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: June 30, 2021
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. 333-252262

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: None

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	5,551,290 Shares
(Title of Class)	(Outstanding as of August 5, 2021)

HANOVER BANCORP, INC.
Form 10-Q
For the Quarterly Period Ended June 30, 2021

Table of Contents

PART I
ITEM 1. – FINANCIAL STATEMENTS

HANOVER BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
June 30, 2021 and September 30, 2020
(in thousands, except share and per share data)

	June 30, 2021 (unaudited)	September 30, 2020
ASSETS		
Cash and non-interest-bearing deposits due from banks	$ 26,715	$ 6,239
Interest-bearing deposits due from banks	144,118	73,970
Federal funds sold	101	-
Total cash and cash equivalents	170,934	80,209
Securities:		
Held to maturity (fair value of $9,263 and $11,131, respectively)	8,987	10,727
Available for sale, at fair value	7,777	6,035
Total securities	16,764	16,762
Loans held for sale	3,883	-
Loans held for investment	1,293,262	725,019
Allowance for loan losses	(7,852)	(7,869)
Loans held for investment, net	1,285,410	717,150
Premises and equipment, net	14,606	14,156
Accrued interest receivable	10,270	6,766
Prepaid pension	4,237	4,660
Restricted securities, at cost	4,116	4,202
Goodwill	18,100	1,901
Other intangibles	502	22
Other assets	12,621	5,778
TOTAL ASSETS	$ 1,541,443	$ 851,606
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	$ 179,259	$ 82,350
Savings, NOW and money market	519,474	187,657
Time	460,689	394,753
Total deposits	1,159,422	664,760
Borrowings	228,625	85,154
Subordinated debentures	24,498	-
Note payable	-	14,984
Accrued interest payable	1,156	374
Other liabilities	12,504	8,291
TOTAL LIABILITIES	1,426,205	773,563
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 5,552,457 and 4,175,144, respectively)	56	42
Surplus	97,014	63,725
Retained earnings	17,915	14,120
Accumulated other comprehensive income, net of tax	253	156
TOTAL STOCKHOLDERS' EQUITY	115,238	78,043
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,541,443	$ 851,606

See accompanying notes to unaudited consolidated financial statements.

HANOVER BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Three and Nine Months Ended June 30, 2021 and 2020
(dollars in thousands, except per share data)
(unaudited)

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Nine Months Ended June 30, 2021	Nine Months Ended June 30, 2020
INTEREST INCOME				
Loans	$ 11,798	$ 9,450	$ 30,189	$ 29,124
Taxable securities	168	125	523	346
Federal funds sold	-	1	-	106
Other interest income	72	89	203	806
Total interest income	12,038	9,665	30,915	30,382
INTEREST EXPENSE				
Savings, NOW and money market deposits	269	155	543	1,307
Time deposits	760	2,444	3,129	7,421
Borrowings	561	564	1,666	1,898
Total interest expense	1,590	3,163	5,338	10,626
Net interest income	10,448	6,502	25,577	19,756
Provision for loan losses	-	150	300	1,150
Net interest income after provision for loan losses	10,448	6,352	25,277	18,606
NON-INTEREST INCOME				
Loan fees and service charges	257	53	448	190
Service charges on deposit accounts	34	12	66	47
Net gain on sale of loans held for sale	212	15	688	917
Net gain on sale of securities available for sale	-	-	240	-
Other income	147	19	186	75
Total non-interest income	650	99	1,628	1,229
NON-INTEREST EXPENSE				
Salaries and employee benefits	3,980	2,688	10,481	8,162
Occupancy and equipment	1,300	1,078	3,680	3,293
Data processing	419	211	934	677
Advertising and promotion	18	63	85	280
Acquisition costs	3,937	-	4,233	236
Professional fees	369	290	1,089	1,632
Other expenses	709	338	1,545	1,170
Total non-interest expense	10,732	4,668	22,047	15,450
Income before income tax expense	366	1,783	4,858	4,385
Income tax expense	145	374	1,063	957
NET INCOME	$ 221	$ 1,409	$ 3,795	$ 3,428
EARNINGS PER COMMON SHARE - BASIC	$ 0.05	$ 0.34	$ 0.87	$ 0.82
EARNINGS PER COMMON SHARE - DILUTED	$ 0.05	$ 0.33	$ 0.85	$ 0.81
WEIGHTED AVERAGE COMMON SHARES - BASIC	4,731,949	4,166,961	4,368,809	4,159,531
WEIGHTED AVERAGE COMMON SHARES - DILUTED	4,816,260	4,231,137	4,452,938	4,223,844

See accompanying notes to unaudited consolidated financial statements.

HANOVER BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Nine Months Ended June 30, 2021 and 2020
(in thousands)
(unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Net income	$ 221	$ 1,409	$ 3,795	$ 3,428
Other comprehensive income, net of tax:				
Change in unrealized gain on securities available for sale arising during the period, net of tax of $11, $5, $79 and $21, respectively	27	20	288	79
Reclassification adjustment for gains realized in net income, net of tax of $0, $0, ($49) and $0, respectively	-	-	(191)	-
Total other comprehensive income, net of tax	27	20	97	79
Total comprehensive income, net of tax	$ 248	$ 1,429	$ 3,892	$ 3,507

See accompanying notes to unaudited consolidated financial statements.

HANOVER BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three and Nine Months Ended June 30, 2021 and 2020
(in thousands, except share data)
(unaudited)

	Three Months Ended June 30,	
	2021	**2020**
Common stock		
Balance, April 1	$ 42	$ 42
Stock-based compensation (in 2020:7,000 shares issued)	-	-
Stock options exercised	-	-
Issuance of common stock (in 2021:1,357,567 shares issued)	14	-
Ending balance	56	42
Surplus		
Balance, April 1	64,283	63,225
Stock-based compensation	224	214
Stock options exercised	-	-
Savoy acquisition rollover options value	1,269	-
Issuance of common stock	31,238	-
Ending balance	97,014	63,439
Retained earnings		
Balance, April 1	17,694	11,165
Net income	221	1,409
Ending balance	17,915	12,574
Accumulated other comprehensive income, net of tax		
Balance, April 1	226	81
Other comprehensive income, net of tax	27	20
Ending balance	253	101
Total stockholders' equity	$ 115,238	$ 76,156

	Nine Months Ended June 30,	
	2021	**2020**
Common stock		
Balance, October 1	$ 42	$ 42
Stock-based compensation (in 2021: 15,727 shares issued, 441 shares withheld, 667 shares forfeited; in 2020: 21,841 shares issued, 28,287 shares forfeited)	-	-
Stock options exercised (in 2020: 10,735 shares issued)	-	-
Issuance of common stock (in 2021: 1,362,694 shares issued; in 2020: 2,076 shares issued)	14	-
Ending balance	56	42
Surplus		
Balance, October 1	63,725	62,740
Stock-based compensation	669	547
Stock options exercised	-	107
Savoy acquisition rollover options value	1,269	-
Issuance of common stock	31,351	45
Ending balance	97,014	63,439
Retained earnings		
Balance, October 1	14,120	9,146
Net income	3,795	3,428
Ending balance	17,915	12,574
Accumulated other comprehensive income, net of tax		
Balance, October 1	156	22
Other comprehensive income, net of tax	97	79
Ending balance	253	101
Total stockholders' equity	$ 115,238	$ 76,156

See accompanying notes to unaudited consolidated financial statements.

HANOVER BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended June 30, 2021 and 2020
(in thousands)
(unaudited)

	Nine Months Ended June 30,	
	2021	2020
NET INCOME	$ 3,795	$ 3,428
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Provision for loan losses	300	1,150
Depreciation and amortization	884	995
Net gain on sale of loans held for sale	(688)	(917)
Net gain on sale of securities available for sale	(240)	-
Stock-based compensation	669	547
Net (accretion) amortization of premiums, discounts, loan fees and costs	(848)	98
Amortization of debt issuance costs	59	2
Amortization of intangible assets	10	3
Mortgage servicing rights valuation adjustment	116	93
Deferred tax benefit	793	(301)
Decrease (increase) in accrued interest receivable	1,017	(2,671)
Decrease (increase) in other assets	647	(613)
Decrease in accrued interest payable	(268)	(99)
Increase (decrease) in other liabilities	737	(2,000)
Net cash provided by (used in) operating activities	6,983	(285)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(4,683)	(5,000)
Purchases of restricted securities	(346)	(78)
Proceeds from sales of securities available for sale	3,240	-
Principal repayments of securities held to maturity	1,727	842
Principal repayments of securities available for sale	294	24
Redemptions of restricted securities	1,192	1,726
Proceeds from sales of loans	32,045	32,581
Net increase in loans	(21,180)	(35,119)
Purchases of premises and equipment	(1,299)	(777)
Cash consideration paid in acquisition	(32,991)	-
Net cash acquired in business combination	59,155	-
Net cash provided by (used in) investing activities	37,154	(5,801)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	152,082	9,047
Repayments of Federal Home Loan Bank advances	(25,044)	(38,235)
Increase in Federal Reserve Bank borrowings	-	16,256
Repayments of Federal Reserve Bank borrowings	(90,018)	-
Proceeds from issuance of subordinated debentures, net of issuance costs	24,455	-
Repayment of note payable	(15,000)	-
Net proceeds from stock options exercised	-	107
Net proceeds from issuance of common stock	113	45
Net cash provided by (used in) financing activities	46,588	(12,780)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	90,725	(18,866)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	80,209	87,831
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 170,934	$ 68,965
SUPPLEMENTAL DATA:		
Interest paid	$ 5,606	$ 10,439
Income taxes paid	$ 1,245	$ 945
SUPPLEMENTAL NON-CASH DISCLOSURE:		
Transfers from portfolio loans to loans held for sale	$ 36,084	$ 31,246
Fair value of assets acquired, net of cash and due from banks	$ 595,782	$ -
Fair value of liabilities assumed	$ 605,815	$ -
Common stock issued in acquisition	$ 31,252	$ -

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 June 30, 2021, its consolidated statements of income for the three and nine months ended June 30, 2021 and 2020, its consolidated statements of comprehensive income for the three and nine months ended June 30, 2021 and 2020, its consolidated statements of changes in stockholders' equity for the three and nine months ended June 30, 2021 and 2020 and its consolidated statements of cash flows for the nine months ended June 30, 2021 and 2020.

