & Chief Financial Officer of Hanover Bancorp, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that: (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 16, 2022
/s/ Lance P. Burke
Lance P. Burke
Executive Vice President & Chief Financial Officer
(principal financial and accounting officer)