

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2023

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 number: 001-41384

HANOVER BANCORP, INC.

(Exact name of registrant as specified in its charter)

New York	81-3324480
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
80 East Jericho Turnpike, Mineola, New York 11501	
(Address of principal executive offices) (Zip Code)	
(516) 548-8500	
(Registrant's telephone number, including area code)	

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal controls over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of the common stock of \$18.00 as of March 31, 2023 was \$ 101.9 million.

As of December 18, 2023, the registrant had 7,333,895 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Not applicable

Hanover Bancorp, Inc.
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FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933, as amended, and 21E of the Securities Exchange Act of 1934, as amended, that involve inherent risks and uncertainties. These forward-looking statements concern the financial condition, results of operations, plans, objectives, future performance and business of Hanover Bancorp, Inc. and its subsidiary, including statements preceded by, followed by or that include words or phrases such as "believes," "expects," "anticipates," "plans," "trend," "objective," "continue," "remain," "pattern" or similar expressions or future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may" or similar expressions. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) the impact of a pandemic or other health crises and the government's response to such pandemic or crises on our operations as well as those of our customers and on the economy generally and in our market area specifically, (2) competitive pressures among depository institutions may increase significantly; (3) changes in the interest rate environment may reduce interest margins; (4) loan origination and sale volumes, charge-offs and loan loss provisions may vary substantially from period to period; (5) general economic conditions may be less favorable than expected; (6) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (7) legislative or regulatory changes or actions may adversely affect the businesses in which Hanover Bancorp, Inc. is engaged; (8) changes and trends in the securities markets may adversely impact Hanover Bancorp, Inc.; (9) a delayed or incomplete resolution of regulatory issues could adversely impact our planning; (10) difficulties in integrating any businesses that we may acquire, which may increase our expenses and delay the achievement of any benefits that we may expect from such acquisitions; (11) the impact of reputation risk created by the developments discussed above on such matters as business generation and retention, funding and liquidity could be significant; and (12) the outcome of any future regulatory and legal investigations and proceedings may not be anticipated. Further information on other factors that could affect the financial results of Hanover Bancorp, Inc. are included in Item 1A of this Annual Report on Form 10-K and in Hanover Bancorp Inc.'s other filings with the Securities and Exchange Commission (the "Commission"). These documents are available free of charge at the Commission's website at <http://www.sec.gov> and/or from Hanover Bancorp, Inc. Hanover Bancorp, Inc. assumes no obligation to update forward-looking statements at any time.

Part I

Item 1. Business

Overview

Hanover Bancorp, Inc. ("Hanover") is a New York corporation which is the holding company for Hanover Community Bank (the "Bank"), a New York chartered community commercial bank focusing on highly personalized and efficient services and products responsive to local needs. The Bank operates as a locally headquartered, community-oriented bank serving customers throughout the New York metro area from offices in Nassau, Suffolk, Queens, Kings (Brooklyn) and New York (Manhattan) Counties, New York, and Freehold, Monmouth County, New Jersey. We opened the Bank's Hauppauge Business Banking Center in Hauppauge, Suffolk County, New York in May 2023. As of September 30, 2023, we had total assets of \$2.15 billion, total loans of \$1.87 billion, total deposits of \$1.74 billion and total stockholders' equity of \$185.9 million.

The Bank was originally organized in 2009, with a focus on serving the South Asian community in Nassau County. After incurring financial and regulatory setbacks, the Bank was recapitalized in 2012 (the "2012 Recapitalization"). Following the 2012 Recapitalization, the Bank adopted a strategic plan focused on providing differentiated consumer and commercial banking services to clients in the western Long Island markets and New York City boroughs, particularly the Queens and Brooklyn markets. As a result, the Bank has grown its balance sheet significantly both through organic loan and deposit growth, as well as highly opportunistic acquisitions. The Bank's management team has utilized its strong local community ties and experience with federal and New York bank regulatory agencies to create a bank that we believe emphasizes strong credit quality, a solid balance sheet, and a robust capital base.

In 2019, we acquired Chinatown Federal Savings Bank ("CFSB"). The transaction helped us enhance and diversify our funding profile and further enhance our visibility in the New York City market where much of our lending activities take place.

On May 26, 2021, the Company completed the acquisition of Savoy Bank ("Savoy"), a privately held commercial bank founded to provide banking services to small business owners in and around New York City. With the Savoy acquisition, we expanded our commercial banking capabilities significantly, with a particular focus on small business clients and Small Business Administration ("SBA") lending.

In May 2022, the Company completed an initial public offering ("IPO") of its common stock resulting in net proceeds of \$27.7 million. The Company listed its shares on The Nasdaq Global Select Market in connection with the IPO.

In October 2023, the Company's Board of Directors approved a change in the Company's fiscal year end from September 30 to December 31. Accordingly, the Company will report a transition quarter that runs from October 1, 2023 through December 31, 2023 (the "Stub Period"). The Company's next full fiscal year will be the calendar year January 1, 2024 through December 31, 2024. All references in Part I of this report to a quarter or year are to the Company's historical fiscal quarter or fiscal year unless otherwise stated.

Our one- to four-family residential mortgage segment has a particular niche focus on non-conforming loans, primarily secured by owner-occupied and investment properties. The segment has proven particularly appealing to Asian American borrowers in the New York City boroughs. We offer a variety of deposit accounts to businesses and consumers through our branch network, which we believe complements our niche lending efforts. Additionally, we have expanded our deposit products to include a full line of municipal banking accounts, which has allowed us to capture additional customers in our operating footprint. During the fourth calendar quarter of 2023, we have begun offering business banking services to the legal, licensed cannabis industry in New York state.

Lending Activities

Our lending strategy is to maintain a broadly diversified loan portfolio based on the type of customer (i.e., businesses versus individuals), type of loan product (e.g., owner occupied commercial real estate, commercial loans, etc.), geographic location and industries in which our business customers are engaged (e.g., manufacturing, retail, hospitality, etc.). We offer personal and business loans on a secured and unsecured basis, SBA and USDA guaranteed loans, revolving lines of credit, commercial mortgage loans, and one- to four-family non-qualified mortgages secured by primary and secondary residences that may be owner occupied or investment properties, home equity loans, bridge loans and other personal purpose loans.

Residential real estate. We originate mainly non-qualified, alternative documentation, single-family residential mortgage loans through broker referrals or our branch network to accommodate the needs of diverse communities in the New York City MSA. We offer multiple products, including our Residential Investor Program ("RIP"), which is designed specifically for two- to four-family units. Other one- to four-family credit products include home equity loans and first-time home buyer loans.

Our one- to four-family residential real estate portfolio is secured by real estate, the value of which may fluctuate significantly over a short period of time as a result of market conditions in the area in which the real estate is located. Adverse developments affecting real estate values in our market areas could therefore increase the credit risk associated with these loans, impair the value of properties pledged as collateral on loans, and affect our ability to sell the collateral upon foreclosure without a loss or additional losses.

We originate non-qualified one- to four-family residential mortgage loans both to sell and hold for investment. Single-family residential mortgage loans held for sale are generally sold with the servicing rights released. However, due to the pace of interest rate increases since 2022, the Bank's secondary market sale activity remains less active, and the Bank continues originating residential loans for its own portfolio.

Commercial real estate. We offer real estate loans secured by owner occupied and non-owner occupied commercial properties, including one- to four-family properties and multi-family residential properties and construction and land development loans. Our management team has extensive knowledge of the markets where we operate and our borrowers. We focus on what we believe to be high quality credits with acceptable loan-to-value ratios, income- producing properties with strong cash flow and collateral profiles. The weighted average LTV was 60% for this portfolio as of September 30, 2023.

Within the commercial real estate portfolio, multi-family loans are secured primarily by rent controlled/stabilized multi-family properties located in New York City. The real estate securing our existing non-owner occupied commercial real estate loans is primarily multi-family, mixed-use and commercial properties. Owner-occupied properties comprise a wide variety of property types, including offices, warehouses, retail centers, and hotels.

Our construction portfolio is small, representing only \$13.0 million in total balances at September 30, 2023. Our construction and land development loans are comprised of commercial construction and land acquisition and development loans. Interest reserves are generally established on real estate construction loans. These loans are typically Prime-based and have maturities of fewer than 18 months. As of September 30, 2023, 100% of our real estate construction loan portfolio was secured by commercial properties.

Commercial and industrial. We provide a mix of variable and fixed rate commercial and industrial loans, which we refer to as C&I loans. The loans are typically made to small and medium-sized businesses for working capital needs, business expansions and trade financing. We extend commercial business loans on an unsecured and secured basis for working capital, accounts receivable and inventory financing, machinery and equipment purchases, and other business purposes. Generally, lines of credit have maturities ranging from twelve to twenty- four months, and "term loans" have maturities ranging from five to ten years. C&I loans generally provide for floating interest rates, with interest only payments for lines of credit and monthly payments of both principal and interest for term loans. We expect C&I lending to be a key component of our growth going forward. As of September 30, 2023, our commercial and industrial loans comprised \$87.6 million, or 4.7%, of total loans held for investment.

Small Business Administration Loans. Our SBA loans are secured by commercial real estate and/or business assets. We offer mostly SBA 7(a) variable-rate loans. We originate all loans to hold for investment and move loans to available for sale as management decides which loans to sell. We generally sell the 75% guaranteed portion of the SBA loans that we originate. Our SBA loans are typically made to small-sized manufacturing, wholesale, retail, hotel/motel and service businesses for working capital needs or to finance the purchase of real estate, equipment or business expansions. SBA loans secured by real estate have maturities of up to 25 years, with non-real estate secure loans generally having maturities of 10 years. In addition to real estate, collateral may include inventory, accounts receivable and equipment.

SBA loans are originated subject to personal guarantees and may include real estate belonging to guarantors as collateral. We monitor SBA loans by collateral type. From time to time, we will also originate SBA 504 loans, which are real estate backed commercial mortgages where we have first mortgages and the SBA has second mortgages on the properties. We also, from time-to-time, originate loans guaranteed by the United States Department of Agriculture ("USDA"), which have characteristics that are similar to those of SBA 7(a) loans. We originate all such loans through our loan officers and brokers to borrowers located in, and secured by collateral located in, New York and New Jersey, our primary trade area, as well as in other states across the country.

Deposits and Funding

Checking accounts consist of retail and business demand deposit products. NOW accounts consist of retail and business interest-bearing transaction accounts that have minimum balance requirements. Money market accounts consist of products that provide market rates of interest to depositors. Our savings accounts consist of statement type accounts. Time deposits consist of certificates of deposit, including those held in IRA accounts, and brokered certificates of deposit.

We also have a municipal banking business, which we believe has produced a significant level of deposits at cost-effective rates. The business provides banking services to public municipalities, including counties, cities, towns, and school districts, throughout the Long Island area. We believe this business is differentiated from our competitors in that the customers are long-term relationships of our team and are not transactional in nature. Furthermore, our focus is banking municipalities that are core to our branch footprint and where our brand resonates. This initiative is also consistent with our branch-lite and highly efficient approach to growing our balance sheet. The team and relationships we have allow us to compete throughout the Long Island market without the expense constraints of multiple physical locations. As of September 30, 2023, we had \$313.2 million in municipal deposits at an average rate of 4.53%.

Deposits serve as the primary source of funding for our interest-earning assets, but also generate non-interest revenue through insufficient funds fees, stop payment fees, safe deposit rental fees, foreign ATM fees and debit card interchange and other miscellaneous fees.

Employees and Human Capital Resources

As of September 30, 2023, we employed 176 full-time employees. None of these employees are covered by a collective bargaining agreement. The Company provides its employees with comprehensive benefits, some of which are provided on a contributory basis, including medical, Health Savings Account contribution for eligible plans, a 401(k) savings plan with a company match component and short-term and long-term disability coverage. Additional benefits offered include paid time off, dental, vision, life insurance and employee assistance. The Company's compensation package is designed to maintain market competitive total rewards programs for all employees in order to attract and retain superior talent. We also implemented flexible scheduling, which has allowed us to remain competitive.

Competition

The financial services industry is highly competitive. We compete for loans, deposits, and financial services in all of our principal markets. We compete directly with other bank and nonbank institutions located within our markets, internet-based banks, out-of-market banks and bank holding companies that advertise in or otherwise serve our markets, money market funds and other mutual funds, brokerage houses, and various other financial institutions. Additionally, we compete with insurance companies, leasing companies, regulated small loan companies, credit unions, governmental agencies and commercial entities offering financial services products, including nonbank lenders and so-called financial technology companies. Competition involves, among other things, efforts to retain current customers and to obtain new loans and deposits, the scope and types of services offered, interest rates paid on deposits and charged on loans, as well as other aspects of banking. We also face direct competition from subsidiaries of bank holding companies that have far greater assets and resources than ours.

Supervision and Regulation

Overview

The Bank is chartered under the laws of the state of New York. Its deposits are insured under the Deposit Insurance Fund (the "DIF") of the Federal Deposit Insurance Corporation (the "FDIC") up to applicable legal limits, but it is not a member of the Federal Reserve System. The lending, investment, deposit-taking, and other business authority of the Bank is governed primarily by state and federal law and regulations, and the Bank is prohibited from engaging in any operations not authorized by such laws and regulations. The Bank is subject to extensive regulation, supervision and examination by, and the enforcement authority of, the New York Department of Financial Services (the "DFS") and the FDIC, its primary federal regulator. The regulatory structure establishes a comprehensive framework of activities in which a non-member bank may engage and is primarily intended for the protection of depositors, customers and the DIF. The regulatory structure gives the regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

The Company is a bank holding company, due to its control of the Bank, and is therefore subject to the requirements of the Bank Holding Company Act of 1956, as amended (the "BHCA"), and regulation and supervision by the Board of Governors of the Federal Reserve System ("FRB"). The Company files reports with and is subject to periodic examination by the FRB. Any change in the applicable laws and regulations could have a material adverse impact on the Company and the Bank and their operations and the Company's shareholders.

