



## PRESS RELEASE

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## Hanover Bancorp, Inc. Reports Calendar Third Quarter and Fiscal Year 2018 Results Highlighted by Record Net Income and Earnings per Share, Continued Strong Loan and Deposit Growth and Exceptional Asset Quality

### Performance Highlights

- **Record Net Income and Earnings per Share:** Net income for the quarter ended September 30, 2018 improved by 147.2% to a record \$1.7 million or \$0.50 per diluted common share, versus \$703 thousand or \$0.24 per diluted common share recorded in the comparable 2017 period. The Company recorded net income for the fiscal year ended September 30, 2018 of \$4.6 million or \$1.36 per diluted common share, representing a 113.8% increase from 2017. Core operating net income for the fiscal year ended September 30, 2018, which excludes the impact of non-recurring deferred tax asset and debt restructuring charges recorded during the calendar fourth quarter of 2017, was \$5.5 million or \$1.64 per diluted common share, a 125.9% improvement over the prior year period.
- **Balance Sheet Growth:** Total assets were \$650.0 million at September 30, 2018, up \$47.5 million, or 7.9%, from June 30, 2018 and up \$148.6 million, or 29.6%, from September 30, 2017 due to continued strong loan growth.
- **Continued Capital Strength:** The Bank's Tier 1 capital ratio was 10.85% and its Total Risk-Weighted Capital Ratio was 20.30% at September 30, 2018, each significantly above the regulatory minimums for a well-capitalized institution.
- **Robust Year-over-Year Loan Growth:** Total loans outstanding at September 30, 2018 were \$559.4 million or 86.1% of total assets, an increase of \$30.3 million, or 5.7%, from June 30, 2018 and up \$136.8 million or 32.4%, from September 30, 2017 as the Bank continues to successfully leverage its capital into new loan originations. For the quarter ended September 30, 2018, loan originations were \$89.7 million, an increase of 51.5% over the prior year quarter.

- **Excellent Asset Quality:** At September 30, 2018, the Bank's asset quality remained pristine and class leading among all financial institutions as the loan portfolio, for the fifteenth consecutive quarter, possessed no non-performing loans.
- **Net Interest Income Growth:** Net interest income grew to a record \$5.1 million for the quarter ended September 30, 2018, an increase of \$1.4 million, or 36.8%, from the comparable 2017 quarter.
- **Strong Core Net Interest Margin:** The Company's net interest margin for the quarter ended September 30, 2018 was 3.33% versus 3.28% in the quarter ended June 30, 2018 and 3.14% in the quarter ended September 30, 2017.
- **New Branch Locations:** The Company has received all required regulatory approvals to open a new branch in Flushing, Queens, N.Y., which is expected to open early in the calendar first quarter of 2019.
- **Market Expansion Through Acquisition:** On September 20, 2018, the Company announced that it had entered into a definitive agreement to acquire Chinatown Federal Savings Bank ("CFSB"). CFSB is a community savings bank that operates three branches, two in Manhattan and one in Sunset Park, Brooklyn. CFSB had total assets of \$130 million, total loans of \$89 million and total deposits of \$98 million at September 30, 2018. This transaction is expected to be completed in the calendar first quarter of 2019, subject to regulatory approvals and other customary closing conditions.

**Mineola, NY – October 18, 2018** – Hanover Bancorp, Inc. ("Hanover" or "the Company"), the holding company for Hanover Community Bank ("the Bank") today reported significant performance achievements for the quarter ended September 30, 2018, highlighted by record levels of total assets, net income and net interest income, earnings per common share, continued momentum in year-over-year loan and deposit growth and outstanding asset quality.

### **Earnings Summary for the Quarter Ended September 30, 2018**

The Company recorded record net income for the quarter ended September 30, 2018 of \$1.7 million or \$0.50 per diluted common share, versus \$703 thousand or \$0.24 per diluted common share in the comparable 2017 quarter, which represents an increase of \$1.0 million, or 147.2%.