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 nine months ended June 30, 2021 are not necessarily indicative of the results of operations to be expected for the remainder of the year.

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 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 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, including estimates regarding expected credit losses on loans receivable and impairment of goodwill.

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 loans, construction 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 June 30, 2021, the Company had loans totaling $11.1 million, which, at the time of acquisition, showed evidence of credit deterioration since origination. Purchased credit impaired loans were not material at September 30, 2020.

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 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

Adoption of New Accounting Standards – In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-13, Fair Value Measurement (Topic 820), "Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." The amendments in this ASU were effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 with early adoption permitted. The amendments are to be applied on a retrospective basis to all periods presented. The fair value disclosures were updated with the Company's 2020 adoption of ASU 2018-13, with no material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350), "Simplifying the Test for Goodwill Impairment." The amendments in this ASU simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the amendments in this ASU, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not exceeding the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The ASU also eliminates the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. For non-public entities, ASU 2017-04 is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2021 with early adoption permitted. The amendments are to be applied on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition within the first annual period when the entity initially adopts the amendments. The Company adopted ASU 2017-04 on October 1, 2019 and determined that there was no impairment of goodwill under the new method.

Recent Accounting Pronouncements - In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326), "Measurement of Credit Losses on Financial Instruments," which sets forth a current expected credit loss ("CECL") model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the incurred loss model and will apply to the measurement of credit losses on financial assets measured at amortized cost and to some off-balance sheet credit exposures. For the Company, an emerging growth company electing 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, ASU 2016-13 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company has been gathering data and will be evaluating data and system requirements to implement this standard. The Company cannot yet determine the overall impact this standard will have on its consolidated financial statements upon adoption.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) which amended existing guidance that requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, the lessor accounting model and Topic 606, Revenue from Contracts with Customers. For the Company, an emerging growth company electing 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, ASU 2016-02 is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with early application permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently evaluating the adoption impact of ASU 2016-02 on the consolidated financial statements. Based on leases outstanding at June 30, 2021, the Company does not expect adoption to have a material impact on the income statement but does anticipate a material impact to the Company's consolidated statement of financial condition as a result of recognizing right-of-use assets and lease liabilities.

2. BUSINESS COMBINATIONS

On May 26, 2021, the Company completed its previously announced acquisition of Savoy Bank ("Savoy") pursuant to that certain 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 (the "Effective Time"), each share of Savoy common stock, $1.00 par value ("Savoy Common Stock") 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. The Company issued a total of 1,357,567 shares of its common stock as part of the merger consideration.

The acquisition was accounted for under the acquisition method of accounting in accordance with FASB ASC 805, "Business Combinations." Accordingly, the assets acquired and liabilities assumed were recorded at their respective acquisition date fair values.

The following summarizes the consideration paid and the initial fair value of the assets acquired and liabilities assumed:

(In thousands)	As recorded by Savoy	Fair value adjustments		Estimated Fair Value at May 26, 2021
Assets acquired:				
Cash and due from banks	59,155	-		$ 59,155
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
Restricted securities, at cost	760	-		760
Other assets	9,672	(1,858)	(e)	7,814
Total assets acquired	$ 648,365	$ 6,572		$ 654,937
Liabilities assumed:				
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				49,122
Cash paid in acquisition				32,991
Equity effect of Savoy transaction				32,521
Goodwill recorded on acquisition				$ 16,390

Explanation of certain fair value related adjustments:

(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 adjustments 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.

The above fair values and accruals for acquisition costs are the initial amounts and are subject to adjustment as fair value assessments and estimated acquisition costs are finalized. In accordance with FASB ASC 805-10 (Subtopic 25-15), the Company has up to one year from date of acquisition to complete this assessment. As a result of the acquisition, we recorded $16.4 million of goodwill. The goodwill recorded is not deductible for income tax purposes. Goodwill related to Savoy is not amortized for book purposes. However, it is reviewed at least annually for impairment.

The fair value of loans acquired from Savoy were estimated using cash flow projections based on contractual and repricing terms. Cash flows were adjusted by estimating future credit losses and the rate of prepayments. The present value of projected monthly cash flows were obtained by using a risk-adjusted discount rate. 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:

	Estimated Fair Value at May 26, 2021 (in thousands)
Contractually required principal and interest 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 loans	$ 10,409

The following table presents supplemental unaudited pro forma financial information as if the acquisition had occurred at the beginning of the Company's fiscal 2020. The unaudited pro forma adjustments give effect to any change in interest income due to the accretion of discounts (premiums) associated with the fair value adjustments of acquired loans, any change in interest expense due to estimated premium amortization/discount accretion associated with the fair value adjustments to acquired time deposits and other debt, and the amortization of the core deposit intangible that would have resulted had the deposits been acquired on the assumed dates. Additionally, the unaudited pro forma information does not reflect anticipated cost savings that have not yet been realized:

(in thousands, except per share data)	Pro Forma for the Three Months Ended June 30, 2021	Pro Forma for the Nine Months Ended June 30, 2021	Pro Forma for the Nine Months Ended June 30, 2020
Net interest income	$ 13,847	$ 40,729	$ 35,788
Non interest income	$ 5,101	$ 9,082	$ 3,973
Non interest expense	$ 13,684	$ 30,634	$ 23,755
Net income	$ 3,634	$ 13,250	$ 8,904
Basic earnings per share	$ 0.65	$ 2.38	$ 1.61
Diluted earnings per share	$ 0.64	$ 2.35	$ 1.60

In August 2019, Chinatown Federal Savings Bank was acquired by the Company and merged into the Bank. During the first calendar quarter of 2021, previously reported goodwill resulting from the acquisition of Chinatown Federal Savings Bank was reduced by $191 thousand. The reduction was an adjustment related to the net deferred tax asset.

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 nine months ended June 30, 2021 and 2020 follows (in thousands, except share and per share data). There were no stock options that were antidilutive for the three and nine months ended June 30, 2021 and 2020.

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Nine Months Ended June 30, 2021	Nine Months Ended June 30, 2020
Basic earnings per common share				
Net income	$ 221	$ 1,409	$ 3,795	$ 3,428
Weighted average common shares outstanding	4,731,949	4,166,961	4,368,809	4,159,531
Basic earnings per common share	$ 0.05	$ 0.34	$ 0.87	$ 0.82
Diluted earnings per common share				
Net income	$ 221	$ 1,409	$ 3,795	$ 3,428
Weighted average common shares outstanding for basic earnings per common share	4,731,949	4,166,961	4,368,809	4,159,531
Add: dilutive effects of assumed exercises of stock options	84,311	64,176	84,129	64,313
Average shares and dilutive potential common shares	4,816,260	4,231,137	4,452,938	4,223,844
Diluted earnings per common share	$ 0.05	$ 0.33	$ 0.85	$ 0.81

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 amortized cost, fair value and gross unrealized gains and losses of the Company's investment securities available for sale and held to maturity at June 30, 2021 and September 30, 2020 were as follows (in thousands):

	June 30, 2021				September 30, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:								
U.S. GSE residential mortgage-backed securities	$ 753	$ 91	$ -	$ 844	$ 838	$ 124	$ -	$ 962
Corporate bonds	6,700	233	-	6,933	5,000	73	-	5,073
Total available for sale securities	7,453	324	-	7,777	5,838	197	-	6,035
Held to maturity:								
U.S. GSE residential mortgage-backed securities	2,779	67	-	2,846	4,478	118	-	4,596
U.S. GSE commercial mortgage-backed securities	2,708	194	-	2,902	2,749	253	-	3,002
Corporate bonds	3,500	19	(4)	3,515	3,500	33	-	3,533
Total held to maturity securities	8,987	280	(4)	9,263	10,727	404	-	11,131
Total investment securities	$ 16,440	$ 604	$ (4)	$ 17,040	$ 16,565	$ 601	$ -	$ 17,166

All of the Company's securities with gross unrealized losses at June 30, 2021 had been in a continuous loss position for less than twelve months and such unrealized losses totaling $4 thousand are immaterial to the Company's consolidated financial statements. There were no securities with unrealized losses at September 30, 2020. At June 30, 2021 and September 30, 2020, investment securities carried at $2.4 million and $5.6 million, respectively, were pledged to secure public deposits.