On May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "Economic Growth Act") was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Wall Street and Consumer Protection Act (the "Dodd-Frank Act"). While the Economic Growth Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than \$10 billion and for large banks with assets of more than \$50 billion. Many of these changes could result in meaningful regulatory changes for banks and their holding companies. In addition, the Economic Growth Act includes regulatory relief for community banks regarding regulatory examination cycles, call reports, the Volcker Rule, mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

Bank Regulation

Loans and Investments

State commercial banks and trust companies have authority to originate and purchase any type of loan, including commercial, commercial real estate, residential mortgages or consumer loans. Aggregate loans by a state commercial bank or trust company to any single borrower or group of related borrowers are generally limited to 15% of the Bank's capital stock, surplus fund and undivided profits, plus an additional 10% if secured by specified readily marketable collateral.

Federal and state law and regulations limit the Bank's investment authority. Generally, a state non-member bank is prohibited from investing in corporate equity securities for its own account other than the equity securities of companies through which the bank conducts its business. Under federal and state regulations, a New York state non-member bank may invest in investment securities for its own account up to specified limits depending upon the type of security. "Investment securities" are generally defined as marketable obligations that are investment grade and not predominantly speculative in nature.

Lending Standards and Guidance

The federal banking agencies adopted uniform regulations prescribing standards for extensions of credit that are secured by liens or interests in real estate or made for the purpose of financing permanent improvements to real estate. Under these regulations, all insured depository institutions, such as the Bank, must adopt and maintain written policies establishing appropriate limits and standards for extensions of credit that are secured by liens or interests in real estate or are made for the purpose of financing permanent improvements to real estate. These policies must establish loan portfolio diversification standards, prudent underwriting standards (including loan-to-value limits) that are clear and measurable, loan administration procedures, and documentation, approval and reporting requirements. The real estate lending policies must reflect consideration of the federal bank regulators' Interagency Guidelines for Real Estate Lending Policies.

The FDIC, the Office of the Comptroller of the Currency (the "OCC"), and the FRB have also jointly issued the "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" (the "CRE Guidance"). The CRE Guidance, which addresses land development, construction, and certain multi-family loans, as well as commercial real estate loans, does not establish specific lending limits but rather reinforces and enhances these agencies' existing regulations and guidelines for such lending and portfolio management. Specifically, the CRE Guidance provides that a bank has a concentration in CRE lending if (1) total reported loans for construction, land development, and other land represent 100% or more of total risk-based capital; or (2) total reported loans secured by multi-family properties, non-farm non-residential properties (excluding those that are owner-occupied), and loans for construction, land development, and other land represent 300% or more of total risk-based capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. If a concentration is present, management must employ heightened risk management practices that address key elements, including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending.

Federal Deposit Insurance

The Bank is a member of the DIF, which is administered by the FDIC. The Bank's deposit accounts are insured by the FDIC, generally up to a maximum of \$250,000 per depositor.

The FDIC imposes deposit insurance assessments against all insured depository institutions. An institution's assessment rate depends upon the perceived risk of the institution to the DIF, with institutions deemed less risky paying lower rates. Assessments for institutions of less than \$10 billion of total assets, such as the Bank, are based on financial measures and supervisory ratings derived from statistical models estimating the probability of failure within three years. Assessment rates (inclusive of possible adjustments) range from 1.5 to 30 basis points of each institution's total assets less tangible capital. The FDIC may increase or decrease the range of assessments uniformly, except that no adjustment can deviate more than two basis points from the base assessment rate without notice and comment rulemaking.

By final rule adopted in October 2022, the FDIC increased the initial base deposit insurance assessment rates by 2 basis points beginning in the first quarterly assessment period of 2023. As a result, effective January 1, 2023, assessment rates for institutions of the Bank's size ranged from 3.5 to 32 basis points. A significant increase in insurance premiums would have an adverse effect on the operating expenses and results of operations of the Bank. We cannot predict what deposit insurance assessment rates will be in the future.

The FDIC may terminate the insurance of an institution's deposits upon finding that the institution has engaged in unsafe and unsound practices, is in an unsafe and unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The Bank knows of no practice, condition or violation that might lead to termination of its deposit insurance.

Capitalization

The Bank is subject to risk-based and leverage capital standards by which all banks are evaluated in terms of capital adequacy. Federal banking agencies have broad powers to take corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institutions in question are "well capitalized," "adequately capitalized," "undercapitalized", "significantly undercapitalized," or "critically undercapitalized." FDIC rules define these five capital categories. Under current FDIC regulations, a bank is deemed to be "well capitalized" if the bank has a total risk-based capital ratio of 10% or greater, has a Tier 1 risk-based capital ratio of 8% or greater, has a common equity tier 1 capital ratio of 6.5% or greater, has a leverage ratio of 5% or greater, and is not subject to any order or final capital directive by the FDIC to meet and maintain a specific capital level for any capital measure. A bank may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it received an unsatisfactory safety and soundness examination rating. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. As of September 30, 2023, the Bank was a "well-capitalized" bank, as defined by its primary federal regulator.

Each of the bank regulatory agencies have issued rules that amend their capital guidelines for interest rate risk and require such agencies to consider in their evaluation of a bank's capital adequacy, the exposure of a bank's capital and economic value to changes in interest rates. These rules do not establish an explicit supervisory threshold. The agencies intend, at a subsequent date, to incorporate explicit minimum requirements for interest rate risk into their risk-based capital standards and have proposed a supervisory model to be used together with bank internal models to gather data and propose, at a later date, explicit minimum requirements.

The United States is a member of the Basel Committee on Banking Supervision (the "Basel Committee") that provides a forum for regular international cooperation on banking supervisory matters. The Basel Committee develops guidelines and supervisory standards and is best known for its international standards on capital adequacy. In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, officially identified by the Basel Committee as "Basel III." In July 2013, the US bank regulatory agencies published final rules to implement the Basel III capital framework and revise the framework for the risk-weighting of assets. The Basel III rules, among other things, narrow the definition of regulatory capital. As of January 1, 2019, Basel III requires bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. Basel III also provides for a "countercyclical capital buffer," an additional capital requirement that generally is to be imposed when national regulators determine that excess aggregate credit growth has become associated with a buildup of systemic risk, in order to absorb losses during periods of economic stress. Banking institutions that maintain insufficient capital to comply with the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. Additionally, the Basel III framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests, including a liquidity coverage ratio ("LCR") designed to ensure that the banking entity maintains a level of unencumbered high-quality liquid assets greater than or equal to the entity's expected net cash outflow for a 30-day time horizon under an acute liquidity stress scenario, and a net stable funding ratio ("NSFR") designed to promote more medium and long-term funding based on the liquidity characteristics of the assets and activities of banking entities over a one-year time horizon. The LCR and NSFR rules do not apply to us due to our asset size.

The final BASEL III capital rules apply to all depository institutions, top-tier bank holding companies with total consolidated assets of \$3.0 billion or more, and top-tier savings and loan holding companies, referred to as banking organizations. As finally implemented, Basel III requires banking organizations to maintain: (a) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%; (b) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%; (c) a minimum ratio of total (that is, tier 1 plus tier 2) capital to risk-weighted assets of at least 8.0%; and (d) a minimum leverage ratio of 3.0%, calculated as the ratio of tier 1 capital balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter). In addition, the rules also limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" of 2.5%, effectively raising the foregoing capital requirements by 2.5%.

As a result of the capital conservation buffer rules, if the Bank fails to maintain the required minimum capital conservation buffer, the Bank may be unable to make capital distributions to us, which could negatively impact our ability to pay dividends, service debt obligations or repurchase common stock. In addition, such a failure could result in a restriction on our ability to pay certain cash bonuses to executive officers, negatively impacting our ability to retain key personnel. As of September 30, 2023, the Bank's current capital levels exceeded the applicable minimum capital requirements, including the capital conservation buffer, as prescribed in the Basel III capital rules.

As a result of the Economic Growth Act, banking regulatory agencies adopted a revised definition of "well capitalized" for financial institutions and holding companies with assets of less than \$10 billion that are not determined to be ineligible by their primary federal regulator due to their risk profile, which is referred to as a Qualifying Community Bank. The new definition expanded the ways that a Qualifying Community Bank may meet its capital requirements and be deemed "well capitalized." The new rule establishes a community bank leverage ratio, or CBLR, equal to the tangible equity capital divided by the average total consolidated assets. Currently the minimum required CBLR is 9.0%.

A Qualifying Community Bank that meets the CBLR is considered to be well capitalized and to have met generally applicable leverage capital requirements, generally applicable risk-based capital requirements, and any other capital or leverage requirements to which such financial institution or holding company is subject.

The Bank did not elect into the CBLR framework.

Safety and Soundness Standards

Each federal banking agency, including the FDIC, has adopted guidelines establishing general standards relating to, among other things, internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, compensation, fees and benefits and information security standards. In general, the guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired and require appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal shareholder. The FDIC also has issued guidance on risks banks may face from third-party relationships (e.g., relationships under which the third-party provides services to the bank). The guidance generally requires the Bank to perform adequate due diligence on the third-party, appropriately document the relationship, and perform adequate oversight and auditing, in order to the limit the risks to the Bank.

Prompt Corrective Regulatory Action

Federal law requires that federal bank regulatory authorities take "prompt corrective action" with respect to institutions that do not meet minimum capital requirements. For these purposes, the statute establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

The final rule that increased regulatory capital standards also adjusted the prompt corrective action tiers as of January 1, 2015 to conform to the revised capital standards. As described above, the Bank has not elected to follow the CBLR so the generally applicable prompt corrective action requirements remain applicable to the Bank. Under prompt corrective action requirements, insured depository institutions are required to meet the following in order to qualify as "well capitalized": total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 8% or greater, a common equity tier 1 capital ratio of 6.5% or greater, a leverage ratio of 5% or greater, and not be subject to any order or final capital directive by the FDIC to meet and maintain a specific capital level for any capital measure.

Non-member banks that have insufficient capital are subject to certain mandatory and discretionary supervisory measures. For example, a bank that is "undercapitalized" (i.e., fails to comply with any regulatory capital requirement) is subject to growth, capital distribution (including dividend) and other limitations, and is required to submit a capital restoration plan; a holding company that controls such a bank is required to guarantee that the bank complies with the restoration plan. If an undercapitalized institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." A "significantly undercapitalized" bank is subject to additional restrictions. Non-member banks deemed by the FRB or FDIC to be "critically undercapitalized" also may not make any payment of principal or interest on certain subordinated debt, extend credit for a highly leveraged transaction, or enter into any material transactions outside the ordinary course of business after 60 days of obtaining such status, and are subject to the appointment of a receiver or conservator within 270 days after obtaining such status.

Dividends

Under federal and state law and applicable regulations, a New York state chartered bank may generally declare a dividend, without approval from the DFS, in an amount equal to its year-to-date net income plus the prior two years' net income less dividends already paid. Dividends exceeding those amounts require application to and approval by the DFS. To pay a cash dividend, a non-member bank must also maintain an adequate capital conservation buffer under the capital rules discussed above.

Incentive Compensation Guidance

The FRB, OCC, FDIC, other federal banking agencies and DFS have issued comprehensive guidance intended to ensure that the incentive compensation policies of banking organizations, including non-member banks and bank holding companies, do not undermine the safety and soundness of those organizations by encouraging excessive risk-taking. The incentive compensation guidance sets expectations for banking organizations concerning their incentive compensation arrangements and related risk-management, control and governance processes. In addition, under the incentive compensation guidance, a banking organization's federal supervisor, which for the Bank is the FDIC and for the Company is the FRB, may initiate enforcement action if the organization's incentive compensation arrangements pose a risk to the safety and soundness of the organization. Further, provisions of the Basel III regime described above limit discretionary bonus payments to bank and bank holding company executives if the institution's regulatory capital ratios fail to exceed certain thresholds. The scope and content of the banking regulators' policies on incentive compensation are likely to continue evolving.

Transactions with Affiliates and Insiders

Sections 23A and 23B of the Federal Reserve Act govern transactions between an insured depository institution and its affiliates, which includes the Company. The FRB has adopted Regulation W, which implements and interprets Sections 23A and 23B, in part by codifying prior FRB interpretations.

An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. A subsidiary of a bank that is not also a depository institution or a “financial subsidiary” under federal law is not treated as an affiliate of the bank for the purposes of Sections 23A and 23B; however, the FRB has the discretion to treat subsidiaries of a bank as affiliates on a case-by-case basis. Section 23A limits the extent to which a bank or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10% of the bank’s capital stock and surplus. There is an aggregate limit of 20% of the bank’s capital stock and surplus for such transactions with all affiliates. The term “covered transaction” includes, among other things, the making of a loan to an affiliate, a purchase of assets from an affiliate, the issuance of a guarantee on behalf of an affiliate and the acceptance of securities of an affiliate as collateral for a loan. All such transactions are required to be on terms and conditions that are consistent with safe and sound banking practices and no transaction may involve the acquisition of any “low quality asset” from an affiliate unless certain conditions are satisfied. Certain covered transactions, such as loans to or guarantees on behalf of an affiliate, must be secured by collateral in amounts ranging from 100 to 130 percent of the loan amount, depending upon the type of collateral. In addition, Section 23B requires that any covered transaction (and specified other transactions) between a bank and an affiliate must be on terms and conditions that are substantially the same, or at least as favorable, to the bank, as those that would be provided to a non-affiliate.