The significant improvement in net income achieved in the September quarter resulted principally from a \$1.4 million or 36.8% increase in net interest income versus the comparable 2017 period. Robust growth in average interest-earning assets (up \$136.6 million or 29.0%) resulting from continued strong growth in average total loans of \$146.2 million or 35.4%, coupled with a 19 basis point widening of the net interest margin to 3.33% in the third quarter of 2018, accounted for the improvement in net interest income. An increase of \$530 thousand or 130.2% in non-interest income, resulting from significant growth in gains on the sale of loans held-for-sale, and a lower effective tax rate in 2018, also contributed to the year-over-year increase in earnings. Partially offsetting the foregoing improvements were increases in non-interest expense of \$615 thousand and the provision for loan losses of \$120 thousand in the third quarter of 2018 versus the comparable year ago period. The higher level of non-interest expense resulted principally from growth in compensation and benefits and

occupancy and equipment in connection with an increase in staff to support the Company's continued growth and operations, including additional branch locations and a new corporate headquarters building. Additional marketing and advertising and acquisition transaction costs also contributed to the year-over-year increase in operating expense.

### **Earnings Summary for the Fiscal Year Ended September 30, 2018**

For the fiscal year ended September 30, 2018, the Company reported GAAP net income of \$4.6 million or \$1.36 per diluted common share versus \$2.2 million or \$0.78 per diluted common share a year ago. Excluding non-recurring deferred tax asset and debt restructuring charges totaling \$931 thousand, the Company reported record core operating net income of \$5.5 million in the year ended September 30, 2018, an increase of 125.9% from core operating net income of \$2.4 million in the prior year period. Core operating net income in the fiscal year ended September 30, 2017 excludes the impact of a \$297 thousand after-tax non-recurring severance charge. Core operating earnings per diluted common share were \$1.64 in 2018 versus \$0.88 in 2017.

The increase in earnings in 2018 was due to significant improvements in net interest income (up \$5.4 million) and noninterest income (up \$1.2 million). Excluding the one-time impact of the Tax Cuts and Jobs Act of 2017 which required an \$876 thousand charge to reduce the carrying value of the Company's deferred tax asset during the calendar fourth quarter of 2017, the Company's effective tax rate declined in 2018 to 25.7% versus 37.9% a year ago. Partially offsetting the foregoing positive factors were growth in operating expenses (up \$2.7 million) and an increase in the provision for loan losses (up \$323 thousand) in 2018.

Michael P. Puorro, Chairman, President and Chief Executive Officer, commented on the Company's results, "Over the past year we have achieved asset growth of almost \$150 million and we continue to expand our ability to generate non-interest income which has led to another quarter of both record earnings and net interest income. When compared to last year, we have been able to report a 147.2% increase in quarterly operating net income and a corresponding increase of 108.3% in core earnings per diluted common share while we continue to invest in the Company's future through talent acquisition and franchise building. We also achieved year-over-year net interest income growth of 36.8%, loan growth of 32.4% net of \$125 million in sales during the last twelve months, and deposit growth of 25.1%. As we remain steadfastly selective in our loan underwriting, our growth story continues to be highlighted by industry leading asset quality. At September 30, 2018, for the fifteenth consecutive quarter, our loan portfolio had no non-performing loans. We believe that our growth outlook remains robust as evidenced by our most recent quarter-end originations of \$90 million and our current loan pipeline of \$114 million, our largest ever. Additionally, we are very excited about our recently announced agreement to acquire Chinatown Federal Savings Bank which will provide us with three new high-visibility branch offices in Manhattan and Brooklyn, our first locations in each of those boroughs. We are also pleased to report that the Company's Flushing, Queens, branch build-out is on schedule and is expected to open in January 2019."

