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Hanover Bancorp, Inc. Reports First Quarter 2019 Results Highlighted by Record Net Income and Tangible Book Value per Share, Strong Net Interest Margin and Exceptional Asset Quality

Performance Highlights

- **Record Net Income:** Net income for the quarter ended March 31, 2019 improved to a record \$2.3 million or \$0.61 per diluted common share, an increase of 64.1% versus \$1.4 million or \$0.42 per diluted common share recorded in the same period a year ago. The Company recorded net income for the six months ended March 31, 2019 of \$4.7 million or \$1.22 per diluted common share, representing a 246.2% improvement versus 2018. Core operating net income for the six months ended March 31, 2019, which excludes the impact of a non-recurring real estate carrying value write-down and the impact of non-recurring deferred tax asset and debt restructuring charges in applicable periods, was \$4.8 million or \$1.24 per diluted common share, an increase of 108.6% versus the prior year-to-date period.
- **Balance Sheet:** Assets totaled \$669.6 million at March 31, 2019, up \$18.1 million, or 2.8%, from December 31, 2018 and up \$103.6 million, or 18.3%, from March 31, 2018 primarily due to continued strong loan growth.
- **Continued Capital Strength:** The Bank's Tier 1 capital ratio was 11.88% and its Total Risk-Weighted Capital Ratio was 22.90% at March 31, 2019, each significantly above the regulatory minimums for a well-capitalized institution.
- **Increase in Tangible Book Value Per Share:** Tangible book value per common share increased by 18.8% to \$16.53 at March 31, 2019 from \$13.91 at the comparable 2018 date.
- **Strong Year-Over-Year Loan Growth:** Total loans outstanding at March 31, 2019 were \$584.0 million or 87.2% of total assets, an increase of \$17.8 million, or 3.2%, from December 31, 2018 and up \$84.2 million or 16.8%, from March 31, 2018 as the Bank continues to successfully leverage its capital into new loan originations. The growth in loans recorded during the first quarter of 2019 is net of \$68.6 million in sales of performing credits during that period. For the quarter ended March 31,

- 2019, gross loan originations were \$83.8 million, an increase of 47.5% over the prior year quarter.
- **Excellent Asset Quality:** At March 31, 2019, the Bank's asset quality remained pristine and class leading among all financial institutions as the loan portfolio, for the seventeenth consecutive quarter, possessed no non-performing loans.
 - **Net Interest Income Growth:** Net interest income was \$5.2 million for the quarter ended March 31, 2019, an increase of \$907 thousand, or 20.9%, versus the comparable 2018 quarter.
 - **Strong Net Interest Margin:** The Company's net interest margin for the quarter ended March 31, 2019 was 3.37% versus 3.43% in the quarter ended December 31, 2018 and 3.30% in the quarter ended March 31, 2018.
 - **New Branch Location:** The Company opened its fourth branch location in Flushing, Queens, N.Y., in February 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. At March 31, 2019, CFSB had total assets of \$136 million, total loans of \$91 million and total deposits of \$104 million. This transaction is expected to be completed in the second quarter of 2019, subject to regulatory approvals and other customary closing conditions.

Mineola, NY – April 22, 2019 – 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 March 31, 2019, highlighted by record levels of total assets, net income and tangible book value per share, continued momentum in year-over-year loan and deposit growth and outstanding asset quality.

Earnings Summary for the Quarter Ended March 31, 2019

The Company recorded record net income for the quarter ended March 31, 2019 of \$2.3 million or \$0.61 per diluted common share, versus \$1.4 million or \$0.42 per diluted common share in the comparable 2018 quarter, an increase of \$913 thousand or 64.1%.

The improvement in net income achieved in the March quarter resulted from several factors, most notably a \$907 thousand or 20.9% increase in net interest income coupled with a \$648 thousand improvement in non-interest income and a \$50 thousand reduction in the provision for loan losses in 2019 versus the first quarter of 2018. Growth in average interest-earning assets (up \$97.5 million or 18.3%) resulting from an increase in average total loans of \$94.5 million, or 19.4%, coupled with a seven basis point widening of the net interest margin to 3.37% in the first quarter of 2019, accounted for the year-over-year improvement in net interest income. The growth in non-interest income resulted from a significant increase in gains on the sale of loans held-for-sale. Partially offsetting the foregoing improvements was an increase in non-interest expense of \$372 thousand in the first quarter of calendar 2019 versus the comparable year ago period. The higher level of non-interest expense was principally due to growth in compensation and benefits in connection with an increase in staff to support the Company's continued operational expansion. Higher marketing and advertising costs also contributed to the increase in operating expenses.