A bank’s loans to its executive officers, directors, any owner of more than 10% of its stock (each, an insider) and certain entities affiliated with any such person (an insider’s related interest) are subject to the conditions and limitations imposed by Section 22(h) of the Federal Reserve Act and the FRB’s Regulation O. The aggregate amount of a bank’s loans to any insider and the insider’s related interests may not exceed the loans-to-one-borrower limit applicable to non-member banks. Aggregate loans by a bank to its insiders and insiders’ related interests may not exceed 15% of the bank’s unimpaired capital and unimpaired surplus plus an additional 10% of unimpaired capital and surplus in the case of loans that are fully secured by readily marketable collateral, or when the aggregate amount on all of the extensions of credit outstanding to all of these persons would exceed the bank’s unimpaired capital and unimpaired surplus. With certain exceptions, such as education loans and certain residential mortgages, a bank’s loans to its executive officers may not exceed the greater of \$25,000 or 2.5% of the bank’s unimpaired capital and unimpaired surplus, but in no event more than \$100,000. Regulation O also requires that any loan to an insider or a related interest of an insider be approved in advance by a majority of the board of directors of the bank, with any interested director not participating in the voting, if the loan, when aggregated with any existing loans to that insider or the insider’s related interests, would exceed the higher of \$25,000 or 5% of the bank’s unimpaired capital and surplus. Generally, such loans must be made on substantially the same terms as, and follow credit underwriting procedures that are no less stringent than, those that are prevailing at the time for comparable transactions with other persons and must not involve more than a normal risk of repayment. An exception is made for extensions of credit made pursuant to a benefit or compensation plan of a bank that is widely available to employees of the bank and that does not give any preference to insiders of the bank over other employees of the bank.

Enforcement

The DFS and the FDIC have extensive enforcement authority over non-member banks to correct unsafe or unsound practices and violations of law or regulation. Such authority includes the issuance of cease-and-desist orders, assessment of civil money penalties and removal of officers and directors. The FDIC may also appoint a conservator or receiver for a non-member bank under specified circumstances, such as where (i) the bank’s assets are less than its obligations to creditors, (ii) the bank is likely to be unable to pay its obligations or meet depositors’ demands in the normal course of business, or (iii) a substantial dissipation of bank assets or earnings has occurred due to a violation of law or regulation or unsafe or unsound practices. Separately, the Superintendent of the DFS also has the authority to appoint a receiver or liquidator of any state-chartered bank or trust company under specified circumstances, including where (i) the bank is conducting its business in an unauthorized or unsafe manner, (ii) the bank has suspended payment of its obligations, or (iii) the bank cannot with safety and expediency continue to do business.

Federal Reserve System

Under federal law and regulations, the Bank is required to maintain sufficient liquidity to ensure safe and sound banking practices. Regulation D, promulgated by the FRB, imposes reserve requirements on all depository institutions, including the Bank, which maintain transaction accounts or nonpersonal time deposits. In March 2020, due to a change in its approach to monetary policy due to the COVID-19 pandemic, the FRB implemented a final rule to amend Regulation D requirements and reduce reserve requirement ratios to zero. The FRB has indicated that it has no plans to re-impose reserve requirements but may do so in the future if conditions warrant.

Examinations and Assessments

The Bank is required to file periodic reports with and is subject to periodic examination by the DFS and FDIC. Federal and state regulations generally require periodic on-site examinations for all depository institutions. The Bank is required to pay an annual assessment to the DFS and FDIC to fund the agencies' operations.

Community Reinvestment Act and Fair Lending Laws Federal Regulation

Under the Community Reinvestment Act ("CRA"), as implemented by the FDIC, the Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires the FDIC to assess the Bank's record of meeting the credit needs of its community and to take that record into account in its evaluation of certain applications by the Bank. For example, the regulations specify that a bank's CRA performance will be considered in its expansion (e.g., branching or merger) proposals and may be the basis for approving, denying or conditioning the approval of an application. As of the date of its most recent examination, the Bank was rated "Satisfactory" with respect to its CRA compliance. The banking regulatory agencies have recently substantially amended their regulations implementing the CRA to, among other things, move away from standards based upon the location of a bank's branches and toward a focus on the location of its loans. These regulations are not yet effect, and management has not yet determined the impact of these new regulations on the Bank.

New York State Regulation

The Bank is also subject to provisions of the New York State Banking Law that impose continuing and affirmative obligations upon a banking institution organized in New York State to serve the credit needs of its local community. Such obligations are substantially similar to those imposed by the CRA. The latest New York State CRA rating received by the Bank is "Satisfactory."

USA PATRIOT Act and Money Laundering

The Bank is subject to the Bank Secrecy Act ("BSA"), which incorporates several laws, including the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act") and related regulations. The USA PATRIOT Act gives the federal government powers to address money laundering and terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the BSA, Title III of the USA PATRIOT Act implemented measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Among other things, Title III of the USA PATRIOT Act and the related regulations require:

- Establishment of anti-money laundering compliance programs that include policies, procedures, and internal controls; the designation of a BSA officer; a training program; and independent testing;
- Filing of certain reports with Financial Crimes Enforcement Network and law enforcement that are designated to assist in the detection and prevention of money laundering and terrorist financing activities;
- Establishment of a program specifying procedures for obtaining and maintaining certain records from customers seeking to open new accounts, including verifying the identity of customers;
- In certain circumstances, compliance with enhanced due diligence policies, procedures and controls designed to detect and report money- laundering, terrorist financing and other suspicious activity;
- Monitoring account activity for suspicious transactions; and
- A heightened level of review for certain high-risk customers or accounts.

The USA PATRIOT Act also includes prohibitions on correspondent accounts for foreign shell banks and requires compliance with record keeping obligations with respect to correspondent accounts of foreign banks.

The bank regulatory agencies have increased the regulatory scrutiny of the BSA and anti-money laundering programs maintained by financial institutions. Significant penalties and fines, as well as other supervisory orders may be imposed on a financial institution for non-compliance with these requirements. In addition, for financial institutions engaging in a merger transaction, federal bank regulatory agencies must consider the effectiveness of the financial institution's efforts to combat money laundering activities. The Bank has adopted policies and procedures to comply with these requirements.

Privacy Laws

The Bank is subject to a variety of federal and state privacy laws, which govern the collection, safeguarding, sharing and use of customer information, and require that financial institutions have in place policies regarding information privacy and security. For example, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and practices for sharing nonpublic information with third parties, provide advance notice of any changes to the policies and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties. It also requires banks to safeguard personal information of consumer customers. Some state laws also protect the privacy of information of state residents and require adequate security for such data, and certain state laws may, and issued federal regulations do, in some circumstances, require the Bank to notify affected individuals of security breaches of computer databases that contain their personal information. These laws and regulations may also require the Bank to notify law enforcement, regulators or consumer reporting agencies in the event of a data breach, as well as businesses and governmental agencies that own data.

Consumer Finance Regulations

The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. In this regard, the CFPB has several rules that implement various provisions of the Dodd-Frank Act that were specifically identified as being enforced by the CFPB. While the Bank is subject to the CFPB regulations, because it has less than \$10 billion in total consolidated assets, the FDIC and the DFS are responsible for examining and supervising the Bank's compliance with these consumer financial laws and regulations. In addition, the Bank is subject to certain state laws and regulations designed to protect consumers.

Other Regulations

The Bank's operations are also subject to federal laws applicable to credit transactions, such as:

- The Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- The Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one-to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;
- The Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- The Equal Credit Opportunity Act and other fair lending laws, prohibiting discrimination on the basis of race, religion, sex and other prohibited factors in extending credit;
- The Fair Credit Reporting Act, governing the use of credit reports on consumers and the provision of information to credit reporting agencies;
- Unfair or Deceptive Acts or Practices laws and regulations;
- The Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- The Coronavirus Aid, Relief and Economic Security Act; and
- The rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of the Bank are further subject to the:

- The Truth in Savings Act, which specifies disclosure requirements with respect to deposit accounts;
- The Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- The Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- The Check Clearing for the 21st Century Act, which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;
- State unclaimed property or escheatment laws; and
- Cybersecurity regulations, including but not limited to those implemented by DFS.

Holding Company Regulations

General

The Company, as a bank holding company controlling the Bank, is subject to regulation and supervision by the FRB under the BHCA. The Company is periodically examined by and required to submit reports to the FRB and must comply with the FRB's rules and regulations. Among other things, the FRB has authority to restrict activities by a bank holding company that are deemed to pose a serious risk to the subsidiary bank.

Permissible Activities

A bank holding company is generally prohibited from engaging in non-banking activities or acquiring direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the FRB to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the FRB has determined by regulation to be so closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings and loan association whose direct and indirect activities are limited to those permitted for bank holding companies.

The Gramm-Leach-Bliley Act of 1999 authorized a bank holding company that meets specified conditions, including being "well capitalized" and "well managed," to opt to become a "financial holding company" and thereby engage in a broader array of financial activities than those permitted for a bank holding company. Such activities can include insurance underwriting and investment banking. The Company has not elected "financial holding company" status.

Capitalization

Bank holding companies are subject to consolidated regulatory capital requirements that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to depository institutions. As a result, consolidated regulatory capital requirements identical to those applicable to the subsidiary banks generally apply to bank holding companies. However, the FRB has provided a "Small Bank Holding Company" exception to its consolidated capital requirements, and subsequent legislation and the related issuance of regulations by the FRB have increased the threshold for the exception to \$3.0 billion of consolidated assets. Consequently, bank holding companies such as the Company with less than \$3.0 billion of consolidated assets are not subject to the consolidated holding company capital requirements unless otherwise directed by the FRB.

Source of Strength

Section 616 of the Dodd-Frank Act codified the FRB's "source-of-strength" doctrine for bank subsidiaries of bank holding companies. The FRB has issued regulations requiring that all bank holding companies serve as a source of strength to their subsidiary depository institutions by providing financial, managerial and other support in times of an institution's distress. Under this regulation, where a bank is experiencing severe financial distress, its parent bank holding company may be required to make financial contributions to the bank.

Dividends and Stock Repurchases

The FRB has issued a policy statement regarding the payment of dividends by holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall supervisory financial condition. Separate regulatory guidance provides for prior consultation with FRB staff concerning dividends in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized.

The regulatory guidance also states that a bank holding company should consult with FRB supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the bank holding company is experiencing financial weaknesses or the repurchase or redemption would result in a net reduction, at the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred.

There is a separate requirement that a bank holding company give the FRB prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The FRB may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, FRB order or directive, or any condition imposed by, or written agreement with, the FRB. There is an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions.

These regulatory policies may affect our ability to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Acquisition of Control of the Company

Under the Change in Bank Control Act, no person may acquire control of a bank holding company such as the Company unless the FRB has prior written notice and has not issued a notice disapproving the proposed acquisition. In evaluating such notices, the FRB takes into consideration such factors as the financial resources, competence, experience and integrity of the acquirer, the future prospects of the bank holding company involved and its subsidiary bank and the competitive effects of the acquisition. In January 2020, the Federal Reserve substantially revised its control regulations. Under the revised rule, control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the BHC. Where an investor holds less than 25%, the Federal Reserve provides the following four-tiered approach to determining control: (1) less than 5%; (2) 5%-9.99%; (3) 10%-14.99%; and (4) 15%-24.99%. In addition to the four tiers, the Federal Reserve takes into account substantive activities, including director service, business relationships, business terms, officer/employee interlocks, contractual powers, and proxy contests for directors. The Federal Reserve Board may require the company to enter into passivity and, if other companies are making similar investments, anti-association commitments. Acquisition of more than 10% of any class of a bank holding company's voting stock constitutes a rebuttable presumption of control under the regulations under certain circumstances including where, as is the case with the Company, the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

Federal Securities Laws

Hanover Bancorp, Inc.'s common stock is registered with the Securities and Exchange Commission. Hanover Bancorp, Inc. is a reporting company subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Emerging Growth Company Status

The Jumpstart Our Business Startups Act (the "JOBS Act"), which was enacted in April 2012, has made numerous changes to the federal securities laws to facilitate access to capital markets. Under the JOBS Act, a company with total annual gross revenues of less than \$1.07 billion during its most recently completed fiscal year qualifies as an "emerging growth company." We qualify as an emerging growth company under the JOBS Act.

An "emerging growth company" may choose not to hold shareholder votes to approve annual executive compensation (more frequently referred to as "say-on-pay" votes) or executive compensation payable in connection with a merger (more frequently referred to as "say-on-golden parachute" votes). An emerging growth company also is not subject to the requirement that its auditors attest to the effectiveness of the company's internal control over financial reporting, and can provide scaled disclosure regarding executive compensation; however, we will also not be subject to the auditor attestation requirement or additional executive compensation disclosure so long as the Company remains a "non-accelerated filer" and a "smaller reporting company," respectively, under Commission regulations (generally less than \$75 million and \$250 million, respectively, of voting and non-voting equity held by non-affiliates or less than \$100 million in annual revenue). Finally, an emerging growth company may elect to comply with new or amended accounting pronouncements in the same manner as a private company, but must make such election when the company is first required to file a registration statement. We have elected to comply with new or amended accounting pronouncements in the same manner as a private company.

A company loses emerging growth company status on the earlier of: (i) the last day of the fiscal year of the company during which it had total annual gross revenues of \$1.07 billion or more; (ii) the last day of the fiscal year of the issuer following the fifth anniversary of the date of the first sale of common equity securities of the company pursuant to an effective registration statement under the Securities Act of 1933; (iii) the date on which such company has, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt; or (iv) the date on which such company is deemed to be a "large accelerated filer" under Securities and Exchange Commission regulations (generally, at least \$700 million of voting and non-voting equity held by nonaffiliates).

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. We have policies, procedures and systems designed to comply with these regulations, and we review and document such policies, procedures and systems to ensure continued compliance with these regulations.

Additional Information

The Company makes available, free of charge, through its internet website www.hanoverbank.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as well as its proxy statement for its Annual Meeting of Shareholders, as soon as reasonably practicable after electronically filing such material with the Securities and Exchange Commission (the "SEC"). Materials filed with the SEC are available at www.sec.gov. The reference to these website addresses does not constitute incorporation by reference of the information contained on the websites and should not be considered part of this document. You can request a copy of our Annual Report on Form 10-K free of charge by sending a written request to Hanover Bancorp, Inc., Attn: Corporate Secretary, 80 East Jericho Turnpike, Mineola, New York 11501. Please include your contact information with the request.

Item 1A. Risk Factors

As a financial services organization, we are subject to a number of risks inherent in our transactions and present in the business decisions we make. Set forth below is a summary of those risks, and then a more detailed discussion of the primary risks and uncertainties that if realized could have a material and adverse effect on our business, financial condition, results of operations, cash flows, liquidity and the value of our securities. The risks and uncertainties described below are not the only risks we face.