The amortized cost and fair value of the Company's securities portfolio at June 30, 2021 (in thousands) are presented by contractual maturity in the table below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	June 30, 2021	
	Amortized Cost	Fair Value
Securities available for sale:		
Five to ten years	$ 6,700	$ 6,933
U.S. GSE residential mortgage-backed securities	753	844
Total securities available for sale	7,453	7,777
Securities held to maturity:		
One to five years	1,500	1,496
Five to ten years	2,000	2,019
U.S. GSE residential mortgage-backed securities	2,779	2,846
U.S. GSE commercial mortgage-backed securities	2,708	2,902
Total securities held to maturity	8,987	9,263
Total investment securities	$ 16,440	$ 17,040

For the nine months ended June 30, 2021, proceeds from sales of securities available for sale totaled $3.2 million, with an associated recognized gross gain of $240 thousand. There were no sales of securities for the three months ended June 30, 2021, or for the three and nine months ended June 30, 2020.

5. LOANS

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

	June 30, 2021	September 30, 2020
Residential real estate	$ 453,108	$ 454,073
Multi-family	227,545	136,539
Commercial real estate	331,040	113,615
Commercial and industrial	271,038	21,100
Construction	10,517	-
Consumer	14	24
Gross loans	1,293,262	725,351
Net deferred fees	-	(332)
Total loans	1,293,262	725,019
Allowance for loan losses	(7,852)	(7,869)
Total loans, net	$ 1,285,410	$ 717,150

The Company is 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) or five years (loans made on or after June 5, 2020), if not forgiven, in whole or in part. As of June 30, 2021, 852 of the Company's PPP loans totaling $124.8 million had received forgiveness. The Company's PPP loans outstanding, included in commercial and industrial loans in the table above, totaled $240.3 million and $17.6 million at June 30, 2021 and September 30, 2020, respectively.

At June 30, 2021 and September 30, 2020, the Company was servicing approximately $230.1 million and $26.8 million, respectively, of loans for others. The Company had approximately $3.9 million in loans held for sale at June 30, 2021 and no loans held for sale at September 30, 2020.

For the three months ended June 30, 2021 and 2020, the Company sold loans totaling approximately $13.5 million and $1.7 million, respectively, recognizing net gains of $212 thousand and $15 thousand, respectively. For the nine months ended June 30, 2021 and 2020, the Company sold loans totaling approximately $32.0 million and $32.6 million, respectively, recognizing net gains of $688 thousand and $917 thousand, respectively.

The following summarizes the activity in the allowance for loan losses by portfolio segment for the periods indicated (in thousands).

	Three Months Ended June 30, 2021					Three Months Ended June 30, 2020				
	Balance at beginning of period	Charge-offs	Recoveries	(Credit) provision for loan losses	Balance at end of period	Balance at beginning of period	Charge-offs	Recoveries	Provision (credit) for loan losses	Balance at end of period
Residential real estate	$ 4,851	$ (267)	$ -	$ (209)	$ 4,375	$ 5,261	$ -	$ -	$ 9	$ 5,270
Multi-family	1,955	(32)	-	(23)	1,900	1,440	-	-	(35)	1,405
Commercial real estate	1,310	(29)	-	228	1,509	1,061	-	-	168	1,229
Commercial and industrial	62	-	1	4	67	79	-	-	8	87
Consumer	1	-	-	-	1	2	-	-	-	2
Total	$ 8,179	$ (328)	$ 1	$ -	$ 7,852	$ 7,843	$ -	$ -	$ 150	$ 7,993

	Nine Months Ended June 30, 2021					Nine Months Ended June 30, 2020				
	Balance at beginning of period	Charge-offs	Recoveries	(Credit) provision for loan losses	Balance at end of period	Balance at beginning of period	Charge-offs	Recoveries	Provision (credit) for loan losses	Balance at end of period
Residential real estate	$ 5,103	$ (267)	$ -	$ (461)	$ 4,375	$ 4,647	$ -	$ -	$ 623	$ 5,270
Multi-family	1,506	(32)	-	426	1,900	1,215	-	-	190	1,405
Commercial real estate	1,221	(29)	-	317	1,509	1,193	-	-	36	1,229
Commercial and industrial	38	-	11	18	67	75	(300)	-	312	87
Consumer	1	-	-	-	1	13	-	-	(11)	2
Total	$ 7,869	$ (328)	$ 11	$ 300	$ 7,852	$ 7,143	$ (300)	$ -	$ 1,150	$ 7,993

The following presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment methodology for the periods indicated (in thousands). The recorded investment in loans excludes accrued interest receivable due to immateriality.

	Allowance for Loan Losses			Loan Balances			
June 30, 2021	Individually evaluated for impairment	Collectively evaluated for impairment	Ending balance	Individually evaluated for impairment	Purchased credit impaired loans(1)	Collectively evaluated for impairment	Ending balance
Residential real estate	$ -	$ 4,375	$ 4,375	$ 7,154	$ -	$ 445,965	$ 453,119
Multi-family	-	1,900	1,900	451	-	227,436	227,887
Commercial real estate	-	1,509	1,509	550	9,027	321,665	331,242
Commercial and industrial	-	67	67	544	2,082	267,855	270,481
Construction	-	-	-	-	-	10,517	10,517
Consumer	-	1	1	-	-	16	16
Total	$ -	$ 7,852	$ 7,852	$ 8,699	$ 11,109	$ 1,273,454	$ 1,293,262

(1) No allowance was recorded on purchased credit impaired loans.

September 30, 2020	Allowance for Loan Losses: Individually evaluated for impairment	Allowance for Loan Losses: Collectively evaluated for impairment	Allowance for Loan Losses: Ending balance	Loan Balances: Individually evaluated for impairment	Loan Balances: Collectively evaluated for impairment	Loan Balances: Ending balance
Residential real estate	$ -	$ 5,103	$ 5,103	$ 2,221	$ 451,539	$ 453,760
Multi-family	-	1,506	1,506	47	136,690	136,737
Commercial real estate	-	1,221	1,221	629	113,129	113,758
Commercial and industrial	-	38	38	334	20,404	20,738
Consumer	-	1	1	-	26	26
Total	$ -	$ 7,869	$ 7,869	$ 3,231	$ 721,788	$ 725,019

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

	June 30, 2021: Unpaid Principal Balance	June 30, 2021: Recorded Investment	June 30, 2021: Allowance Allocated	September 30, 2020: Unpaid Principal Balance	September 30, 2020: Recorded Investment	September 30, 2020: Allowance Allocated
With no related allowance recorded:						
Residential real estate	$ 7,292	$ 7,154	$ -	$ 2,221	$ 2,221	$ -
Multi-family	381	451	-	47	47	-
Commercial real estate	531	550	-	629	629	-
Commercial and industrial	544	544	-	634	334	-
Total	$ 8,748	$ 8,699	$ -	$ 3,531	$ 3,231	$ -

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2021		2020		2021		2020	
	Average recorded investment	Interest income recognized (1)	Average recorded investment	Interest income recognized(1)	Average recorded investment	Interest income recognized(1)	Average recorded investment	Interest income recognized(1)
Residential real estate	$ 5,937	$ 35	$ 2,234	$ 21	$ 4,890	$ 76	$ 2,062	$ 63
Multi-family	171	3	61	4	85	7	71	12
Commercial real estate	193	1	340	6	81	2	350	18
Commercial and industrial	181	-	334	-	60	-	500	-
Total	$ 6,482	$ 39	$ 2,969	$ 31	$ 5,116	$ 85	$ 2,983	$ 93

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

At June 30, 2021 and September 30, 2020, past due and non-accrual loans disaggregated by portfolio segment were as follows (dollars in thousands):

	Past Due and Non-Accrual						
June 30, 2021	**30 - 59 days past due and accruing**	**60 - 89 days past due and accruing**	**90 days and over past due and accruing**	**Non-accrual**	**Total past due and non-accrual**	**Current**	**Total[5]**
Residential real estate	$ 757	$ -	$ -	$ 5,498(1)	$ 6,255	$ 446,864	$ 453,119
Multi-family	-	-	-	451(2)	451	227,436	227,887
Commercial real estate	707	-	-	549(3)	1,256	320,959	322,215
Commercial and industrial	-	-	-	545(4)	545	267,854	268,399
Construction	-	-	-	-	-	10,517	10,517
Consumer	-	-	-	-	-	16	16
Total	$ 1,464	$ -	$ -	$ 7,043	$ 8,507	$ 1,273,646	$ 1,282,153

(1) Of the residential real estate non-accrual loans at June 30, 2021, $2,891 were not past due and $2,607 were 90 days or more past due.
(2) Multi-family non-accrual loans at June 30, 2021 were 90 days or more past due.
(3) Commercial real estate non-accrual loans at June 30, 2021 were 90 days or more past due.
(4) Commercial and industrial non-accrual loans at June 30, 2021 were 90 days or more past due.
(5) Excludes purchased credit impaired loans totaling $11,109.