Michael P. Puorro, Chairman, President and Chief Executive Officer, commented on the Company's results: "We maintained our strong operating momentum in the first calendar quarter of 2019 by remaining focused on our core loan generation strategy which resulted in annual portfolio growth of approximately \$84 million or 17%. We also continued to expand our ability to generate non-interest income through sales of high quality performing loans which has led to another quarter of record earnings. When compared to the first quarter of last year, we have been able to report a \$913 thousand or 64% improvement in quarterly GAAP net income and a corresponding increase in earnings per share and tangible book value per share while continuing to invest in the Company's future through talent acquisition and franchise building. We also achieved year-over-year net interest income growth of 20.9%, loan growth of 16.8%, net of \$198 million in sales during the last twelve months, and deposit growth of 16.2%. Our loan growth story continues to be highlighted by industry leading asset quality. At March 31, 2019, for the seventeenth 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 \$84 million and our current loan pipeline of \$99 million. Additionally, we are pleased to report that our newest branch, located in the beautiful Flushing Commons development, opened in February to rave reviews. This high visibility, state-of-the-art branch will service our existing Flushing customer base and provide a full range of banking services to both businesses and individuals in the greater Flushing community. During the first quarter, we also completed a conversion of our core operating system to the Fiserv Premier platform. This long planned upgrade was executed seamlessly and will provide Hanover customers and staff with significant additional convenience and operational capabilities."

Mr. Puorro also noted, "Our ability to generate shareholder value continues to be reflected by robust growth in book value per share which increased by \$2.62, or 18.8%, to \$16.53 per share at March 31, 2019 versus the comparable 2018 date. We've been able to achieve these results while maintaining a core operating efficiency ratio of 51% that is also class-leading amongst peers our size."

Strong Balance Sheet Growth

Total assets for the quarter ended March 31, 2019 amounted to \$669.6 million, an increase of \$103.6 million from the comparable 2018 date as the Bank continued to record significant loan portfolio growth (up \$84.2 million) without any sacrifice in asset quality. The year-over-year balance sheet growth was funded by increases in total deposits (up \$65.8 million), borrowings (up \$21.0 million) and shareholders' equity (up \$16.7 million).

Total deposits at March 31, 2019 expanded by 16.2% to \$472.7 million when compared to March 31, 2018, the result of significant growth in core (Demand, N.O.W., Savings and Money Market) deposits (up \$79.9 million). Core deposits grew by 66.1% 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. FHLB borrowings are 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 March 31, 2019 were \$115.7 million with a weighted average rate and term of 1.92% and 18 months, respectively. At March 31, 2019, the Bank had \$45.3 million of additional borrowing capacity from the FHLB.

Shareholders' equity grew by \$16.7 million to \$63.4 million at March 31, 2019 from the comparable 2018 date resulting in a \$2.62 or 18.8 % increase in book value per share over the past twelve months to \$16.53 at March 31, 2019. The Company's executive management team and Board of Directors are always 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 insider ownership represented approximately 28% of total shares outstanding at March 31, 2019.

The Company's average cost of interest-bearing liabilities increased to 2.07% for the quarter ended March 31, 2019, from 1.68% a year ago and 1.92% on a linked quarter basis. This increase is primarily due to the significant ongoing competition for deposits in the Bank's core geographic area, a shift in the Company's deposit mix to a greater concentration of high yield money market accounts and an increase in non-deposit funding when compared to the year ago period. Partially offsetting the 39 basis point increase in the Company's average cost of interest-bearing liabilities from the March 2018 quarter was a corresponding 36 basis point improvement in the average yield on interest-earning assets to 5.15% during the first quarter of 2019, primarily driven by higher average loan yields (up 31 basis points in 2019) and a continued shift in the loan portfolio mix to a reduced reliance on lower-yielding multi-family credits in 2019.