Mr. Puorro further noted, “Our ability to generate shareholder value continues to be reflected by our success to date in each capital raising effort at successively higher stock prices coupled with continued robust growth in book value per share which increased by \$1.73, or 12.9%, to \$15.14 per share at September 30, 2018 from the comparable 2017 date. We have been able to achieve these results while maintaining a core operating efficiency ratio that is also class-leading amongst peers our size.”

### **Strong Balance Sheet Growth**

Total assets for the quarter ended September 30, 2018 amounted to a record \$650.0 million, an increase of \$148.6 million from the comparable 2017 date as the Bank continued to record significant loan portfolio growth (up \$136.8 million) without any sacrifice in asset quality. The year-over-year balance sheet growth was funded by increases in total deposits (up \$93.4 million), borrowings (up \$35.6 million) and shareholders’ equity (up \$12.5 million).

Total deposits at September 30, 2018 grew by 25.1% to \$466.2 million, an increase of \$93.4 million versus September 30, 2017, the result of growth in core deposits (up \$36.3 million) and time deposits (up \$57.1 million). Core deposits grew by 26.2% as the result of increases in Demand, N.O.W. and Money Market accounts. Management has also been successful in expanding its FHLB borrowing capacity which is strategically utilized to enhance both the Bank’s liquidity position and its interest rate risk profile by providing the flexibility to borrow from the FHLB for terms of two to four years. FHLB borrowings will continue to be used selectively to supplement management’s ongoing effort to build low cost core deposit balances through relationship banking at each of its branch locations. Total borrowings at September 30, 2018 were \$109.5 million with a weighted average rate and term of 1.79% and 22 months, respectively. At September 30, 2018, the Bank had \$109.5 million of additional borrowing capacity from the FHLB.

Shareholders’ equity grew by \$12.5 million to \$54.2 million at September 30, 2018 from \$41.8 million at the comparable 2017 date resulting in a \$1.73 or 12.9% increase in book value per share over the past twelve months to \$15.14 at September 30, 2018. The Company’s executive management team and Board of Directors remain focused on continued enhancement of shareholder value through prudent asset growth, effective expense management and the development of long-term customer relationships in its primary markets. Insiders continue to make significant investments of their own capital into Hanover Bancorp, Inc. Such ownership investments represent approximately 28% of total shares outstanding at September 30, 2018.

The Company’s average cost of interest-bearing liabilities increased to 1.84% for the quarter ended September 30, 2018, from 1.49% a year ago and 1.76% on a linked quarter basis. This increase is primarily due to higher market interest rates in 2018, significant ongoing competition for deposits in the Bank’s core geographic area and an increase in non-deposit funding when compared to the year ago period. Offsetting the 35 basis point increase in the Company’s average cost of interest-bearing liabilities from the September 2017 quarter was a corresponding 48 basis point improvement in the average yield on interest-earning assets to 4.96% during the third quarter of 2018, primarily driven by higher loan yields and a

continued shift in the loan portfolio mix to a lesser reliance on lower-yielding multi-family credits in 2018.

### **Strong Loan Portfolio and Industry Leading Asset Quality**

For the twelve months ended September 30, 2018, the Bank's loan portfolio, net of sales, grew by \$136.8 million, or 32.4%, with the growth concentrated primarily in adjustable-rate two-to-four family residential loans. Management employs a strategy of concentrating its loan growth in these products with shorter durations, which provides the Bank with traditionally safe credit quality at acceptable credit spreads, greater liquidity and an enhanced interest-rate-risk profile. Over the past year, originations of our niche adjustable-rate residential product amounted to \$207.6 million with an average loan balance of approximately \$523 thousand and a weighted average loan-to-value ratio of 57%. At September 30, 2018, the Company's residential loan portfolio amounted to \$371.3 million, with an average loan balance of \$402 thousand and a weighted average loan-to-value ratio of 53%. During the same twelve month period, the Bank originated \$39.3 million in commercial real estate loans, inclusive of multi-family loans, with an average loan balance of approximately \$1.3 million and a weighted average loan-to-value ratio of 60%. Commercial real estate loans totaled \$181.3 million at September 30, 2018, with an average loan balance of \$977 thousand and a weighted average loan-to-value ratio of 58%. The Company's commercial real estate concentration ratio was 240% of capital at September 30, 2018 versus 319% of capital at the comparable 2017 date.