Summary of Risk Factors

- Our one- to four- family residential mortgage lending and certain niche loan products could expose us to credit risks that may be different than would apply to a more diversified or traditional loan portfolio.
- Our business and operations are concentrated in the New York metropolitan area, and we are sensitive to adverse changes in the local economy.
- We are subject to the various risks associated with our banking business and operations, including, among others, credit, market, liquidity, interest rate and compliance risks, which may have an adverse effect on our business, financial condition and results of operations if we are unable to manage such risks.
- SBA and other government guaranteed lending are an increasingly important part of our business, and changes to SBA or other government guaranteed lending programs, or the rules governing such programs or other government guaranteed lending programs, may adversely affect our profitability. In addition, we may incur greater risk on our SBA and other government guaranteed lending as we seek to expand our guaranteed lending activities outside of our primary market area.
- We have begun offering banking services to businesses in the state licensed cannabis industry, and this could expose us to liabilities and regulatory compliance costs.
- Our liquidity and capital needs, particularly given our growth strategy, may suffer if not managed effectively or if capital is not available on terms acceptable to us.
- Our ability to sustain growth will diminish if we are unable to continue to make commercially attractive acquisitions, or if we are unable to realize the benefits of prior or future acquisitions in a reasonable timeframe.
- We operate in a highly competitive market and face increasing competition from traditional and new financial services providers.
- We are dependent on key personnel and the unexpected loss of their services, or if we are unable to attract new personnel as we execute our growth strategy, will adversely impact our financial condition.
- We operate in a highly regulated industry, and the current regulatory framework and any future legislative and regulatory changes, may have an adverse effect on our business, financial condition and results of operations.
- We are subject to risks associated with our dependency on our information technology and telecommunications systems and third-party servicers including exposures to systems failures, interruptions or breaches of security.
- Due to the limited public float and trading volume of our stock, our stock price may be volatile, which could result in substantial losses for investors.
- Anti-takeover provisions in our charter and under New York and Federal law could limit certain shareholder actions.

ECONOMIC, MARKET AND INVESTMENT RISKS

Inflationary pressures and rising prices may affect our results of operations and financial condition.

Inflation began to rise sharply at the end of 2021 and has remained at an elevated level through 2023. Small to medium-sized businesses may be impacted more during periods of high inflation as they are not able to leverage economics of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business customers to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact our results of operations and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to the Company to increase, which could adversely affect our results of operations and financial condition.

Our stock price may be negatively impacted by unrelated bank failures and negative depositor confidence in depository institutions. Further, if we were unable to adequately manage our liquidity, deposits, capital levels and interest rate risk, which have come under greater scrutiny in light of recent bank failures, we may experience a material adverse effect on our financial condition and results of operations.

On March 9, 2023, Silvergate Bank, La Jolla, California, announced its decision to voluntarily liquidate its assets and wind down operations. On March 10, 2023, Silicon Valley Bank, Santa Clara, California, was closed by the California Department of Financial Protection and Innovation (the "DFPI"), on March 12, 2023, Signature Bank, New York, New York, was closed by the New York State Department of Financial Services and on May 1, 2023, First Republic Bank, San Francisco, California, was closed by the DFPI, and in each case the FDIC was appointed receiver for the failed institution. These banks had elevated levels of uninsured deposits, which may be less likely to remain at the bank over time and less stable as a source of funding than insured deposits. These failures led to volatility and declines in the market for bank stocks and questions about depositor confidence in depository institutions.

These events have led to a greater focus by institutions, investors and regulators on the on-balance sheet liquidity of and funding sources for financial institutions, the composition of their deposits, including the amount of uninsured deposits, the amount of accumulated other comprehensive loss, capital levels and interest rate risk management.

If we are unable to adequately manage our liquidity, deposits, capital levels and interest rate risk, we may experience a material adverse effect on our financial condition and results of operations. We must maintain sufficient funds to respond to the needs of depositors and borrowers. Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also receive funds from loan repayments, investment maturities and income on other interest-earning assets. While we emphasize the generation of low-cost core deposits as a source of funding, there is strong competition for such deposits in our market area. Additionally, deposit balances can decrease if customers perceive alternative investments as providing a better risk/return tradeoff. Accordingly, as a part of our liquidity management, we must use a number of funding sources in addition to deposits and repayments and maturities of loans and investments, which may include Federal Home Loan Bank of New York advances, federal funds purchased and brokered certificates of deposit. Adverse operating results or changes in industry conditions could lead to difficulty or an inability to access these additional funding sources.

Any decline in available funding could adversely impact our ability to originate loans, invest in securities, pay our expenses, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

A lack of liquidity could also attract increased regulatory scrutiny and potential restraints imposed on us by regulators. Depending on the capitalization status and regulatory treatment of depository institutions, including whether an institution is subject to a supervisory prompt corrective action directive, certain additional regulatory restrictions and prohibitions may apply, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits.

Our financial flexibility would be severely constrained if we were unable to maintain our access to funding or if adequate financing were not available at acceptable interest rates. Further, if we were required to rely more heavily on more expensive funding sources to support liquidity, our revenues may not increase proportionately to cover our increased costs. In this case, our operating margins and profitability would be adversely affected. If alternative funding sources were no longer available to us, we may need to sell a portion of our investment and/or loan portfolio to raise funds, which, depending upon market conditions, could result in us realizing a loss on the sale of such assets. As of September 30, 2023, we had a net unrealized loss of \$2.1 million on our available for-sale investment securities portfolio as a result of the rising interest rate environment. Our investment securities totaled \$15.0 million, or 0.7% of total assets, at September 30, 2023. The details of this portfolio are included in Note 2 to the consolidated financial statements.

A substantial portion of our business is in the New York metro area, therefore, our business is particularly vulnerable to an economic downturn in our primary market area.

We primarily serve businesses, municipalities and individuals located in the New York metro area. As a result, we are exposed to risks associated with lack of geographic diversification. The occurrence of an economic downturn in the New York metro area, could impact the credit quality of our assets, the businesses of our customers and the ability to expand our business. Our success significantly depends upon the growth in population, income levels, deposits and housing in our market area. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally are unfavorable, our business may be negatively affected.

In addition, the market value of the real estate securing loans as collateral could be adversely affected by unfavorable changes in market and economic conditions. As of September 30, 2023, 77% of our real estate loan portfolio was secured by real estate located in the five boroughs of New York City and Nassau County, New York. Adverse developments affecting commerce or real estate values in the local economies in our primary market areas could increase the credit risk associated with our loan portfolio and have an adverse impact on our revenues and financial condition. In particular, we may experience increased loan delinquencies, which could result in a higher provision for loan losses and increased charge-offs. Any sustained period of increased non-payment, delinquencies, foreclosures or losses caused by adverse market or economic conditions in our market area could adversely affect the value of our assets, revenues, financial condition and results of operations.

We also obtain a significant volume of deposits from municipal customers, primarily in Nassau and Suffolk Counties in New York. Approximately 18.1% of our deposits are from municipal customers, although no single municipal customer represents a concentration risk. A prolonged economic downturn which adversely effects tax revenues or other governmental funding sources could have an adverse impact on our ability to gather cost efficient deposits, and fund our loans and other investments, thereby adversely affecting our results of operations.

We have a significant number of loans secured by real estate, and a downturn in the local real estate market could negatively impact our profitability.

At September 30, 2023, approximately \$1.8 billion, or 95%, of our total loan portfolio was secured by real estate, almost all of which is located in our primary lending market. Future declines in the real estate values in the New York metro area and Nassau County and surrounding markets could significantly impair the value of the particular collateral securing our loans and our ability to sell the collateral upon foreclosure for an amount necessary to satisfy the borrower's obligations to us. This could require increasing our allowance for loan losses to address the decrease in the value of the real estate securing our loans, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Appraisals and other valuation techniques we use in evaluating and monitoring loans secured by real property, other real estate owned and repossessed personal property may not accurately describe the net value of the asset.

In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made and, as real estate values may change significantly in relatively short periods of time (especially in periods of heightened economic uncertainty), this estimate may not accurately describe the net value of the real property collateral after the loan is made. As a result, we may not be able to realize the full amount of any remaining indebtedness when we foreclose on and sell the relevant property. In addition, we rely on appraisals and other valuation techniques to establish the value of our other real estate owned ("OREO") and personal property that we acquire through foreclosure proceedings and to determine certain loan impairments. If any of these valuations are inaccurate, our consolidated financial statements may not reflect the correct value of our OREO, and our allowance for loan losses may not reflect accurate loan impairments. This could have an adverse effect on our business, financial condition or results of operations.

We engage in lending secured by real estate and may be forced to foreclose on the collateral and own the underlying real estate, subjecting us to the costs and potential risks associated with the ownership of the real property, or consumer protection initiatives or changes in state or federal law may substantially raise the cost of foreclosure or prevent us from foreclosing at all.

Since we originate loans secured by real estate, we may have to foreclose on the collateral property to protect our investment and may thereafter own and operate such property, in which case we would be exposed to the risks inherent in the ownership of real estate. Although we held no OREO properties at September 30, 2023, it is possible that in future periods we may take title to OREO properties in the event of defaults on outstanding loans. The amount that we, as a mortgagee, may realize after a default depends on factors outside of our control, including, but not limited to, general or local economic conditions, environmental cleanup liabilities, assessments, interest rates, real estate tax rates, operating expenses of the mortgaged properties, our ability to obtain and maintain adequate occupancy of the properties, zoning laws, governmental and regulatory rules, and natural disasters. Our inability to manage the amount of costs or size of the risks associated with the ownership of real estate, or writedowns in the value of OREO, could have an adverse effect on our business, financial condition and results of operations.

Additionally, consumer protection initiatives or changes in state or federal law may substantially increase the time and expense associated with the foreclosure process or prevent us from foreclosing at all. A number of states in recent years have either considered or adopted foreclosure reform laws that make it substantially more difficult and expensive for lenders to foreclose on properties in default. Additionally, federal regulators have prosecuted a number of mortgage servicing companies for alleged consumer law violations. If new state or federal laws or regulations are ultimately enacted that significantly raise the cost of foreclosure or raise outright barriers, such could have an adverse effect on our business, financial condition and results of operations.

Other aspects of our business may be adversely affected by unfavorable economic, market, and political conditions.

An economic recession or a downturn in various markets could have one or more of the following adverse effects on our business:

- a decrease in the demand for our loans and other products we offer;
- a decrease in our deposit balances due to overall reductions in the number or value of client accounts;
- a decrease in the value of collateral securing our loans;
- an increase in the level of nonperforming and classified loans;
- an increase in provisions for loan losses and loan charge-offs;
- a decrease in net interest income derived from our lending and deposit gathering activities;
- a decrease in our ability to access the capital markets; and
- an increase in our operating expenses associated with attending to the effects of certain circumstances listed above.

Various market conditions also affect our operating results. Real estate market conditions directly affect performance of our loans secured by real estate. Debt markets affect the availability of credit, which impacts the rates and terms at which we offer loans. Stock market downturns often reflect broader economic deterioration and/or a downward trend in business earnings which may adversely affect businesses' ability to raise capital and/or service their debts. Political and electoral changes, developments, conflicts and conditions (such as fiscal policy changes proposed) have in the past introduced, and may in the future introduce, additional uncertainty that could also affect our operating results negatively.

LENDING ACTIVITIES RISKS

Small Business Administration lending is an increasingly important part of our business. Our SBA lending program is dependent upon the U.S. federal government, and we face specific risks associated with originating SBA loans.

Our SBA lending program is dependent upon the U.S. federal government. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions. Any changes to the SBA program, including but not limited to changes to the level of guarantee provided by the federal government on SBA loans, changes to program specific rules impacting volume eligibility under the guaranty program, as well as changes to the program amounts authorized by Congress or funding for the SBA program may also have a material adverse effect on our business. In addition, any default by the U.S. government on its obligations or any prolonged government shutdown could, among other things, impede our ability to originate SBA loans or sell such loans in the secondary market, which could materially and adversely affect our business, results of operations and financial condition.

The SBA's 7(a) Loan Program is the SBA's primary program for helping start-up and existing small businesses, with financing guaranteed for a variety of general business purposes. Typically, we sell the guaranteed portion of our SBA 7(a) loans in the secondary market. These sales result in premium income for us at the time of sale and create a stream of future servicing income, as we retain the servicing rights to these loans. For the reasons described above, we may not be able to continue originating these loans or selling them in the secondary market. Furthermore, even if we are able to continue to originate and sell SBA 7(a) loans in the secondary market, we might not continue to realize premiums upon the sale of the guaranteed portion of these loans or the premiums may decline due to economic and competitive factors. When we originate SBA loans, we incur credit risk on the non-guaranteed portion of the loans, and if a customer defaults on a loan, we share any loss and recovery related to the loan pro-rata with the SBA. If the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced by us, the SBA may seek recovery of the principal loss related to the deficiency from us. Generally, we do not maintain reserves or loss allowances for such potential claims and any such claims could materially and adversely affect our business, financial condition or results of operations.

The laws, regulations and standard operating procedures that are applicable to SBA loan products may change in the future. We cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies and especially our organization, changes in the laws, regulations and procedures applicable to SBA loans could adversely affect our ability to operate profitably.

The non-guaranteed portion of SBA loans that we retain on our balance sheet as well as the guaranteed portion of SBA loans that we sell could expose us to various credit and default risks.

We have historically originated an increasingly significant number of SBA loans, and sold a significant portion of the guaranteed portions of these loans on the secondary market. We generally retain the non-guaranteed portions of the SBA loans that we originate. Consequently, as of September 30, 2023, we held \$115.5 million of SBA loans on our balance sheet, \$90.6 million of which consisted of the non-guaranteed portion of SBA loans and \$24.9 million consisted of the guaranteed portion of SBA loans. The non-guaranteed portion of SBA loans have a higher degree of credit risk and risk of loss as compared to the guaranteed portion of such loans. We generally retain the non-guaranteed portions of the SBA loans that we originate and sell, and to the extent the borrowers of such loans experience financial difficulties, our financial condition and results of operations would be adversely impacted.