	Past Due and Non-Accrual						
September 30, 2020	**30 - 59 days past due and accruing**	**60 - 89 days past due and accruing**	**90 days and over past due and accruing**	**Non-accrual[1]**	**Total past due and non-accrual**	**Current**	**Total**
Residential real estate	$ 4,507	$ -	$ -	$ 538	$ 5,045	$ 448,715	$ 453,760
Multi-family	-	-	-	47	47	136,690	136,737
Commercial real estate	-	-	296	34	330	113,428	113,758
Commercial and industrial	-	-	-	334	334	20,404	20,738
Consumer	-	-	-	-	-	26	26
Total	$ 4,507	$ -	$ 296	$ 953	$ 5,756	$ 719,263	$ 725,019

(1) Non-accrual loans at September 30, 2020 were 90 days or more 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 both June 30, 2021 and September 30, 2020, the Company had a recorded investment in TDRs totaling $1.7 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 June 30, 2021 or September 30, 2020.

For the three and nine months ended June 30, 2021 and 2020, 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 nine months ended June 30, 2021 and 2020, the Company had no new TDRs.

In June 2020, New York's Governor Andrew Cuomo signed SB 8243C and SB 8428, which created Section 9-x of the New York Banking Law. The new 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 regulators. As of June 30, 2021, 34 loans totaling $34.0 million were still in forbearance, of which 14 loans totaling $7.7 million were loans qualified under Section 9-x.

The Company continuously monitors the credit quality of its loans by reviewing certain credit quality indicators, most notably credit risk ratings by loan segment. The Company utilizes a credit risk rating system as part of the risk assessment of its loan portfolio. The Company's lending officers assign credit risk ratings to loans at time of origination. Should a lending officer learn of any financial developments subsequent to a loan's origination, the loan's risk rating is reviewed and adjusted if necessary. In addition, the Company engages a third-party independent loan reviewer that performs semi-annual reviews of a sample of the Company's loans, validating the credit risk ratings assigned to those loans.

Credit risk ratings play an important role in the determination of the Company's loan loss provision and the adequacy of its allowance for loan losses. The Company's credit risk rating system makes use of certain information relevant to the ability of the borrower to service their debt, including current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company's credit risk ratings are as follows:

Special Mention – Loans with potential weaknesses that require close management 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 - Loans inadequately protected by current sound worth and paying capacity of the obligor or collateral pledged, if any. Loans classified as Substandard have a well-defined weakness or weaknesses that jeopardizes the liquidation of the debt. There exists a distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans with weaknesses inherent in those 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 June 30, 2021 and September 30, 2020, the Company's loan portfolio by credit risk rating disaggregated by portfolio segment were as follows (dollars in thousands):

	June 30, 2021				September 30, 2020			
	Grade				Grade			
	Pass	Special mention	Substandard[1]	Total	Pass	Special mention	Substandard	Total
Residential real estate	$ 442,114	$ 5,507	$ 5,498	$ 453,119	$ 449,524	$ 2,893	$ 1,343	$ 453,760
Multi-family	223,454	3,982	451	227,887	135,396	1,294	47	136,737
Commercial real estate	297,491	19,051	14,700	331,242	111,457	893	1,408	113,758
Commercial and industrial	266,971	884	2,626	270,481	20,404	-	334	20,738
Construction	10,517	-	-	10,517	-	-	-	-
Consumer	16	-	-	16	26	-	-	26
Total	$ 1,240,563	$ 29,424	$ 23,275	$ 1,293,262	$ 716,807	$ 5,080	$ 3,132	$ 725,019

(1) Includes purchased credit impaired loans totaling $11,109.

6. STOCK-BASED COMPENSATION

The Company's 2018 Equity Compensation Plan ("the 2018 Plan") provides for the grant of stock-based compensation awards to officers, employees and directors of the Company. Under the 2018 Plan, a total of 346,000 shares of the Company's common stock were approved for issuance, of which 207,681 shares remained for possible issuance at June 30, 2021. 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 nine months ended June 30, 2021. The total intrinsic value of options exercised for the nine months ended June 30, 2020 was $127 thousand. The total cash received from option exercises for the nine months ended June 30, 2020 was $107 thousand. The Company recognized tax benefits of $44 thousand resulting from option exercises for the nine months ended June 30, 2020. No such tax benefits were recognized for the three months ended June 30, 2020.

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

	Number of Options	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Term
Outstanding, October 1, 2020	155,506	$ 11.35	$ 1,623	4.66 years
Converted in Savoy acquisition	71,900	5.51		
Exercised	-	-		
Forfeited	-	-		
Outstanding, June 30, 2021 (1)	227,406	$ 9.50	$ 1,795	3.76 years

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

In connection with the Savoy Bank acquisition, the Company assumed fully-vested legacy Savoy stock options held by the former Chief Executive Officer of Savoy which were converted into options to purchase 71,900 shares of Hanover common stock at a weighted average exercise price of $5.51 per share and fair value of $17.65 per share.

There was no compensation expense attributable to stock options for the nine months ended June 30, 2021. For the three and nine months ended June 30, 2020, such compensation expense was $4 thousand and $14 thousand, respectively.

Restricted Stock

During the nine months ended June 30, 2021, restricted stock awards of 15,727 shares were granted with a three-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 the prices of the most recent transactions in the Company’s common stock.

A summary of restricted stock activity follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested, October 1, 2020	95,052	$ 19.56
Granted	15,727	21.93
Vested	(44,946)	19.09
Forfeited	(667)	21.79
Unvested, June 30, 2021	65,166	$ 20.43

Compensation expense attributable to restricted stock was $224 thousand and $210 thousand for the three months ended June 30, 2021 and 2020, respectively. For the nine months ended June 30, 2021 and 2020, compensation expense attributable to restricted stock was $669 thousand and $533 thousand, respectively. As of June 30, 2021, there was $1.1 million of total unrealized compensation cost related to unvested restricted stock, expected to be recognized over a weighted-average term of 1.53 years. The total fair value of shares vested during the nine months ended June 30, 2021 and 2020 was $868 thousand and $835 thousand, respectively.

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.

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, 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.

In addition, to avoid limitations on distributions, including dividend payments, the Bank must hold a capital conservation buffer above its minimum risk-based capital requirements. The capital conservation buffer is equal to the lowest of the results calculated in items (1), (2), and (3) as follows: (1) the Bank's common equity tier 1 capital to risk-weighted assets ratio, less 4.50%, which is the minimum common equity tier 1 capital ratio regulatory requirement; (2) the Bank's tier 1 capital to risk-weighted assets ratio, less 6.00%, which is the minimum tier 1 capital ratio regulatory requirement; and (3) the Bank's total capital to risk-weighted assets ratio, less 8.00%, which is the minimum total capital ratio regulatory requirement. However, if any of the three calculated results is less than zero (i.e., is negative), the capital conservation buffer would be zero.

Each of the Bank's capital ratios exceeds applicable regulatory capital requirements and the Bank meets the requisite capital ratios to be well capitalized as of June 30, 2021 and September 30, 2020. At June 30, 2021 and September 30, 2020, the Bank's capital conservation buffers were in excess of the minimum buffer requirement described above. There are no subsequent conditions or events that management believes have changed the Bank's capital adequacy.

The Bank's capital amounts (in thousands) and ratios are presented in the table that follows.

	Actual		Required for capital adequacy purposes		Excess of amount required for capital adequacy purposes (1)		To be Well Capitalized under prompt corrective action regulations	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
June 30, 2021								
Total capital to risk-weighted assets	$ 126,624	15.01%	$ 67,535	8.00%	$ 59,089	7.00%	$ 84,419	10.00%
Tier 1 capital to risk-weighted assets	118,536	14.05%	50,651	6.00%	67,885	8.04%	67,535	8.00%
Common equity tier 1 capital to risk-weighted assets	118,536	14.05%	37,988	4.50%	80,548	9.54%	54,872	6.50%
Tier 1 capital to adjusted average assets (leverage)	118,536	11.20%	42,351	4.00%	N/A	N/A	52,938	5.00%
September 30, 2020								
Total capital to risk-weighted assets	$ 95,079	20.57%	$ 36,970	8.00%	$ 58,109	12.57%	$ 46,212	10.00%
Tier 1 capital to risk-weighted assets	89,275	19.32%	27,727	6.00%	61,548	13.32%	36,970	8.00%
Common equity tier 1 capital to risk-weighted assets	89,275	19.32%	20,796	4.50%	68,479	14.82%	30,038	6.50%
Tier 1 capital to adjusted average assets (leverage)	89,275	11.22%	31,820	4.00%	N/A	N/A	39,775	5.00%

(1) The capital conservation buffer is the minimum of the excess amounts shown, that is 7.00% and 12.57% at June 30, 2021 and September 30, 2020, respectively.

The ability of the Bank to pay dividends to the Company is subject to certain regulatory restrictions. Prior regulatory approval is required if the total of all dividends declared by the Bank in any calendar year exceeds the total of the Bank's net profits of that year combined with its retained net profits of the preceding two years. In addition, as discussed above, the Bank's ability to pay dividends to the Company may be limited if the Bank fails to satisfy any applicable capital conservation buffer. As of June 30, 2021, $16.6 million was available to pay dividends without obtaining prior regulatory approval.

8. FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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 effects related to the realization of unrealized gains and losses could have a significant impact on fair value estimates and have not been considered.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

Cash and cash equivalents - Cash and cash equivalents, which includes cash and due from banks, interest-bearing deposits at other banks and federal funds sold are short-term in nature with original maturities of three months or less; the carrying amount approximates fair value.

Securities held to maturity and securities available for sale - The fair values for securities were obtained from an independent broker based upon market prices quoted on nationally recognized securities exchanges or 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 security but rather on the security's relationship to other benchmark quoted securities.

Loans held for sale - Loans held for sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors.

Loans held for investment – The fair values for performing loans held for investment were obtained from an independent third party based upon an exit price which considered various factors, such as the interest rate of the loan relative to current market rates, the strength of the credit, the underwriting methodology and loan documentation and the ability to liquidate.

Generally, for loans identified as impaired, the fair value of the collateral is used to determine the fair value of the loan. The fair value of the collateral is determined based on recent appraised values. Appraisals for collateral-dependent impaired loans are performed by certified general appraisers whose qualifications and licenses have been reviewed and verified by the Company. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Adjustments may relate to location, square footage, condition, amenities, market rate of leases and timing of comparable sales. All appraisals undergo a second review process to ensure that the methodology and the values derived are reasonable. The fair value of the loan is compared to the carrying value to determine if any write-down or specific reserve is required. Impaired loans are evaluated quarterly for additional impairment and adjusted accordingly. Adjustments to fair value are made only when the analysis indicates a probable decline in collateral values.

Mortgage servicing rights - The fair values for mortgage servicing rights are obtained from an independent third-party pricing service. The estimated fair values are derived primarily from cash flow models, which include assumptions for interest rates, credit losses, and prepayment speeds.

Accrued interest receivable and payable - Carrying amount is a reasonable estimate of fair value.

Deposits - The fair value of time deposits is based on the market average at the term nearest the weighted average remaining maturity. For demand and other deposits, the carrying amount is a reasonable estimate of fair value.

Borrowings – Fair values are derived from discounted contractual cash flows using the weighted average remaining maturity.

Commitments to extend credit and letters of credit - The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, considering the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of commitments is immaterial to the financial statements.

The following presents fair value measurements on a recurring basis at June 30, 2021 and September 30, 2020 (in thousands):

		Fair Value Measurements Using	
Assets:	**June 30, 2021**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities available for sale:			
U.S. GSE residential mortgage-backed securities	$ 844	$ 844	$ -
Corporate bonds	6,933	6,933	-
Mortgage servicing rights	3,815	-	3,815
Total	$ 11,592	$ 7,777	$ 3,815

		Fair Value Measurements Using	
Assets:	**September 30, 2020**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities available for sale:			
U.S. GSE residential mortgage-backed securities	$ 962	$ 962	$ -
Corporate bonds	5,073	5,073	-
Mortgage servicing rights	155	-	155
Total	$ 6,190	$ 6,035	$ 155

Reconciliations for mortgage servicing rights measured at fair value on a recurring basis using significant unobservable inputs (Level 3) follow (in thousands).

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Nine Months Ended June 30, 2021	Nine Months Ended June 30, 2020
Beginning balance	$ 130	$ 199	$ 155	$ 266
Savoy acquisition	3,776	-	3,776	-
Adjustment to fair value	(91)	(26)	(116)	(93)
Ending balance	$ 3,815	$ 173	$ 3,815	$ 173

The significant inputs utilized in the cash flow models are based on market data obtained from sources independent of the Company, some of which are unobservable inputs and are therefore classified as Level 3 within the fair value hierarchy. Fair value at June 30, 2021 was determined based on discounted expected future cash flows using discount rates ranging from 7.9% to 14.5%, prepayment speeds ranging from 19.41% to 24.07% and a weighted average life ranging from 2.1 to 3.8 years. Fair value at June 30, 2020 was determined based on discounted expected future cash flows using discount rates ranging from 12.0% to 14.5%, prepayment speeds ranging from 23.25% to 23.60% and a weighted average life ranging from 2.7 to 3.3 years.

The Company had no financial instruments measured at fair value on a non-recurring basis at June 30, 2021 and September 30, 2020. The Company's impaired loans had no related specific allowances recorded at June 30, 2021 and September 30, 2020.

The following presents the carrying amounts and estimated fair values of the Company's financial instruments not carried at fair value at June 30, 2021 and September 30, 2020 (in thousands).

		Fair Value Measurements Using			
June 30, 2021	**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	$ 172,534	$ 172,534	$ -	$ -	$ 172,534
Securities held to maturity	8,987	-	9,263	-	9,263
Loans, net	1,285,410	-	-	1,325,596	1,325,596
Accrued interest receivable	10,920	-	153	10,767	10,920
Financial Liabilities:					
Time deposits	460,689	-	461,641	-	461,641
Demand and other deposits	698,733	698,733	-	-	698,733
Borrowings	228,625	-	228,650	-	228,650
Subordinated debentures	24,498	-	27,296	-	27,296
Accrued interest payable	1,156	2	1,154	-	1,156

		Fair Value Measurements Using			
September 30, 2020	**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	$ 80,209	$ 80,209	$ -	$ -	$ 80,209
Securities held to maturity	10,727	-	11,131	-	11,131
Loans, net	717,150	-	-	746,969	746,969
Accrued interest receivable	6,766	-	218	6,548	6,766
Financial Liabilities:					
Time deposits	394,753	-	397,842	-	397,842
Demand and other deposits	270,007	270,007	-	-	270,007
Borrowings	85,154	-	87,052	-	87,052
Note payable	14,984	-	-	15,329	15,329
Accrued interest payable	374	1	339	34	374

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 June 30, 2021 and September 30, 2020, FHLB advances outstanding were $51.5 million and $69.0 million, respectively. The advances were all at fixed rates ranging from 0.37% to 2.96% and from 0.37% to 2.98%, respectively, and with maturities ranging from July 2021 to August 2025 and from October 2020 to August 2025, respectively, at June 30, 2021 and September 30, 2020.

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $398.0 million and $143.7 million of residential and commercial mortgage loans under a blanket lien arrangement at June 30, 2021 and September 30, 2020, 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 $91.2 million at June 30, 2021.

The following presents the Company's outstanding FHLB advances contractual maturities in the fiscal years shown (dollars in thousands):

	At June 30,2021	
Maturity	Amount	Weighted Average Rate
2021	$ 9,714	1.46%
2022	4,000	2.02%
2023	11,800	2.23%
2024	18,860	0.98%
2025	7,080	0.58%
	$ 51,454	1.38%

Federal Reserve Borrowings
At June 30, 2021 and September 30, 2020, the Company's borrowings from the Federal Reserve's PPP Liquidity Facility ("PPPLF") were $176.9 million and $16.2 million, respectively. The borrowings had a rate of 0.35% and a maturity date equal to the maturity date of the underlying PPP loan pledged to secure the extension of credit. The Company utilized the PPPLF to partially fund PPP loan production and the borrowings were fully secured by PPP loans.

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, 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 Company used a portion of the net proceeds to pay off the existing holding company note in October 2020 and intends to use the remainder of the net proceeds for acquisition financing and general corporate purposes, including contributing equity capital to the Bank.

At June 30, 2021, the unamortized issuance costs of the Notes were $502 thousand. For the three and nine months ended June 30, 2021, $16 thousand and $43 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.

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, and the merger with Savoy, and may include statements for the period following the completion of the merger. 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, or those of the combined company, 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 II, Item 1A. Risk Factors, those included in the Company's Registration Statement on Form S-4 (333-252262) under the caption "Risk Factors", those included in the Company's other filings with the SEC and, among others, the following:

- The integration of Savoy's business and operations with those of the Company may take longer than anticipated, may be more costly than anticipated and may have unanticipated adverse results relating to Savoy's or the Company's existing businesses;
- The anticipated cost savings and other synergies of the merger may take longer to be realized or may not be achieved in their entirety, and attrition in key client, partner and other relationships relating to the merger may be greater than expected;
- The ability to achieve anticipated merger-related operational efficiencies;
- The ability to enhance revenue through increased market penetration, expanded lending capacity and product offerings;
- 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;
- 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, 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 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;
- Downturn 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 Savoy or any person acting on their 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 non-GAAP financial measures of the Company's tangible common equity ("TCE") ratio, tangible common equity and tangible assets. A non-GAAP financial measure is a numerical measure of historical or future financial performance, financial position or cash flows that excludes or includes amounts that are required to be disclosed in the most directly comparable measure calculated and presented in accordance with 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.

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. The Bank has focused on originating 1-4 family mortgage loans, primarily secured by investor-owned properties, while offering a full range of credit and deposit products to business and individual customers, particularly to small and mid-sized businesses, municipalities, local professionals and individuals residing, working and shopping in the communities serviced by its offices.

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 shown signs of improvement, 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. 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 loan sale market has been negatively impacted by the COVID-19 pandemic although indications are that it has been improving.

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. In November 2020, a Chief Municipal Officer was added to the Company's senior management team. This individual, who previously managed a municipal portfolio that consisted of balances over $550 million, is responsible for all municipal depository activities including developing, maintaining and administering municipal deposit programs. The generation of municipal deposits provides an additional source of liquidity to the Bank.

On May 26, 2021, the acquisition of Savoy Bank was completed and second quarter 2021 calendar results reflect the operations of the combined entity. Historical financial information includes only the operations of Hanover.