Through its strong asset growth capabilities, the Bank has been able to generate additional income by strategically originating and selling its primary lending products to other financial institutions at premiums, while also retaining servicing rights in some sales. The Bank expects that it will continue to originate loans, for its own portfolio and for sale, which will result in continued growth in interest income while also realizing gains on sale of loans to others and recording servicing income. During the quarter ended September 30, 2018, the Company sold \$40 million in performing loans and recorded gains on the sale of loans held-for-sale of \$878 thousand versus gains of \$548 thousand in the quarter ended June 30, 2018 and gains of \$316 thousand in the quarter ended September 30, 2017. During the fiscal year ended September 30, 2018, the Company sold \$124.6 million in performing loans held-for-sale and recorded cumulative gains of \$2.5 million.

The Bank's asset quality ratios remain pristine and class leading among its peer group of community banks. At September 30, 2018, the loan portfolio, for the fifteenth consecutive quarter, had no non-performing loans. During the quarter ended September 30, 2018, the Bank's provision for loan losses was \$570 thousand and the September 30, 2018 allowance for loan losses balance was \$6.5 million versus \$4.8 million a year ago. The Bank continues to record a quarterly provision for loan losses expense due to the ongoing growth in the loan portfolio. The allowance for loan losses as a percent of total loans was 1.16% at September 30, 2018, 1.12% at June 30, 2018 and 1.13% at September 30, 2017.

## **Net Interest Margin**

The Bank's net interest margin continued to remain strong for the quarter ended September 30, 2018 at 3.33% versus 3.14% in the comparable 2017 quarter and 3.28% in the quarter ended June 30, 2018. The 19 basis point increase in the Bank's net interest margin versus 2017 was primarily attributable to a 48 basis point increase in the yield on average interest-earning assets to 4.96% from 4.48% a year ago. This improvement was largely the result of a 33 basis point increase in the average loan yield to 5.14% in 2018. The Bank's average cost of interest-bearing liabilities rose by 35 basis points to 1.84% in the third quarter of 2018 as the result of continued increases in short-term interest rates, significant competition for deposits in the Company's market area and a reliance on non-core funding sources, principally certificates of deposit and FHLB borrowings. Sequential growth in period-end core deposits of 26.7% versus the quarter ended June 30, 2018, due principally to growth in demand deposits of 75.9%, partially mitigated the higher cost of funds in the third quarter.

## **Operating Leverage and Efficiency Ratio**

The Bank's operating efficiency ratio was 52.5% during the quarter ended September 30, 2018 versus 61.8% in the comparable 2017 quarter. For the fiscal year ended September 30, 2018, the Bank's core efficiency ratio improved to 56.5% from 63.3% a year ago. The core operating efficiency ratio excludes the impact of non-recurring debt restructuring and accrued severance charges in applicable periods. Although total operating expenses have risen on a year-over-year basis, the Bank's net operating revenue continues to grow at a faster pace, thereby creating positive operating leverage. Pre-provision net revenue (net interest income plus non-interest income minus total operating expenses) has improved for seven consecutive quarters and represented 1.83% of average total assets on an annualized basis during the third quarter of 2018.

## **About Hanover Community Bank and Hanover Bancorp, Inc.**

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

Hanover Community Bank is a member of the Federal Deposit Insurance Corporation and is an Equal Housing/Equal Opportunity Lender. For further information, call 516-248-4868 or visit the Bank's website at [www.hanovercommunitybank.com](http://www.hanovercommunitybank.com).

### **Non-GAAP Disclosure**

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

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

### **Forward-Looking Statements**

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