When we sell the guaranteed portion of SBA loans in the ordinary course of business, we are required to make certain representations and warranties to the purchaser about the SBA loans and the manner in which they were originated. Under these agreements, we may be required to repurchase the guaranteed portion of the SBA loan if we have breached any of these representations or warranties, in which case we may record a loss. In addition, if repurchase and indemnity demands increase on loans that we sell from our portfolio, our liquidity, results of operations and financial condition could be adversely affected.

We are expanding the geographic scope of our SBA, and other government guaranteed lending, and this may expose us to greater and additional risks than lending in our primary trade area.

Historically, our SBA and other government guaranteed lending has been to customers, and secured by collateral, located primarily on our metropolitan New York trade area. However, we have hired lending personnel in other parts of the country to expand our market share of SBA and other government guaranteed lending. This geographic expansion of our government guaranteed lending may expose us to greater and different risks than lending in our trade area. For example, upon a default we will need to comply with local legal requirements and court rules, which may be more or less advantageous to borrowers than those in New York and New Jersey, which may make collecting upon collateral more difficult and expensive. We may also need to hold and operate property or business assets in remote locales, making it more difficult and expensive for management to oversee the assets. We may also have less knowledge of the markets in areas in which we may now lend, making underwriting decisions riskier.

The recognition of gains on the sale of loans and servicing asset valuations reflect certain assumptions.

We expect that gains on the sale of U.S. government guaranteed loans will comprise a meaningful component of our revenue. The determination of these gains is based on assumptions regarding the value of unguaranteed loans retained, servicing rights retained and deferred fees and costs, and net premiums paid by purchasers of the guaranteed portions of U.S. government guaranteed loans. The value of the retained unguaranteed portion of the loans and servicing rights are determined based on market derived factors such as prepayment rates, current market conditions and recent loan sales. Deferred fees and costs are determined using internal analysis of the cost to originate loans. Significant errors in assumptions used to compute gains on sale of loans or servicing asset valuations could result in material revenue misstatements, which may have a material adverse effect on our business, results of operations and profitability. In addition, while we believe these valuations reflect fair value and such valuations are subject to validation by an independent third party, if such valuations are not reflective of fair market value then our business, results of operations and financial condition may be materially and adversely affected.

Imposition of limits by bank regulators on commercial real estate lending activities could curtail our growth and adversely affect our earnings.

In 2006, the OCC, the FDIC, and the FRB, or collectively, the Agencies, issued joint guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices," or the "CRE Guidance." Although the CRE Guidance did not establish specific lending limits, it provides that a bank's commercial real estate lending exposure could receive increased supervisory scrutiny where total non-owner-occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate, and construction and land loans, represent 300% or more of an institution's total risk-based capital, and the outstanding balance of the commercial real estate loan portfolio has increased by 50% or more during the preceding 36 months. Our commercial real estate loan balance has increased 7% during fiscal year 2023 and commercial real estate loans represent 448% of our risk-based capital at September 30, 2023, a decrease from 453% at September 30, 2022.

In December 2015, the Agencies released a new statement on prudent risk management for commercial real estate lending, or the "2015 Statement." In the 2015 Statement, the Agencies, among other things, indicated the intent to continue "to pay special attention" to commercial real estate lending activities and concentrations going forward. If the FDIC, our primary federal regulator, were to impose restrictions on the amount of such loans we can hold in our portfolio or require us to implement additional compliance measures, for reasons noted above or otherwise, our earnings could be adversely affected as would our earnings per share.

The residential mortgage loans that we originate consist primarily of non-conforming residential mortgage loans which may be considered less liquid and more risky.

The residential mortgage loans that we originate consist primarily of non-conforming residential mortgage loans, which are typically considered to have a higher degree of risk and are less liquid than conforming residential mortgage loans. We attempt to address this enhanced risk through our underwriting process, and by generally requiring three months principal, interest, taxes and insurance reserves. These loans also present pricing risk as rates change, and our sale premiums cannot be guaranteed. Further, the criteria for our loans to be purchased by other financial institutions may change from time to time, which could result in a lower volume of corresponding loan originations. In addition, when we sell the non-conforming residential mortgage loans, we are required to make certain representations and warranties to the purchaser regarding such loans. Under those agreements, we may be required to repurchase the non-conforming residential mortgage loans if we have breached any of these representations or warranties, in which case we may record a loss. Additionally, if repurchase and indemnity demands increase on loans that we sell from our portfolio, our liquidity, results of operations and financial condition could be adversely affected.

Interest rate shifts may reduce net interest income and otherwise negatively impact our financial condition and results of operations.

The majority of our banking assets are monetary in nature and subject to risk from changes in interest rates. Like most banks, our earnings and cash flows depend to a great extent upon the level of our net interest income, or the difference between the interest income we earn on loans, investments and other interest-earning assets, and the interest we pay on interest-bearing liabilities, such as deposits and borrowings. Changes in interest rates can increase or decrease our net interest income, because different types of assets and liabilities may react differently, and at different times, to market interest rate changes.

When interest-bearing liabilities mature or reprice more quickly, or to a greater degree than interest-earning assets in a period, an increase in interest rates could reduce net interest income. Similarly, when interest-earning assets mature or reprice more quickly, or to a greater degree than interest-bearing liabilities, falling interest rates could reduce net interest income. An increase in interest rates may, among other things, reduce the demand for loans and our ability to originate loans and decrease loan repayment rates. Conversely, a decrease in the general level of interest rates may affect us through, among other things, increased prepayments on our loan portfolio and increased competition for deposits. Accordingly, changes in the level of market interest rates affect our net yield on interest-earning assets, loan origination volume and our overall results of operations. Although our asset-liability management strategy is designed to control and mitigate exposure to the risks related to changes in market interest rates, those rates are affected by many factors outside of our control, including governmental monetary policies, inflation, deflation, recession, changes in unemployment, the money supply, international disorder and instability in domestic and foreign financial markets.

CREDIT RISKS

We may not be able to measure and limit our credit risk adequately, which could lead to unexpected losses.

The primary component of our business involves making loans to our clients. The business of lending is inherently risky, including risks that the principal or interest on any loan will not be repaid in a timely manner or at all or that the value of any collateral supporting the loan will be insufficient to cover losses in the event of a default. These risks may be affected by the strength of the borrower's business and industry, and local, regional and national market and economic conditions. Many of our loans are made to small- to medium-sized businesses that may be less able to withstand competitive, economic and financial pressures than larger borrowers. Our risk management practices, such as managing the concentration of our loans within specific industries, loan types and geographic areas, and our credit approval practices may not adequately reduce credit risk. Further, our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting clients and the quality of the loan portfolio. A failure to effectively measure and manage the credit risk associated with our loan portfolio could lead to unexpected losses and have an adverse effect on our business, financial condition and results of operations.

Our emphasis on one- to four- family residential mortgage loans involves risks that could adversely affect our financial condition and results of operations.

Our loan portfolio includes a significant concentration of one- to four- family residential mortgage loans. As of September 30, 2023, we had \$657.3 million in one- to four- family residential mortgage loans, representing 35% of our total loan portfolio. Approximately 91% of these loans are secured by properties in the five boroughs of New York City and Nassau County, New York and 69% of these loans are rental properties and are not owner-occupied. These loans expose us to credit risks that may be different from those related to loans secured by owner-occupied properties or commercial loans. Adverse developments affecting commerce or real estate values in the local economies in our primary market areas could increase the credit risk associated with our loan portfolio and have an adverse impact on our revenues and financial condition. In addition, economic downturns in New York City could affect levels of employment in the New York metro area, which may affect the demand for rental housing. Any increase in rental vacancies, or reductions in rental rates, could adversely impact our borrowers and their ability to repay their loans. Any sustained period of increased non-payment, delinquencies, foreclosures or losses caused by adverse market or economic conditions in our market area could adversely affect the value of our assets, revenues, financial condition and results of operations.

Our niche lending products may expose us to greater risk than traditional lending products.

A significant portion of our lending activity is related to certain niche lending products, such as loans secured by investor owned, non-owner occupied one- to four-family properties and loans without third-party income verifications, which are considered non-qualified mortgage loans and which may expose us to greater risk of credit loss than that associated with more traditional lending products. Non-qualified mortgage loans are considered to have a higher degree of risk and are less liquid than qualified mortgage loans. For the years ended September 30, 2023 and 2022, we originated \$196.0 million and \$182.7 million in non-qualified mortgage loans, respectively. During the years ended September 30, 2023 and 2022, we sold into the secondary market \$0 and \$19.4 million, respectively of our non-qualified mortgages. We also have a concentration in the secondary market for our non-qualified mortgage loans, as a substantial portion of our non-qualified mortgage loans have historically been sold to one purchaser. If this purchaser is unwilling to purchase loans from us in the future, our resale market may decline and we may have difficulty selling our non-conforming residential mortgage loans, which could decrease our non-interest income as well as limit the number of non-conforming residential mortgage loans we can originate without excess interest rate risk. Although we have developed underwriting standards and procedures designed to reduce the risk of loss, we can provide no assurance that these standards and procedures will be effective in reducing losses. Should we incur credit losses, it could adversely affect our results of operations.

The small- to medium-sized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair our borrowers' ability to repay loans.

We target our business development and marketing strategy primarily to serve the banking and financial services needs of small- to medium-sized businesses and real estate owners. These small- to medium-sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. Any one or more of these factors may impair the borrower's ability to repay a loan. In addition, the success of a small- to medium-sized business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns and other events that negatively impact our market areas could cause us to incur substantial credit losses that could negatively affect our financial condition and results of operations.

Our allowance for loan losses may not be adequate to cover actual losses.

We maintain an allowance for loan losses that represents management's judgment of probable losses and risks inherent in our loan portfolio. As of September 30, 2023, our allowance for loan losses totaled \$14.7 million, which represented approximately 0.78% of our total loans held for investment. The level of the allowance reflects management's continuing evaluation of general economic conditions, diversification and seasoning of the loan portfolio, historic loss experience, identified credit problems, delinquency levels, adequacy of collateral and historical peer charge-off data. The determination of the appropriate level of our allowance for loan losses is inherently highly subjective and requires management to make significant estimates of and assumptions regarding current credit risks and future trends, all of which may undergo material changes.

Our federal and state regulators, as an integral part of their examination process, review our methodology for calculating, and the adequacy of, our allowance for loan losses and may direct us to make additions to the allowance based on their judgments about information available to them at the time of their examination. Further, if actual charge-offs in future periods exceed the amounts allocated to our allowance for loan losses, we may need additional provisions for loan losses to restore the adequacy of our allowance for loan losses. While we believe our allowance for loan losses is appropriate for the risk identified in our loan portfolio, we cannot provide assurance that we will not further increase the allowance for loan losses, that it will be sufficient to address losses, or that regulators will not require us to increase this allowance. We also cannot be certain that actual results will be consistent with forecasts and assumptions used in our modeling. Any of these occurrences could materially and adversely affect our financial condition and results of operations.

The implementation of the Current Expected Credit Loss accounting standard could require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

Effective October 1, 2023, we will be required to adopt the Financial Accounting Standards Board (the "FASB") Accounting Standards Update 2016-13, *Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, commonly referred to as "CECL." CECL changes the allowance for loan losses methodology from an incurred loss concept to an expected loss concept, which is more dependent on future economic forecasts, assumptions and models than previous accounting standards and could result in increases in, and add volatility to, our allowance for credit losses and future provisions for credit losses. These forecasts, assumptions, and models are inherently uncertain and are based upon management's reasonable judgment in light of information currently available. Our allowance for credit losses may not be adequate to absorb actual credit losses, and future provisions for credit losses could materially and adversely affect our operating results.

If our non-performing assets increase, our earnings will be adversely affected.

At September 30, 2023, our non-performing assets, which consist of non-performing loans and OREO (of which we had none at September 30, 2023), were \$15.1 million, or 0.70% of total assets. Our non-performing assets adversely affect our net income in various ways:

- we record interest income only on the cash basis or cost-recovery method for non-accrual loans and we do not record interest income for OREO;
- we must provide for probable loan losses through a current period charge to the provision for loan losses;
- non-interest expense increases when we write down the value of properties in our OREO portfolio to reflect changing market values;
- there are legal fees associated with the resolution of problem assets, as well as carrying costs, such as taxes, insurance, and maintenance fees; and
- the resolution of non-performing assets requires the active involvement of management, which can distract them from more profitable activity.

If additional borrowers become delinquent and do not pay their loans, and we are unable to successfully manage our non-performing assets, our losses and troubled assets could increase, which could have a material adverse effect on our financial condition and results of operations.

We are dependent on the use of data and modeling in our management's decision-making, and faulty data or modeling approaches could negatively impact our decision-making ability or possibly subject us to regulatory scrutiny in the future.

The use of statistical and quantitative models, and other quantitative and qualitative analyses, is necessary for bank decision-making, and the employment of such analyses is becoming increasingly widespread in our operations.

Liquidity stress testing, interest rate sensitivity analysis, the identification of possible violations of anti-money laundering regulations and the estimation of credit losses are all examples of areas in which we are dependent on models and the data that underlies them. The use of statistical and quantitative models is also becoming more prevalent in regulatory compliance. While we are not currently subject to annual Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, stress testing and the Comprehensive Capital Analysis and Review submissions, we anticipate that model-derived testing may become more extensively implemented by regulators in the future.

We anticipate data-based modeling will penetrate further into bank decision-making, particularly risk management efforts, as the capacities developed to meet rigorous stress testing requirements are able to be employed more widely and in differing applications. While we believe these quantitative techniques and approaches improve our decision-making, they also create the possibility that faulty data or flawed quantitative approaches could negatively impact our decision-making ability or, if we become subject to regulatory stress-testing in the future, adverse regulatory scrutiny. Secondarily, because of the complexity inherent in these approaches, misunderstanding or misuse of their outputs could similarly result in suboptimal decision-making.

LIQUIDITY RISKS

If we do not manage our liquidity effectively, our business could suffer.