Financial Performance Summary
As of or for the three and nine months ended June 30, 2021 and 2020
(dollars in thousands, except per share data)

	Three months ended June 30, 2021	Three months ended June 30, 2020	Over/ (under) 2020		Nine months ended June 30, 2021	Nine months ended June 30, 2020	Over/ (under) 2020	
Revenue [1]	**$ 11,098**	$ 6,601	68.1%		**$ 27,205**	$ 20,985	29.6%	
Non-interest expense	**10,732**	4,668	129.9%		**22,047**	15,450	42.7%	
Acquisition costs included in non-interest expense	**3,937**	-	N/M [3]		**4,233**	236	N/M [3]	
Provision for loan losses	-	150	(100.0%)		**300**	1,150	(73.9%)	
Net income	**221**	1,409	(84.3%)		**3,795**	3,428	10.7%	
Net income per common share - diluted	**0.05**	0.33	(84.8%)		**0.85**	0.81	4.9%	
Return on average assets	**0.08%**	0.66%	(58)	bp	**0.53%**	0.53%	-	bp
Return on average common stockholders' equity	**0.92%**	7.55%	(663)	bp	**5.93%**	6.17%	(24)	bp
Tier 1 leverage ratio	**11.20%**	10.21%	99	bp	**11.20%**	10.21%	99	bp
Common equity tier 1 risk-based capital ratio	**14.05%**	19.03%	(499)	bp	**14.05%**	19.03%	(499)	bp
Tier 1 risk-based capital ratio	**14.05%**	19.03%	(499)	bp	**14.05%**	19.03%	(499)	bp
Total risk-based capital ratio	**15.01%**	20.29%	(529)	bp	**15.01%**	20.29%	(529)	bp
Tangible common equity ratio (non-GAAP)	**6.35%**	8.91%	(257)	bp	**6.35%**	8.91%	(257)	bp
Total common stockholders' equity/total assets [2]	**7.48%**	9.09%	(162)	bp	**7.48%**	9.09%	(162)	bp

bp - denotes basis points; 100 bp equals 1%.
[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.
[3] N/M - denotes % variance not meaningful for statistical purposes.

At June 30, 2021 the Company, on a consolidated basis, had total assets of $1.5 billion, total deposits of $1.2 billion and total stockholders' equity of $115.2 million. The Company recorded net income of $221 thousand, or $0.05 per diluted common share, for the three months ended June 30, 2021 compared to net income of $1.4 million, or $0.33 per diluted common share, for the same period in 2020.

The $1.2 million decrease in earnings for the three months ended June 30, 2021 versus the comparable 2020 period was primarily due to a $3.9 million increase in acquisition costs related to the Savoy transaction coupled with an increase in compensation and benefits expense of $1.3 million. Partially offsetting the foregoing negative factors was a $3.9 million improvement in net interest income, a $551 thousand increase in noninterest income and a $150 thousand reduction in the provision for loan losses in the second calendar quarter of 2021 versus the comparable 2020 period.

The Company's return on average assets and return on average common stockholders' equity were 0.08% and 0.92%, respectively, for the three months ended June 30, 2021 versus 0.66% and 7.55%, respectively, for the comparable 2020 period.

Total non-accrual loans at June 30, 2021 were $7.0 million, or 0.54% of total loans, compared to $953 thousand, or 0.13% of total loans at September 30, 2020 and $3.2 million, or 0.44% of total loans, at June 30, 2020. After September 30, 2020 loans which failed to satisfactorily exit forbearances granted under the CARES Act resulted in an increase of the non-accrual asset level to $4.1 million at December 31, 2020 and to $9.4 million at March 31, 2021. The Hanover legacy portfolio component of the June 30, 2021 non-accrual loans is $4.6 million while the balance comes from acquired Savoy loans. Management believes all of the Company's non-accrual loans at June 30, 2021 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 111%, 826% and 252% at June 30, 2021, September 30, 2020 and June 30, 2020, respectively.

Total core deposits, consisting of demand, NOW, savings and money market accounts were $698.7 million at June 30, 2021, representing 60% of total deposits at that date, compared to $270.0 million and 41%, respectively, at September 30, 2020. Total deposits, including time deposits, were $1.2 billion at June 30, 2021 versus $664.8 million at September 30, 2020. Noninterest-bearing demand balances represented 15% of total deposits at June 30, 2021. The growth in both core and total deposits versus September 30, 2020 results from the Savoy acquisition.

The Company's operating efficiency ratio was 96.7% for the three months ended June 30, 2021 versus 70.7% a year ago, reflecting, in part, significant non-recurring charges incurred by the Company in conjunction with the acquisition of Savoy during the quarter ended June 30, 2021.

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.

Material Changes in Financial Condition - Total assets of the Company at June 30, 2021 were $1.5 billion versus $851.6 million at September 30, 2020. Total loans at June 30, 2021 were $1.3 billion, compared to total loans of $725.0 million at September 30, 2020. Total deposits at June 30, 2021 were $1.2 billion versus $664.8 million at September 30, 2020. Total borrowings at June 30, 2021 were $253.1 million, including $51.5 million of outstanding FHLB advances. These increases were all primarily attributable to the expansion of the franchise through the acquisition of Savoy.

For the nine months ended June 30, 2021, the Company's loan portfolio, net of sales, grew by $568.2 million to $1.3 billion. This growth was primarily attributable to the acquisition of Savoy. At June 30, 2021, the residential loan portfolio amounted to $453.1 million, or 35.0% of total loans. Commercial real estate loans, including multi-family loans, totaled $558.6 million or 43.2% of total loans at June 30, 2021. Commercial loans, including PPP loans, totaled $271.0 million or 21.0% of total loans.

At June 30, 2021, total deposits were $1.2 billion, an increase of $494.7 million when compared to September 30, 2020. This growth was primarily due to an increase in core deposit balances of $428.7 million resulting from the impact of the Savoy acquisition coupled with growth in municipal deposits in the second calendar quarter of 2021. Core deposit balances, which consist of demand, NOW, savings and money market deposits, represented 60.3% and 40.6% of total deposits at June 30, 2021 and September 30, 2020, respectively. At those dates, demand deposit balances represented 15.5% and 12.4% of total deposits.

Total borrowings at June 30, 2021 were $253.1 million, including $176.9 million in PPPLF funding, versus $100.1 million at September 30, 2020. The June 30, 2021 PPPLF funding resulted from the acquisition of Savoy. In the quarter ended June 30, 2021, the Company continued to reduce usage of its FHLB borrowing capacity as other lower cost funding options were utilized to replace maturing FHLB advances. At June 30, 2021, the Company had $51.5 million of outstanding FHLB advances as compared to $69.0 million at September 30, 2020. At September 30, 2020, the Company's borrowings from the PPPLF were $16.2 million. Additionally, in October 2020, the Company issued $25 million of 10-year subordinated notes with a coupon rate of 5.00% fixed for the first five years to provide capital to support growth of the consolidated entity. Immediately after this issuance, the Company used $15 million of the debt proceeds to pay off its $15 million, 5.85% fixed rate line of credit with another financial institution, reducing its cost of funds. Borrowings at September 30, 2020 included the $15 million line of credit subsequently repaid.

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 $153.6 million and $80.0 million at June 30, 2021 and September 30, 2020, 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 June 30, 2021, total deposits were $1.2 billion, of which $349.1 million are 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 June 30, 2021 and September 30, 2020, the Company had $253.1 million and $100.1 million, respectively, in borrowings used to fund the growth in the Company's loan portfolio.

The Company's primary use of funds is for the origination of loans. For the nine months ended June 30, 2021 and 2020, the Company had net loan originations of $21.2 million and $35.1 million, respectively.

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 June 30, 2021, access to approximately $398.0 million in FHLB lines of credit for overnight or term borrowings was available, of which $51.5 million in term borrowings were outstanding. At June 30, 2021, approximately $55 million in unsecured lines of credit extended by correspondent banks were also available to be utilized, if needed, for short-term funding purposes. No borrowings were outstanding under lines of credit with correspondent banks at June 30, 2021.

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 $115.2 million at June 30, 2021 from $78.0 million at September 30, 2020, primarily due to the acquisition of Savoy coupled with net income recorded during the nine months ended June 30, 2021.

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 11.20%, 14.04%, 14.04% and 15.00%, respectively, at June 30, 2021, 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 June 30, 2021, the Bank's capital buffer was in excess of requirements.

The Company did not repurchase any shares of its common stock during the nine months ended June 30, 2021.

The Company's total stockholders' equity to total assets ratio and the Company's tangible common equity to tangible assets ratio ("TCE ratio") were 7.48% and 6.35%, respectively, at June 30, 2021 versus 9.16% and 8.96%, respectively, at September 30, 2020 and 9.09% and 8.91%, respectively, at June 30, 2020. 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 June 30, 2021 (in thousands). (See also Non-GAAP Disclosure contained herein.)

						Ratios
Total common stockholders' equity	$	115,238	Total assets	$	1,541,443	7.48% (1)
Less: goodwill		(18,100)	Less: goodwill		(18,100)	
Less: core deposit intangible		(502)	Less: core deposit intangible		(502)	
Tangible common equity	$	96,636	**Tangible assets**	$	1,522,841	6.35% (2)

(1) The ratio of total common stockholders' equity to total assets is the most comparable U.S. 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 shall exceed 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 nine months ended June 30, 2021 and 2020.