Strong Loan Portfolio and Industry Leading Asset Quality

For the twelve months ended March 31, 2019, the Bank's loan portfolio, net of sales, grew by \$84.2 million, or 16.8%, with the growth concentrated primarily in adjustable-rate two-to-four family residential loans. Management continues to employ 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 \$250.4 million with an average loan balance of approximately \$530 thousand and a weighted average loan-to-value ratio of 57%. At March 31, 2019, the Company's residential loan portfolio amounted to \$400.3 million, with an average loan balance of \$406 thousand and a weighted average loan-to-value ratio of 53%. During the same twelve month period, the Bank originated \$22.1 million in commercial real estate loans, inclusive of multi-family loans, with an average loan balance of approximately \$962 thousand and a weighted average loan-to-value ratio of 56%. Commercial real estate loans totaled \$176.5 million at March 31, 2019, with an average loan balance of \$995 thousand and a weighted average loan-to-value ratio of 57%. The Company's commercial real estate concentration ratio was 206% of capital at March 31, 2019 versus 275% of capital at the comparable 2018 date.

Through its significant asset generation 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 March 31, 2019, the Company sold \$69 million in performing loans and recorded gains on the sale of loans held-for-sale of \$1.3 million versus gains of \$1.3 million in the quarter ended December 31, 2018 and gains of \$665 thousand in the quarter ended March 31, 2018. During the twelve months

ended March 31, 2019, the Company sold \$197.7 million in performing loans held-for-sale and recorded cumulative gains of \$4.0 million.

The Bank's asset quality ratios continue to remain pristine and class leading among its peer group of community banks. At March 31, 2019, the loan portfolio, for the seventeenth consecutive quarter, had no non-performing loans. During the quarter ended March 31, 2019, the Bank's provision for loan losses was \$200 thousand and the March 31, 2019 allowance for loan losses balance was \$6.9 million versus \$5.6 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 1.18% at March 31, 2019, 1.19% at December 31, 2018 and 1.12% at March 31, 2018.

Net Interest Margin

The Bank's net interest margin remained strong during the first calendar quarter of 2019 at 3.37% versus 3.30% in the comparable 2018 quarter and 3.43% in the quarter ended December 31, 2018. The seven basis point increase in the Bank's net interest margin versus 2018 was primarily attributable to a 36 basis point increase in the yield on average interest-earning assets to 5.15% from 4.79% a year ago. This improvement in yield was largely the result of a 31 basis point increase in the average loan yield to 5.31% in 2019. The Bank's average cost of interest-bearing liabilities rose by 39 basis points to 2.07% in the first quarter of 2019 as the result of continued intense competition for deposits in the Company's market area and a greater reliance on non-core funding sources, principally certificates of deposit and FHLB borrowings. Year-over-year growth in average core deposits of 49.0% versus the quarter ended March 31, 2018, due principally to growth in demand, N.O.W. and money market accounts, coupled with a 34.6% increase in average stockholders' equity partially mitigated the higher cost of funds in the first quarter.

Operating Leverage and Efficiency Ratio

The Bank's operating efficiency ratio was 50.6% in the first calendar quarter of 2019 versus 58.7% a year ago. Although total operating expenses continue to rise on a year-over-year basis, the Bank's net operating revenue continues to grow rapidly as well. Pre-provision net revenue (net interest income plus non-interest income minus total operating expenses) represented 2.06% of average total assets on an annualized basis during the first quarter of 2019 versus 1.56% in the comparable 2018 quarter.

About Hanover Community Bank and Hanover Bancorp, Inc.

Hanover Bancorp, Inc., is a locally owned and operated privately held stock bank holding company for Hanover Community Bank, a community commercial bank focusing on highly personalized and efficient services and products responsive to local needs. Management and the Board of Directors are comprised of a select group of successful local businessmen and women who are committed to the success of the Bank by knowing and understanding the metro-New York area's financial needs and opportunities. Backed by state-of-the-art technology, Hanover offers a full range of financial services. Hanover employs a complete suite of consumer and commercial banking products and services, including multi-family and commercial mortgages, residential loans, business loans and lines of credit. Hanover also offers its 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 and Flushing, 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 516-548-8500 or visit the Bank's website at www.hanoverbank.com.

Non-GAAP Disclosure

This discussion includes non-GAAP financial measures of the Company's core operating earnings, core net interest margin, core returns on average assets and shareholders' equity, and core operating efficiency ratio. A non-GAAP financial measure is a numerical measure of historical or future performance, financial position or cash flows that excludes or includes amounts that are required to be disclosed in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The Company's management believes that the presentation of non-GAAP financial measures 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.