Liquidity is essential for the operation of our business. Market conditions, unforeseen outflows of funds or other events could have a negative effect on our level or cost of funding, affecting our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund new business transactions at a reasonable cost and in a timely manner. If our access to stable and low-cost sources of funding, such as client deposits, is reduced, we may need to use alternative funding, which could be more expensive or of limited availability. Further evolution in the regulatory requirements relating to liquidity and risk management also may impact us negatively. For more information on these regulations and other regulatory changes, see the section entitled "Supervision and Regulation." Any substantial, unexpected or prolonged changes in the level or cost of liquidity could affect our business adversely.

Our growth strategy may require us to raise additional capital in the future to fund such growth, and the unavailability of additional capital on terms acceptable to us could adversely affect us or our growth.

Although we believe we have sufficient capital to meet our capital needs for our immediate growth plans, we will continue to need capital to support our longer-term growth plans. Our ability to access the capital markets, if needed, will depend on a number of factors, including the state of the financial markets. If capital is not available on favorable terms when we need it, we will have to either issue common stock or other securities on less than desirable terms or curtail our growth until market conditions become more favorable. Any diminished ability to raise additional capital, if needed, could subject us to liability, restrict our ability to grow, require us to take actions that would affect our earnings negatively or otherwise affect our business and our ability to implement our business plan, capital plan and strategic goals adversely. Such events could have a material adverse effect on our business, financial condition and results of operations.

STRATEGIC RISKS

If we do not effectively execute our strategic plans, we will not achieve our growth objectives and our business and results of operations may be negatively affected.

Our growth depends upon successful, consistent execution of our business strategies. A failure to execute these strategies may impact growth negatively. A failure to grow, whether organically or through strategic acquisitions, may have an adverse effect on our business. The challenges arising from generating organic or strategic growth may include preserving valuable relationships with employees, clients and other business partners and delivering enhanced products and services. Execution of our business strategies also may require certain regulatory approvals or consents, which may include approvals of the FRB, the FDIC, the DFS and other domestic regulatory authorities. These regulatory authorities may impose conditions on the activities or transactions contemplated by our business strategies, which may negatively impact our ability to realize fully the expected benefits of certain opportunities.

Any failure by us to manage acquisitions and other significant transactions successfully may have a material adverse effect on our results of operations, financial condition, and cash flows.

Our ability to grow revenues, earnings and cash flows at or above our historical rates depends in part upon our ability to identify, appropriately price, successfully acquire, and integrate businesses to realize anticipated synergies by integrating cultures, accounting, data processing and internal control systems. Promising acquisitions are difficult to identify and complete for a number of reasons, including high valuations, competition among prospective buyers, and the need to satisfy applicable closing conditions, including any conditions to receiving the required regulatory approvals. To the extent we enter into transactions to acquire complementary businesses and/or technologies, we may not achieve the expected benefits of such transactions, which could result in increased costs, lowered revenues, ineffective deployment of capital, regulatory concerns, exit costs or diminished competitive position or reputation. These risks may be increased if the acquired company operates in a geographic location where we do not already have significant business operations. Integration and other risks can be more pronounced for larger and more complicated transactions, transactions outside of our core business space, or if multiple transactions are pursued simultaneously. The failure to successfully integrate acquired entities and businesses or failure to produce results consistent with the financial model used in the analysis of our acquisitions, investments, joint ventures or strategic alliances may cause us to incur asset write-offs, restructuring costs or other unanticipated expenses which may have a material adverse effect on our results of operations, financial position, and cash flows. If we fail to identify and successfully complete transactions that further our strategic objectives, we may be required to expend additional resources to grow our business organically.

We have grown and may continue to grow through acquisitions.

Over the last several years, we have grown rapidly through both organic growth and acquisitions. On August 9, 2019, we consummated the acquisition of CFSB. On May 26, 2021, we consummated the acquisition of Savoy. These two acquisitions added \$780.8 million in total assets, \$452.6 million in deposits and \$676.3 million in loans, as well as four branch offices in New York City. As part of our growth strategy, we intend to pursue prudent and commercially attractive acquisitions that will position us to capitalize on market opportunities. To be successful as a larger institution, we must successfully integrate the operations and retain the customers of acquired institutions, attract and retain the management required to successfully manage larger operations, and control costs.

Future results of operations will depend in large part on our ability to successfully integrate the operations of the acquired institutions and retain the customers of those institutions. If we are unable to successfully manage the integration of the separate cultures, customer bases and operating systems of the acquired institutions, and any other institutions that may be acquired in the future, our results of operations may be adversely affected.

In addition, to successfully manage substantial growth, we may need to increase non-interest expenses through additional personnel, leasehold and data processing costs, among others. In order to successfully manage growth, we may need to adopt and effectively implement policies, procedures and controls to maintain credit quality, control costs and oversee our operations. No assurance can be given that we will be successful in this strategy.

We may be challenged to successfully manage our business as a result of the strain on management and operations that may result from growth. The ability to manage growth will depend on our ability to continue to attract, hire and retain skilled employees. Success will also depend on the ability of our officers and key employees to continue to implement and improve operational and other systems, to manage multiple, concurrent customer relationships and to hire, train and manage employees.

Finally, substantial growth may stress regulatory capital levels, and may require us to raise additional capital in the future. No assurance can be given that we will be able to raise any required capital, or that we will be able to raise capital on terms that are beneficial to stockholders.

Attractive acquisition opportunities may not be available to us in the future.

We expect that other banking and financial service companies, many of which have significantly greater resources than we do and have a deep and liquid trading market, will compete with us in acquiring other financial institutions, if we pursue such acquisitions in the future. This competition could increase prices for potential acquisitions that we believe are attractive. Also, acquisitions are subject to various regulatory approvals. If we fail to receive the appropriate regulatory approvals, we will not be able to consummate an acquisition that we believe is in our best interests. Among other things, our regulators will consider our capital, liquidity, profitability, regulatory compliance and levels of goodwill when considering acquisition and expansion proposals. Any acquisition could be dilutive to our earnings and stockholders' earnings per share.

COMPETITION RISKS

Competition in originating loans and attracting deposits may adversely affect our profitability.

We operate in a highly competitive banking market and face substantial competition in originating loans. This competition currently comes principally from other banks, savings institutions, mortgage banking companies, credit unions and other lenders. Many of our competitors enjoy advantages, including greater financial resources and higher lending limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. This competition could reduce our net income by decreasing the number and size of loans that we originate and the interest rates we may charge on these loans.

In attracting deposits, we face substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of our competitors enjoy advantages, including greater financial resources, more aggressive marketing campaigns, better brand recognition and more branch locations. These competitors may offer higher interest rates than we do, which could decrease the deposits that we attract or require us to increase our rates to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect our ability to generate the funds necessary for lending operations, which may increase our cost of funds or negatively impact our liquidity.

We also compete with non-bank providers of financial services, such as brokerage firms, consumer finance companies, insurance companies and governmental organizations, which may offer more favorable terms. Some of our non-bank competitors are not subject to the same extensive regulations that govern our operations. As a result, such non-bank competitors may have advantages over us in providing certain products and services. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our earnings and financial condition.

The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Our inability to compete successfully in the markets in which we operate could have an adverse effect on our business, financial condition or results of operations.

We need to invest in innovation, and the inability or failure to do so may affect our business and earnings negatively.

Our success in the competitive environment in which we operate requires consistent investment of capital and human resources in innovation, particularly in light of the current "FinTech" environment, in which financial institutions are investing significantly in new technologies, such as artificial intelligence, machine learning, blockchain and other distributed ledger technologies, and developing potentially industry-changing new products, services and industry standards in order to attract clients. Our investment is directed at meeting the needs of our clients, adapting existing products and services to the evolving standards and demands of the marketplace, and maintaining the security of our systems and building a platform for future innovation and competitive advantage that is scalable. Among other things, investing in innovation helps keep us relevant and client-focused while maintaining acceptable margins. Our investment also focuses on enhancing the delivery of our products and services, such as our recent implementation of digital payment channels, such as mobile wallets, contactless debit cards and Zelle. Falling significantly behind our competition in this area could adversely affect our business opportunities, growth and earnings. There are substantial risks and uncertainties associated with innovation efforts, including an increased risk that new and emerging technologies may expose us to increased cybersecurity and other information technology vulnerability and threats. Expected timetables for the introduction and development of new products or services may not be achieved, and price and profitability targets may not be met. Further, our revenues and costs may fluctuate because new products and services generally require start-up costs while corresponding revenues take time to develop or may not develop at all.

KEY PERSONNEL RISKS

We rely heavily on our executive management team and other key personnel for our successful operation, and we could be adversely affected by the unexpected loss of their services.

Our success depends in large part on the performance of our key personnel at the Bank that have substantial experience and tenure with the Bank and in the markets that we serve. Our continued success and growth depend in large part on the efforts of these key personnel, the support of our Directors, and ability to attract, motivate and retain highly qualified senior and middle management and other skilled employees to complement and succeed to our core senior management team.

If we are not able to attract, retain and motivate other key personnel, our business could be negatively affected.

Our future success depends in large part on our ability to retain and motivate our existing employees and attract new employees. Competition for the best employees can be intense, and there can be no assurance that we will be successful in our efforts to recruit and retain key personnel. Factors that affect our ability to attract and retain talented and diverse employees include compensation and benefits programs, profitability, opportunities for advancement, flexible working conditions, availability of qualified persons and our reputation. Our ability to attract and retain key executives and other employees may be hindered as a result of existing and potential regulations applicable to incentive compensation and other aspects of our compensation programs. These regulations may not apply to some of our competitors and to other institutions with which we compete for talent. The unexpected loss of services of key personnel, both in business line and corporate functions, could have a material adverse impact on our net income and financial condition because of the loss of their knowledge of our markets, operations and clients, their years of industry experience, and their technical skills. Similarly, the loss of key employees, either individually or as a group, could adversely affect our clients' perception of our abilities and, accordingly, our reputation.

REGULATORY AND COMPLIANCE RISKS

We operate in a highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, could adversely affect us and our future growth.

Banks are highly regulated under federal and state law. As such, we are subject to extensive regulation, supervision and legal requirements from government agencies such as the FRB, the FDIC and the DFS, which govern almost all aspects of our operations. These laws and regulations are not intended to protect our shareholders. Rather, these laws and regulations are intended to protect our clients, depositors, the DIF, and the overall financial stability of the United States. These laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which we can engage, limit the dividend or distributions that the Bank can pay to the Company and the Company can pay to its shareholders, restrict the ability of institutions to guarantee our debt and impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than required under generally accepted accounting principles ("GAAP"). Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional operating costs. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, enforcement actions and fines and other penalties, any of which could adversely affect our results of operations, regulatory capital levels and the price of our common stock. Further, any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition and results of operations.

Federal and State banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we are or become subject as a result of such examinations could adversely affect us.

As part of the bank regulatory process, the FDIC, the New York State DFS, and the FRB periodically conduct examinations of our business, including compliance with laws and regulations. If, as a result of an examination, one of these banking agencies were to determine that the financial condition, capital adequacy, asset quality, earnings prospects, management capability, liquidity, asset sensitivity to market risks, asset management, risk management or other aspects of any of our operations have become unsatisfactory, or that the Company, the Bank or their respective management were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital levels, to restrict our growth, to assess civil monetary penalties against the Company, the Bank or their respective officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate the Bank's deposit insurance and terminate the Bank's charter to operate. If we become subject to such regulatory actions, our business, financial condition, results of operations and reputation could be adversely affected.

Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, governance structure, financial condition or results of operations.

Economic conditions that contributed to the financial crisis in 2008, particularly in the financial markets, resulted in government regulatory agencies and political bodies placing increased focus and scrutiny on the financial services industry. There can be no guarantee that regulators or other third parties will not seek to impose such additional requirements on financial institutions, such as extending additional regulations to small banks with less than \$10 billion in assets. Compliance with these regulations has and may continue to result in additional operating and compliance costs that could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Federal and state regulatory agencies frequently adopt changes to their regulations or change the manner in which existing regulations are applied. Regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of our business activities, require more oversight or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations to comply and could have an adverse effect on our business, financial condition and results of operations.

Increases in FDIC insurance premiums could adversely affect our earnings and results of operations.

The deposits of our bank are insured by the FDIC up to legal limits and, accordingly, subject it to the payment of FDIC deposit insurance assessments as determined according to the calculation described in "Supervision and Regulation-Deposit Insurance." Increases in assessment rates or special assessments may occur in the future, especially if there are significant additional financial institution failures. Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could have a material adverse effect on our business, financial condition and results of operations.

Changes in tax laws and regulations, or changes in the interpretation of existing tax laws and regulations, may have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We operate in an environment that imposes income taxes on our operations at both the federal and state levels to varying degrees and we try to minimize the impact of these taxes. Any change in tax laws or regulations, or new interpretation of an existing law or regulation, could significantly alter the tax impact on our financial results.

The net deferred tax asset reported on our balance sheet generally represents the tax benefit of future deductions from taxable income for items that have already been recognized for financial reporting purposes. The bulk of these deferred tax assets consists of deferred loan loss deductions and deferred compensation deductions. The net deferred tax asset is measured by applying currently enacted income tax rates to the accounting period during which the tax benefit is expected to be realized. As of September 30, 2023, our net deferred tax asset was \$1.5 million.

Failure to comply with stringent capital requirements could result in regulatory criticism, requirements and restrictions.

The Bank is subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital which it must maintain. From time to time, regulators implement changes to these regulatory capital adequacy guidelines. The failure to meet applicable regulatory capital requirements could result in one or more of our regulators placing limitations or conditions on our activities, including our growth initiatives, or restricting the commencement of new activities, and could affect client and investor confidence, our costs of funds and FDIC insurance costs, our ability to pay dividends on our common stock, our ability to make acquisitions, and our business, results of operations and financial condition. These limitations establish a maximum percentage of eligible retained income that could be utilized for these actions.