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 June 30, 2021 and September 30, 2020, commitments to originate loans and commitments under unused lines of credit for which the Bank is obligated amounted to approximately $52 million and $29 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 June 30, 2021 and September 30, 2020, letters of credit outstanding were approximately $907 thousand and $159 thousand, respectively.

Material Changes in Results of Operations – Comparison of the Three Months Ended June 30, 2021 and 2020 – The Company recorded net income of $221 thousand during the three months ended June 30, 2021 versus net income of $1.4 million in the comparable three month period a year ago. The reduction in earnings for the three months ended June 30, 2021 versus the comparable 2020 period was primarily due to a $6.1 million increase in non-interest expense reflecting a $3.9 million increase in acquisition costs related to the Savoy transaction, partially offset by a $3.9 million improvement in net interest income, a $551 increase in non-interest income and a $150 thousand reduction in the provision for loan losses expense in the calendar quarter ended June 30, 2021 versus the comparable 2020 period.

Net Interest Income and Margin

The $3.9 million improvement in net interest income was primarily attributable to growth in average interest-earning assets of 34.1%, primarily loans, and a 61 basis point increase in the net interest margin to 3.74% in 2021 from 3.13% in the year ago period. The wider net interest margin was largely due to a 109 basis point reduction in the average cost of interest-bearing liabilities to 0.70% in the 2021 period. Included in net interest income was accretion and amortization of purchase accounting adjustments of $478 thousand during the three months ended June 30, 2021 arising from the acquisition of Savoy. Excluding these purchase accounting adjustments, the adjusted net interest margin was 3.56% in the quarter ended June 30, 2021. Purchase accounting adjustments in the quarter ended June 30, 2020 were immaterial.

The lower cost of average interest-bearing liabilities in 2021 resulted from an improved deposit mix in the 2021 period. Lower cost core deposits (demand, NOW, savings and money market accounts) increased by $279.5 million while higher cost certificates of deposit declined by $80.8 million. Also contributing to the improvement in net interest income for the three months ended June 30, 2021 versus 2020 was a reduction in the average rate paid on Fed funds purchased & FHLB & FRB advances of 119 basis points to 0.65% in the 2021 quarter. Partially offsetting the positive impact of the foregoing factors, the average yield on total interest-earning assets declined by 34 basis points to 4.31% in 2021 versus the comparable 2020 period. This reduction in yield was largely the result of a 61 basis point decrease in the average loan yield to 4.79% in 2021.

NET INTEREST INCOME ANALYSIS
For the Three Months Ended June 30, 2021 and 2020
(dollars in thousands)

	2021			2020		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets:						
Loans [1]	$ 988,836	$ 11,798	4.79%	$ 704,132	$ 9,450	5.40%
Investment securities [1]	16,754	168	4.02%	13,419	125	3.75%
Interest-earning cash	109,603	21	0.08%	113,132	28	0.10%
FHLB stock and other investments	4,816	51	4.25%	4,446	62	5.61%
Total interest-earning assets	1,120,009	12,038	4.31%	835,129	9,665	4.65%
Non interest-earning assets:						
Cash and due from banks	9,829			4,912		
Other assets	33,964			22,330		
Total assets	$ 1,163,802			$ 862,371		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Savings, NOW and money market deposits	$ 377,084	$ 269	0.29%	$ 172,573	$ 155	0.36%
Time deposits	369,454	760	0.83%	450,266	2,444	2.18%
Total savings and time deposits	746,538	1,029	0.55%	622,839	2,599	1.68%
Fed funds purchased & FHLB & FRB advances	143,395	232	0.65%	74,865	342	1.84%
Note payable	-	-	0.00%	14,982	222	5.96%
Subordinated debentures	24,489	329	5.39%	-	-	0.00%
Total interest-bearing liabilities	914,422	1,590	0.70%	712,686	3,163	1.79%
Demand deposits	141,650			66,630		
Other liabilities	11,264			7,954		
Total liabilities	1,067,336			787,270		
Stockholders' equity	96,466			75,101		
Total liabilities & stockholders' equity	$ 1,163,802			$ 862,371		
Net interest rate spread			3.61%			2.86%
Net interest income/margin		$ 10,448	3.74%		$ 6,502	3.13%

[1] There is no tax-exempt interest income.

Provision and Allowance for Loan Losses

The Company did not record a provision for loan losses expense for the three months ended June 30, 2021 versus a $150 thousand expense recorded for the comparable period in 2020. The adequacy of the provision and the resulting allowance for loan losses, which was $7.9 million at June 30, 2021, 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 June 30, 2021. (See also Critical Accounting Policies, Judgments and Estimates and Asset Quality contained herein.)

Non-interest Income

Non-interest income increased by $551 thousand for the three months ended June 30, 2021 versus 2020. This increase was principally due to increases in loan fees and service charges (up $204 thousand) and gain on the sale of loans held for sale (up $197 thousand) in 2021. For the three months ended June 30, 2021 and 2020, the Company sold loans totaling approximately $13.5 million and $1.7 million, respectively, recognizing net gains of $212 thousand and $15 thousand, respectively.

Non-Interest Income
For the three and nine months ended June 30, 2021 and 2020
(dollars in thousands)

	Three months ended June 30,		Over/ (under)	Nine months ended June 30,		Over/ (under)
	2021	2020	2020	**2021**	2020	2020
Loan fees and service charges	**$ 257**	$ 53	384.9%	**$ 448**	$ 190	135.8 %
Service charges on deposit accounts	**34**	12	183.3	**66**	47	40.4
Net gain on sale of loans held for sale	**212**	15	N/M (1)	**688**	917	(25.0)
Net gain on sale of securities available for sale	**-**	-	-	**240**	-	N/M (1)
Other income	**147**	19	673.7	**186**	75	148.0
Total non-interest income	**$ 650**	$ 99	556.6%	**$ 1,628**	$ 1,229	32.5 %

(1) N/M - denotes % variance not meaningful for statistical purposes.

Non-interest Expense

Total non-interest expense increased by $6.1 million for the three months ended June 30, 2021 versus 2020, principally resulting from an increase of $3.9 million in acquisition costs associated with the acquisition of Savoy coupled with higher salaries and employee benefits of $1.3 million related to our continued growth and the Savoy acquisition.

Non-Interest Expense
For the three and nine months ended June 30, 2021 and 2020
(dollars in thousands)

	Three months ended June 30,		Over/ (under)	Nine months ended June 30,		Over/ (under)
	2021	2020	2020	**2021**	2020	2020
Salaries and employee benefits	**$ 3,980**	$ 2,688	48.1 %	**$ 10,481**	$ 8,162	28.4%
Occupancy and equipment	**1,300**	1,078	20.6	**3,680**	3,293	11.8
Data processing	**419**	211	98.6	**934**	677	38.0
Advertising and promotion	**18**	63	(71.4)	**85**	280	(69.6)
Acquisition costs	**3,937**	-	N/M (1)	**4,233**	236	N/M (1)
Professional fees	**369**	290	27.2	**1,089**	1,632	(33.3)
Other expenses	**709**	338	109.8	**1,545**	1,170	32.1
Total non-interest expense	**$ 10,732**	$ 4,668	129.9 %	**$ 22,047**	$ 15,450	42.7%

(1) N/M - denotes % variance not meaningful for statistical purposes.

The Company recorded income tax expense of $145 thousand and an effective tax rate of 39.6% for the three months ended June 30, 2021 versus income tax expense of $374 thousand and an effective tax rate of 21.0% in the comparable 2020 period. The increased effective tax rate in 2021 was primarily related to certain non-deductible items resulting from the Savoy acquisition.

Material Changes in Results of Operations – Comparison of the Nine Months Ended June 30, 2021 and 2020 – The Company recorded net income of $3.8 million during the nine months ended June 30, 2021 versus $3.4 million in the comparable nine month period a year ago. The $367 thousand increase in earnings for the nine months ended June 30, 2021 versus the comparable 2020 period was primarily due to a $5.8 million or 29.5% increase in net interest income, an $850 thousand reduction in the provision for loan losses and an increase in non-interest income of $399 thousand, offset in part by a $6.6 million increase in non-interest expense in the 2021 period, including $4.2 million in acquisition costs related to the merger with Savoy compared to acquisition costs of $236 thousand versus the comparable 2020 period. The Company's effective tax rate increased to 21.9% in 2021 from 21.8% a year ago.

The $5.8 million improvement in net interest income was primarily attributable to a 54 basis point widening of the net interest margin to 3.69% in 2021 from 3.15% a year ago. The margin improvement resulted from a 104 basis point reduction in the yield on average total interest-bearing liabilities to 0.95% from 1.99% a year ago, largely due to a 114 basis point decline in the average cost of savings and time deposits. Also adding to the wider margin was a shift in the average interest-earning asset mix resulting from a $101.6 million increase in average loans outstanding coupled with a $15.9 million reduction in low yielding average interest-earning cash versus the comparable 2020 period.