Financial institutions, such as the Bank, face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The BSA, the USA PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The Financial Crimes Enforcement Network, established by the U.S. Department of the Treasury (the "Treasury Department"), to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and the Internal Revenue Service. There is also increased scrutiny of compliance with the sanctions programs and rules administered and enforced by the Treasury Department's Office of Foreign Assets Control ("OFAC").

In order to comply with regulations, guidelines and examination procedures in this area, we have dedicated significant resources to our anti-money laundering program. If our policies, procedures and systems are deemed deficient, we could be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the inability to obtain regulatory approvals to proceed with certain aspects of our business plans, including acquisitions and de novo branching.

We are subject to numerous laws and regulations of certain regulatory agencies, such as the Consumer Financial Protection Bureau, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA directs all insured depository institutions to help meet the credit needs of the local communities in which they are located, including low- and moderate-income neighborhoods. Each institution is examined periodically by its primary federal regulator, which assesses the institution's performance. The Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The CFPB, the U.S. Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. The CFPB was created under the Dodd-Frank Act to centralize responsibility for consumer financial protection with broad rulemaking authority to administer and carry out the purposes and objectives of federal consumer financial laws with respect to all financial institutions that offer financial products and services to consumers.

Adverse supervisory findings regarding an institution's performance under the CRA, fair lending or consumer lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have an adverse effect on our business, financial condition and results of operations.

The FRB may require us to commit capital resources to support the Bank, and we may not have sufficient access to such capital resources.

Federal law requires that a holding company act as a source of financial and managerial strength to its subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine and FRB regulations implementing it, the FRB may require a holding company to make capital injections into a troubled subsidiary bank and may charge the holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to attempt to borrow the funds or raise capital. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the Company to make a required capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations. Moreover, it is possible that we will be unable to borrow funds when we need to do so.

Our deposit services for businesses in the state licensed cannabis industry could expose us to liabilities and regulatory compliance costs.

Commencing in fourth calendar quarter of 2023, we implemented specialized deposit and lending services intended for a limited number of state licensed medical-use cannabis business customers. Medical use cannabis, as well as recreational use businesses, are legal in numerous states and the District of Columbia, including our primary markets of New York and New Jersey. However, such businesses are not legal at the federal level, and marijuana remains a Schedule I drug under the Controlled Substances Act of 1970. In 2014, the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) published guidelines for financial institutions servicing state legal cannabis businesses. We have implemented a comprehensive control framework that includes written policies and procedures related to the on-boarding of such businesses and the monitoring and maintenance of such business accounts that comports with the FinCEN guidance. Additionally, our policies call for due diligence review of the cannabis business before the business is on-boarded, including confirmation that the business is properly licensed and maintains the license in good standing in the applicable state. Throughout the relationship, our policies call for continued monitoring of the business, including periodic site visits, confirmation that licenses are in good standing and reviews of business and compliance data, as applicable, to determine that the business continues to satisfy our requirements. The Bank may offer additional banking products and services to cannabis related customers in the future. While we believe our policies and procedures allow us to operate in compliance with the FinCEN guidelines, there can be no assurance that compliance with the FinCEN guidelines will protect us from federal prosecution or other regulatory sanctions. Federal prosecutors have significant discretion and there can be no assurance that the federal prosecutors will not choose to strictly enforce the federal laws governing cannabis. Any change in the federal government's enforcement position could potentially subject us to criminal prosecution and other regulatory sanctions. As a general matter, the medical and recreational cannabis business is considered high-risk, thus increasing the risk of a regulatory action against our BSA/AML program that would likely have adverse consequences, including but not limited to, preventing us from undertaking mergers, acquisitions and other expansion activities.

TECHNOLOGY RISKS

Cyber-attacks or other security breaches could adversely affect our operations, net income or reputation.

We regularly collect, process, transmit and store significant amounts of confidential information regarding our customers, employees and others and concerning our business, operations, plans and strategies. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf.

Information security risks have generally increased in recent years because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial and other transactions and the increased sophistication and activities of perpetrators of cyber-attacks and mobile phishing. Mobile phishing, a means for identity thieves to obtain sensitive personal information through fraudulent e-mail, text or voice mail, is an emerging threat targeting the customers of financial entities. A failure in or breach of our operational or information security systems, or those of our third-party service providers, as a result of cyber-attacks or information security breaches or due to employee error, malfeasance or other disruptions could adversely affect our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and/or cause losses.

If this confidential or proprietary information were to be mishandled, misused or lost, we could be exposed to significant regulatory consequences, reputational damage, civil litigation and financial loss.

In recent years, several financial services firms suffered successful cyber-attacks launched both domestically and from abroad, resulting in the disruption of services to clients, loss or misappropriation of sensitive or private information, and reputational harm. Further, information security risks for financial institutions like us are significant in part because of the evolving proliferation of new technologies, the use of the internet, mobile devices, and cloud technologies to conduct financial transactions and the increased sophistication and activities of hackers, terrorists, organized crime and other external parties, including foreign state actors. In addition, our clients often use their own devices, such as computers, smart phones and tablets, to manage their accounts, which may heighten the risk of system failures, interruptions or security breaches. If we fail to continue to upgrade our technology infrastructure and monitor our vendors to ensure effective information security relative to the type, size and complexity of our operations, we could become more vulnerable to cyber-attack and, consequently, subject to significant regulatory penalties.

Although we employ a variety of physical, procedural and technological safeguards to protect this confidential and proprietary information from mishandling, misuse or loss, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, and that if mishandling, misuse or loss of information does occur, those events will be promptly detected and addressed. Similarly, when confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf, our policies and procedures require that the third party agree to maintain the confidentiality of the information, establish and maintain policies and procedures designed to preserve the confidentiality of the information, and permit us to confirm the third party's compliance with the terms of the agreement. However, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, and that if mishandling, misuse or loss of information does occur, those events will be promptly detected and addressed. As information security risks and cyber threats continue to evolve, we may be required to expend additional resources to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities.

We have a continuing need for technological change, and we may not have the resources to implement new technology effectively, or we may experience operational challenges when implementing new technology or technology needed to compete effectively with larger institutions may not be available to us on a cost-effective basis.

The financial services industry undergoes rapid technological changes with frequent introductions of new technology-driven products and services, including developments in telecommunications, data processing, automation, internet-based banking, debit cards and so-called "smart cards" and remote deposit capture. In addition to serving clients better, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, at least in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations as we continue to grow and expand our products and service offerings. We offer electronic banking services for consumer and business customers via our website, www.hanoverbank.com, including Internet banking and electronic bill payment, as well as mobile banking. We also offer debit cards, ATM cards, and automatic and ACH transfers. We may experience operational challenges as we implement these new technology enhancements or products, which could impair our ability to realize the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

Many of our larger competitors have substantially greater resources to invest in technological improvements. Third parties upon which we rely for our technology needs may not be able to develop on a cost-effective basis the systems that will enable us to keep pace with such developments. As a result, competitors may be able to offer additional or superior products compared to those that we will be able to provide, which would put us at a competitive disadvantage. We may lose clients seeking new technology-driven products and services to the extent we are unable to provide such products and services. Accordingly, the ability to keep pace with technological change is important and the failure to do so could adversely affect our business, financial condition and results of operations.

OPERATIONAL RISKS

Many types of operational risks can affect our earnings negatively.

We regularly assess and monitor operational risk in our businesses. Despite our efforts to assess and monitor operational risk, our risk management framework may not be effective in all cases. Factors that can impact operations and expose us to risks varying in size, scale and scope include:

- failures of technological systems or breaches of security measures, including, but not limited to, those resulting from computer viruses or cyber-attacks;
- unsuccessful or difficult implementation of computer systems upgrades;
- human errors or omissions, including failures to comply with applicable laws or corporate policies and procedures;
- theft, fraud or misappropriation of assets, whether arising from the intentional actions of internal personnel or external third parties;
- breakdowns in processes, breakdowns in internal controls or failures of the systems and facilities that support our operations;
- deficiencies in services or service delivery;
- negative developments in relationships with key counterparties, third-party vendors, or employees in our day-to-day operations; and
- external events that are wholly or partially beyond our control, such as pandemics, geopolitical events, political unrest, natural disasters or acts of terrorism.

While we have in place many controls and business continuity plans designed to address these factors and others, these plans may not operate successfully to mitigate these risks effectively. If our controls and business continuity plans do not mitigate the associated risks successfully, such factors may have a negative impact on our business, financial condition or results of operations. In addition, an important aspect of managing our operational risk is creating a risk culture in which all employees fully understand that there is risk in every aspect of our business and the importance of managing risk as it relates to their job functions. We continue to enhance our risk management program to support our risk culture. Nonetheless, if we fail to provide the appropriate environment that sensitizes all of our employees to managing risk, our business could be impacted adversely.

Our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.

Our reputation is one of the most valuable assets of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our market area and contiguous areas. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected.

We have experienced rapid growth in recent periods, and our recent growth rates may not be indicative of our future growth.

We have experienced rapid organic and acquisition-driven growth in recent periods. As a strategy, we have focused on growth by aggressively pursuing business development opportunities. Our assets have grown from \$68.5 million at December 31, 2012 to \$2.15 billion at September 30, 2023, representing a compound annual growth rate of approximately 38%. We cannot guarantee that we will sustain our recent asset and revenue growth rate in future periods. Our asset and revenue growth may slow or our revenue may decline for a number of other reasons, including reduced demand for our services, increased competition, a decrease in the growth or reduction in size of our overall market, or if we cannot capitalize on growth opportunities.

Although we believe that our growth strategy will support our long-term profitability and franchise value, the expenses associated with our growth, including compensation expense for the employees needed to support this growth and leasehold and other expenses associated with our increasing number of office locations, has and may continue to affect our results. We expect our operating expenses to increase in future periods, and if our revenue growth does not increase to offset these anticipated increases in our operating expenses, it will have a material adverse effect on our business, financial condition and results of operations and we may not be able to achieve or maintain profitability. Further, our rapid growth may make it difficult to evaluate our future prospects. Our ability to forecast our future results of operations is subject to a number of uncertainties, including our ability to effectively plan for and model future growth. If we fail to achieve the necessary level of efficiency in our organization as it grows, or if we are not able to accurately forecast future growth, it could have a material adverse effect on our business, financial condition and results of operations.

Our rapid growth has placed, and will continue to place, a significant strain on our management capabilities, administrative and operational infrastructure, facilities and other resources. To effectively manage growth, we must continue to: improve our key business applications, processes, and computing infrastructure; enhance information and communication systems; and ensure that our policies and procedures evolve to reflect our current operations. These enhancements and improvements will require additional investments and allocation of valuable management and employee time and resources. Failure to effectively manage growth could result in difficulty or delays in deploying our solutions, declines in quality or client satisfaction, increases in costs, difficulties in introducing new features or other operational difficulties, and any of these difficulties could materially adversely affect our business performance and results of operations.

We are subject to certain operational risks, including, but not limited to, customer, employee or third-party fraud and data processing system failures and errors.

We rely on the ability of our employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of our internal control systems and compliance requirements. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of operational deficiencies or as a result of non-compliance with applicable regulatory standards, adverse business decisions or their implementation, or customer attrition due to potential negative publicity. In the event of a breakdown in our internal control systems, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action, and/or suffer damage to our reputation.

We may be subject to environmental liabilities in connection with the real properties we own and the foreclosure on real estate assets securing our loan portfolio.

In the course of our business, we may foreclose on and take title to real estate or otherwise be deemed to be in control of property that serves as collateral on loans we make. As a result, we could be subject to environmental liabilities with respect to those properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or we may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property.

The cost of removal or abatement may substantially exceed the value of the affected properties or the loans secured by those properties, we may not have adequate remedies against the prior owners or other responsible parties and we may not be able to resell the affected properties either before or after completion of any such removal or abatement procedures. If material environmental problems are discovered before foreclosure, we generally will not foreclose on the related collateral or will transfer ownership of the loan to a subsidiary. It should be noted, however, that the transfer of the property or loans to a subsidiary may not protect us from environmental liability. Furthermore, despite these actions on our part, the value of the property as collateral will generally be substantially reduced or we may elect not to foreclose on the property and, as a result, we may suffer a loss upon collection of the loan. Any significant environmental liabilities could have an adverse effect on our business, financial condition and results of operations.

Our operations could be interrupted if our third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.

We outsource some of our operational activities and accordingly depend on a number of relationships with third-party service providers. Specifically, we rely on third parties for certain services, including, but not limited to, our core banking, web hosting and other processing services. Our business depends on the successful and uninterrupted functioning of our third-party servicers. The failure of these systems, a cybersecurity breach involving any of our third-party service providers or the termination or change in terms of a third-party software license or service agreement on which any of these systems is based could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. Replacing vendors or addressing other issues with our third-party service providers could entail significant delay, expense and disruption of service. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected. Even if we are able to replace third-party service providers, it may be at a higher cost to us, which could adversely affect our business, financial condition and results of operations.

In addition, the Bank's primary federal regulator, the FDIC, has issued guidance outlining the expectations for third-party service provider oversight and monitoring by financial institutions. The federal banking agencies, including the FDIC, have also issued enforcement actions against financial institutions for failure in oversight of third-party providers and violations of federal banking law by such providers when performing services for financial institutions. Accordingly, our operations could be interrupted if any of our third-party service providers experience difficulty, are subject to cybersecurity breaches, terminate their services or fail to comply with banking regulations, which could adversely affect our business, financial condition and results of operations. In addition, our failure to adequately oversee the actions of our third-party service providers could result in regulatory actions against the Bank, which could adversely affect our business, financial condition and results of operations.

Pandemics, natural disasters, global climate change, acts of terrorism and global conflicts may have a negative impact on our business and operations.

Pandemics, natural disasters, global climate change, acts of terrorism, global conflicts or other similar events have in the past, and may in the future have, a negative impact on our business and operations. These events impact us negatively to the extent that they result in reduced capital markets activity, lower asset price levels, or disruptions in general economic activity in the United States or abroad, or in financial market settlement functions. In addition, these or similar events may impact economic growth negatively, which could have an adverse effect on our business and operations and may have other adverse effects on us in ways that we are unable to predict.