The lower cost of interest-bearing liabilities in 2021 was also the result of a $65.3 million reduction in average time deposit balances, coupled with increases in lower cost average savings deposits and non-interest-bearing demand deposit balances of $90.2 million and $41.8 million, respectively. Also contributing to the improvement in net interest income for the nine months ended June 30, 2021 versus 2020 was a decrease of 97 basis points in the average cost of Fed funds purchased & FHLB & FRB advances. Partially offsetting the positive impact of the foregoing factors, the average yield on total interest-earning assets declined by 39 basis points to 4.46% in 2021 versus the comparable 2020 period. This reduction in yield was largely the result of a 50 basis point decrease in the average loan yield to 4.93% in 2021.

Table of Contents

NET INTEREST INCOME ANALYSIS
For the Nine Months Ended June 30, 2021 and 2020
(dollars in thousands)

	2021			2020		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets:						
Loans [1]	$ 818,467	$ 30,189	4.93%	$ 716,861	$ 29,124	5.43%
Investment securities [1]	16,953	523	4.12%	12,904	346	3.58%
Interest-earning cash	86,373	61	0.09%	102,510	683	0.89%
FHLB stock and other investments	4,151	142	4.57%	4,987	229	6.13%
Total interest-earning assets	925,944	30,915	4.46%	837,262	30,382	4.85%
Non interest-earning assets:						
Cash and due from banks	6,702			5,905		
Other assets	27,351			21,638		
Total assets	$ 959,997			$ 864,805		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Savings, NOW and money market deposits	$ 270,216	$ 543	0.27%	$ 180,005	$ 1,307	0.97%
Time deposits	365,441	3,129	1.14%	430,753	7,421	2.30%
Total savings and time deposits	635,657	3,672	0.77%	610,758	8,728	1.91%
Fed funds purchased & FHLB & FRB advances	93,787	632	0.90%	87,670	1,228	1.87%
Note payable	439	74	22.54% [2]	14,982	670	5.97%
Subordinated debentures	23,949	960	5.36%	-	-	0.00%
Total interest-bearing liabilities	753,832	5,338	0.95%	713,410	10,626	1.99%
Demand deposits	110,990			69,195		
Other liabilities	9,650			7,946		
Total liabilities	874,472			790,551		
Stockholders' equity	85,525			74,254		
Total liabilities & stockholders' equity	$ 959,997			$ 864,805		
Net interest rate spread			3.51%			2.86%
Net interest income/margin		$ 25,577	3.69%		$ 19,756	3.15%

(1) There is no tax-exempt interest income.
(2) Includes impact of debt extinguishment charges. Excluding the impact of these charges, the average cost was 5.79%.

The Company recorded a $300 thousand expense to the provision for loan losses for the nine months ended June 30, 2021 versus a $1.2 million expense recorded for the comparable period in 2020. (See also Critical Accounting Policies, Judgments and Estimates and Asset Quality contained herein.)

Non-interest income increased by $399 thousand for the nine months ended June 30, 2021 versus 2020. This improvement was principally due to a $258 thousand increase in loan fees and service charges and a $240 thousand net gain on sale of securities available for sale in 2021. For the nine months ended June 30, 2021 and 2020, the Company sold loans totaling approximately $31.3 million and $31.8 million, respectively, recognizing net gains of $688 thousand and $917 thousand, respectively.

Total non-interest expense increased by $6.6 million for the nine months ended June 30, 2021 versus 2020, principally resulting from an increase in Savoy-related acquisition costs to $4.2 million from $236 thousand in 2020, and higher salaries and employee benefits of $2.3 million reflecting both the Savoy acquisition and the Company's organic growth. The operating efficiency ratio, defined as total non-interest expense as a percentage of total revenue, was 81.8% for the nine months ended June 30, 2021 compared to 73.6% in the comparable period of 2020.

The Company recorded income tax expense of $1.1 million for the nine months ended June 30, 2021 resulting in an effective tax rate of 21.9%, versus income tax expense of $957 thousand and an effective tax rate of 21.8% in the comparable 2020 period.

Asset Quality - Total non-accrual loans at June 30, 2021 were $7.0 million, or 0.54% of total loans, compared to $953 thousand, or 0.13% of total loans at September 30, 2020 and $3.2 million, or 0.44% of total loans, at June 30, 2020. After September 30, 2020 loans which failed to satisfactorily exit forbearances granted under the CARES Act resulted in an increase of the non-accrual asset level to $4.1 million at December 31, 2020 and to $9.4 million at March 31, 2021. The Hanover legacy portfolio component of the June 30, 2021 non-accrual loans is $4.6 million while the balance comes from acquired Savoy loans. Management believes all of the Company's non-accrual loans at June 30, 2021 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 111%, 826% and 252% at June 30, 2021, September 30, 2020 and June 30, 2020, respectively.

Total accruing loans, excluding purchased credit-impaired loans, delinquent 30 days or more amounted to $1.5 million, $4.5 million and $991 thousand at June 30, 2021, September 30, 2020 and June 30, 2020, respectively.

Total loans having credit risk ratings of Special Mention or Substandard were $52.7 million at June 30, 2021 versus $8.2 million at September 30, 2020 and $4.6 million at June 30, 2020. The increase in both the Special Mention and Substandard levels is due to 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 June 30, 2021. 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 June 30, 2021, the Company had $1.7 million in troubled debt restructurings ("TDRs"), consisting of residential real estate loans. The Company had TDRs amounting to $1.7 million at September 30, 2020 and June 30, 2020.

At June 30, 2021, the Company's allowance for loan losses amounted to $7.9 million or 0.61% of period-end total loans outstanding. The allowance as a percentage of loans outstanding was 1.09% at September 30, 2020 and 1.11% at June 30, 2020. The Company recorded net loan charge-offs of $327 thousand during the three months ended June 30, 2021 versus net loan charge-offs of $224 thousand during the three months ended September 30, 2020. The Company recorded no loan charge-offs or recoveries during the three months ended June 30, 2020.

The Company did not record a provision for loan losses expense for the three months ended June 30, 2021 versus a $150 thousand expense recorded for the comparable period in 2020. The Company recorded a $300 thousand expense to the provision for loan losses for the nine months ended June 30, 2021 versus a $1.2 million expense recorded for the comparable period in 2020. 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
June 30, 2021 versus September 30, 2020 and June 30, 2020
(dollars in thousands)

	As of or for the three months ended		
	6/30/2021	**9/30/2020**	**6/30/2020**
Non-accrual loans	$ 7,043	$ 953	$ 3,171
Non-accrual loans held for sale	2,899	-	-
Other real estate owned	-	-	-
Total non-performing assets [1]	$ 9,942	$ 953	$ 3,171
Purchased credit-impaired loans 90 days or more past due and still accruing	$ 1,077	$ 296	$ 296
Performing TDRs	455	454	454
Loans held for sale	3,883	-	3,204
Loans held for investment	1,293,262	725,019	720,315
Allowance for loan losses:			
Beginning balance	$ 8,179	$ 7,993	$ 7,843
Provision	-	100	150
Charge-offs	(328)	(238)	-
Recoveries	1	14	-
Ending balance	$ 7,852	$ 7,869	$ 7,993
Allowance for loan losses as a % of total loans [2]	0.61%	1.09%	1.11%
Allowance for loan losses as a % of non-accrual loans [2]	111%	826%	252%
Non-accrual loans as a % of total loans [2]	0.54%	0.13%	0.44%
Non-performing assets as a % of total loans, loans held for sale and other real estate owned	0.77%	0.13%	0.44%
Non-performing assets as a % of total assets	0.64%	0.11%	0.38%
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	0.88%	0.23%	0.54%

(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 June 30, 2021 (dollars in thousands). The results are within the Company's policy limits.

At June 30, 2021							
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	$ 118,444	$ (25,255)	(17.6)	+400	$ 51,382	$ 442	0.9
+300	126,531	(17,168)	(11.9)	+300	51,618	678	1.3
+200	131,752	(11,947)	(8.3)	+200	51,616	676	1.3
+100	136,574	(7,125)	(5.0)	+100	51,328	388	0.8
0	143,699			0	50,940		
-100	154,773	11,074	7.7	-100	47,957	(2,983)	(5.9)

(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

See the information set forth in Note 8. Loss Contingencies in the Notes to Unaudited Consolidated Financial Statements under Part I, Item 1, which information is incorporated by reference in response to this item.

ITEM 1A. – RISK FACTORS

Please see Item 1A to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2021, as well as the matters discussed in our Registration Statement on Form S-4 (Registration Number 333-252262) under the heading "Risk Factors."

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)

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: August 18, 2021	/s/ Michael P. Puorro Michael P. Puorro Chairman & Chief Executive Officer (principal executive officer)
Dated: August 18, 2021	/s/ Brian K. Finneran Brian K. Finneran President & Chief Financial Officer (principal financial and accounting officer)

EXHIBIT INDEX

Exhibit Number	Description
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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: August 18, 2021
/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, Brian K. Finneran, 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: August 18, 2021
/s/ Brian K. Finneran
Brian K. Finneran
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 June 30, 2021 (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: August 18, 2021
/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, Brian K. Finneran, 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 June 30, 2021 (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: August 18, 2021
/s/ Brian K. Finneran
Brian K. Finneran
President & Chief Financial Officer
(principal financial and accounting officer)