Our business operations could be disrupted if significant portions of our workforce were unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. Further, work-from-home and other modified business practices may introduce additional operational risks, including cybersecurity and execution risks, which may result in inefficiencies or delays, and may affect our ability to, or the manner in which we, conduct our business activities. Disruptions to our clients could result in increased risk of delinquencies, defaults, foreclosures and losses on our loans.

Legal and regulatory proceedings and related matters could adversely affect us.

We have been and may in the future become involved in legal and regulatory proceedings. We consider most of our historical proceedings to be in the normal course of our business or typical for the industry; however, it is difficult to assess the outcome of these matters, and we may not prevail in any current or future proceedings or litigation. There could be substantial costs and management diversion in such litigation and proceedings, and any adverse determination could have a materially adverse effect on our business, brand or reputation, or our financial condition and results of our operations.

Societal responses to climate change could adversely affect our business and performance, including indirectly through impacts on our customers.

Concerns over the long-term impacts of climate change have led and will continue to lead to governmental efforts around the world to mitigate those impacts. Consumers and businesses also may change their behavior as a result of these concerns. We and our customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. We and our customers may face cost increases, asset value reductions and operating process changes. The impact on our customers will likely vary depending on their specific attributes, including reliance on or role in carbon intensive activities. Among the impacts to us could be a drop in demand for our products and services, particularly in certain sectors. In addition, we could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. Our efforts to take these risks into account in making lending and other decisions, including by increasing our business with climate-friendly companies, may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior.

COMMON STOCK AND TRADING RISKS

The price of our common stock could be volatile.

The market price of our common stock may be volatile and could be subject to wide fluctuations in price in response to various factors, some of which are beyond our control. These factors include, among other things:

- general economic conditions and overall market fluctuations;
- actual or anticipated fluctuations in our quarterly or annual operating results;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the public reaction to our press releases, our other public announcements and our filings with the SEC;
- changes in financial estimates and recommendations by securities analysts following our stock;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- the trading volume of our common stock;
- new technology used, or services offered, by competitors; and
- changes in business, legal or regulatory conditions, or other developments affecting the financial services industry, participants in our industry, and publicity regarding our business or any of our significant customers or competitors.

The realization of any of the risks described in this Item 1A "Risk Factors" section could have a material adverse effect on the market price of our common stock. In addition, the stock market experiences extreme volatility that has often been unrelated to the operating performance of particular companies. These types of broad market fluctuations may adversely affect investor confidence and could affect the trading price of our common stock over the short, medium or long term, regardless of our actual performance. We cannot predict the extent to which a more active trading market in our common stock may develop or how liquid that market might become. A public trading market having the desired characteristics of depth, liquidity and orderliness depends upon the presence in the marketplace of willing buyers and sellers of our common stock at any given time, which presence is dependent upon the individual decisions of investors, over which we have no control.

The holders of our existing and future debt obligations will have priority over our common stock with respect to payment in the event of liquidation, dissolution or winding up and with respect to the payment of interest.

Shares of our common stock are equity interests and do not constitute indebtedness. In the event of any liquidation, dissolution or winding up of our business or of the Bank, our common stock would rank below all claims of debt holders against us. As of September 30, 2023, we had outstanding approximately \$25.0 million in aggregate principal amount of subordinated notes. Our debt obligations are senior to our shares of common stock. As a result, we must make payments on our debt obligations before any dividends can be paid on our common stock. In the event of our bankruptcy, dissolution or liquidation, the holders of our debt obligations must be satisfied before any distributions can be made to the holders of our common stock. To the extent that we issue additional debt obligations, the additional debt obligations will be of equal rank with, or senior to, our existing debt obligations and senior to our shares of common stock.

Our dividend policy may change without notice and our future ability to pay dividends is subject to restrictions.

We have no obligation to continue paying dividends. Any future determination relating to the payment of dividends on our common stock will depend on a number of factors, including regulatory restrictions, our earnings and financial condition, our liquidity and capital requirements, the general economic climate, contractual restrictions, our ability to service any equity or debt obligations senior to our common stock and other factors deemed relevant by our Board of Directors. The FRB has indicated that bank holding companies should carefully review their dividend policy in relation to the organization's overall asset quality, current and prospective earnings and level, composition and quality of capital. The guidance provides that we inform and consult with the FRB prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in an adverse change to our capital structure, including interest on the subordinated debt obligations, and our other debt obligations. For further information see "Supervision and Regulation—Dividends."

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

The Bank owns its administrative headquarters and its Garden City Park branch and leases seven other branch locations. Our banking offices are located in Kings, Nassau, Suffolk, New York and Queens Counties in New York and in Monmouth County in New Jersey. Set forth below is certain information about the Bank's offices:

- Headquarters and Mineola Branch — 80 East Jericho Turnpike, Mineola, New York — this building has a branch on the first floor and Hanover's corporate and administrative offices on the second and third floors and was opened in 2017.
- Garden City Park Branch — 2131 Jericho Turnpike, Garden City Park, New York — this one-story building houses the Bank's original branch as well as its Loan Servicing Department.
- Flushing Branch — 138-29 39th Avenue, Flushing, New York — this is a ground floor branch opened in 2019.
- Forest Hills Branch — 71-15 Austin Street, Forest Hills, New York — this is a ground floor branch opened in 2017.
- Sunset Park Branch — 5512 8th Avenue, Brooklyn, New York — this three-story building has a branch on the ground floor and administrative offices on the second and third floors.
- Bowery Branch — 109 Bowery, New York, New York — this three-story building has a branch on the ground floor and administrative offices on the second and third floors.
- Rockefeller Center Branch — 600 5th Avenue, New York, New York — this is a branch located on the 17th floor of a 26-floor commercial building and was acquired as part of the Savoy transaction.
- Freehold Branch — 4400 Route 9, Freehold, NJ — this branch and administrative office is located on the second floor of three-story commercial office building.
- Hauppauge Branch — 410 Motor Parkway, Hauppauge, New York — this branch is located on the third floor of a commercial office building and was opened in May 2023.

ITEM 3. Legal Proceedings

From time to time we are party to various litigation matters incidental to the conduct of our business. At September 30, 2023, we are not party to any such legal proceeding the resolution of which we believe would have a material adverse effect on our business, financial condition or results of operations.

ITEM 4. Mine Safety Disclosures

Not applicable.

Part II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The common stock of Hanover Bancorp, Inc. trades on The Nasdaq Global Select Market under the symbol "HNVR". As of September 30, 2023, we had approximately 458 holders of record of our common stock, not including the number of persons or entities holding stock in nominee or the street name through various banks and brokers.

We have paid a cash dividend of \$0.10 per share on a quarterly basis to holders of our common stock for the prior eight quarters. The future determination of our dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including our earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, our ability to service any equity or debt obligations senior to our common stock, and other factors deemed relevant by our Board of Directors.

There were no sales of unregistered securities or repurchases of shares of common stock during the quarter ended September 30, 2023.

On October 5, 2023, the Company announced that its Board of Directors has approved a Share Repurchase Program. Under this program, the Company may repurchase up to 366,050 shares, or approximately 5% of its outstanding common stock. The timing and amount of purchases will be dictated by a number of factors.

Under the Share Repurchase Program, repurchases will be made from time to time by the Company in the open market as conditions allow, or in privately negotiated transactions. The Company has not made any repurchases of its common stock under this program through the filing date of this Annual Report on Form 10-K.

ITEM 6. [Reserved]

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of our financial condition and results of our operations for the fiscal years ended September 30, 2023 and 2022, respectively. The purpose of this discussion is to focus on information about our financial condition and results of operations which is not otherwise apparent from our consolidated financial statements. Unless the context otherwise specifies or requires, references herein to "we" or "us" include Hanover Bancorp, Inc. and Hanover Bank on a consolidated basis.

Business Overview

We are a New York corporation which became the holding company for the Bank in 2016. The Bank, a community commercial bank focusing on highly personalized and efficient services and products responsive to local needs, commenced operations in 2009 and was incorporated under the laws of the State of New York. As a New York State chartered bank, the Bank is subject to regulation by the New York State DFS and the FDIC. As a bank holding company, we are subject to regulation and examination by the FRB.

The Bank offers a full range of financial services and employs a complete suite of consumer and commercial banking products and services, including multi-family and commercial mortgages, government guaranteed loans, residential loans, business loans and lines of credit. The Bank also offers its customers, among other things, access to 24-hour ATM service with no fees, free checking with interest, telephone banking, advanced technologies in mobile and internet banking for its consumer and business customers and safe deposit boxes. Our corporate administrative office is located in Mineola, New York where the Bank also operates a full-service branch office. Additional branches are located in Garden City Park, Hauppauge, Forest Hills, Flushing, Sunset Park, Manhattan and Chinatown, New York and Freehold, New Jersey. We opened the Bank's Hauppauge Business Banking Center in Hauppauge, Suffolk County, New York in May 2023.

In October 2023, the Company's Board of Directors approved a change in the Company's fiscal year end from September 30 to December 31. Accordingly, the Company will report a transition quarter that runs from October 1, 2023 through December 31, 2023 (the "Stub Period"). The Company's next full fiscal year will be the calendar year January 1, 2024 through December 31, 2024. As a result, all references in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" to a quarter or year are to the Company's historical fiscal quarter or fiscal year unless stated otherwise.

At September 30, 2023, on a consolidated basis we had \$2.15 billion in total assets, \$185.9 million in total stockholders' equity, \$1.87 billion in total loans, \$1.74 billion in total deposits and 176 full-time equivalent employees.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Our significant accounting policies and effects of new accounting pronouncements are discussed in detail in Note 1, "Summary of Significant Accounting Policies" to the accompanying Consolidated Financial Statements contained in Item 8. Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for loan losses and goodwill.

Allowance for Loan Losses

We establish an allowance for loan losses that represents management's best estimate of probable credit losses inherent in the portfolio at the balance sheet date. Estimates for loan losses are determined by management's ongoing review and grading of the loan portfolio, consideration of historical loan loss and delinquency experience, trends in past due and nonaccrual loans, risk characteristics of the various classifications of loans, concentrations of loans to specific borrowers or industries, existing economic conditions, the fair value of underlying collateral, and other qualitative and quantitative factors which could affect probable credit losses. Because current economic conditions can change and future events are inherently difficult to predict, the anticipated amount of estimated loan losses, and therefore the appropriateness of the allowance for loan losses, could change significantly. As an integral part of their examination process, various regulatory agencies also review the allowance for loan losses. Such agencies may require additions to the allowance for loan losses or may require that certain loan balances be charged off or downgraded to criticized loan categories when their credit evaluations differ from those of management, based on their judgments about information available to them at the time of their examination. See Note 1, "Summary of Significant Accounting Policies" and Note 3, "Loans" to the accompanying Consolidated Financial Statements contained in Item 8 for further details.

Goodwill

Goodwill represents the excess of the purchase price over the net fair value of the acquired businesses. Goodwill is not amortized, but is tested for impairment at the reporting unit level, at least annually or more frequently whenever events or circumstances occur that indicate that it is more-likely-than-not that an impairment loss has occurred. In assessing impairment, the Company has the option to perform a qualitative analysis to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount. If, after assessing the totality of such events or circumstances, we determine it is not more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, then we would not be required to perform an impairment test.

The quantitative impairment analysis requires a comparison of each reporting unit's fair value to its carrying value to identify potential impairment. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value. Significant judgment is applied when goodwill is assessed for impairment. This judgment includes, but may not be limited to, the selection of appropriate discount rates, the identification of relevant market comparables and the development of cash flow projections. The selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the weightings that are most representative of fair value. As of August 31, 2023, the Company elected to proceed to a quantitative calculation to compare the reporting unit's fair value with its carrying value. The results of the evaluation indicated that fair value exceeded the carrying value of the reporting unit.

Goodwill impairment testing is performed annually as of August 31 and no impairment charges were incurred. Future unfavorable conditions could result in goodwill impairment. We continue to evaluate our qualitative assessment assumptions, which are subject to risks and uncertainties, including: (1) general macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets; (2) industry and market conditions such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (in both absolute terms and relative to peers), a change in the market for an entity's products or services, or a regulatory or political development; (3) changes in cost factors such as increases in labor, or other costs that have a negative effect on earnings and cash flows; (4) overall financial performance for both actual and expected performance; (5) Entity and reporting unit-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; litigation; or a change in the composition or carrying amount of net assets; and (6) a sustained decrease in share price in both absolute terms and relative to peers, if applicable. See Note 1, "Summary of Significant Accounting Policies" and Note 10, "Goodwill and Other Intangible Assets" to the accompanying Consolidated Financial Statements contained in Item 8 for further details.

Results of Operations for the year ended September 30, 2023 compared to the year ended September 30, 2022

For the year ended September 30, 2023, we recognized net income of \$15.2 million, or \$2.05 per diluted share (including Series A preferred shares), compared to net income of \$23.6 million, or \$3.68 per diluted share, for the year ended September 30, 2022. The decline in net income recorded for the fiscal year ended September 30, 2023 from the comparable 2022 period resulted primarily from a decrease in net interest income, a decrease in gain on sale of loans due to a lower volume of SBA loan sales, zero residential loan sales in the current year and depressed secondary market premiums early in the year, a decrease in purchase accounting accretion and an increase in non-interest expense. The increase in non-interest expense was primarily due to growth related increases in compensation and benefits, occupancy and equipment, data processing, professional fees, federal deposit insurance premiums and other expenses.

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Set forth below are our selected consolidated financial and other data. Our business is primarily the business of our Bank. This financial data is derived in part from, and should be read in conjunction with, our consolidated financial statements.

<i>(in thousands)</i>	September 30,	
	2023	2022
Selected Balance Sheet Data:		
Securities available-for-sale, at fair value	\$ 10,889	\$ 12,285
Securities held-to-maturity	4,108	4,414
Loans	1,874,562	1,623,531
Total assets	2,149,535	1,840,058
Total deposits	1,735,070	1,528,106
Total stockholders' equity	185,907	172,584

<i>(dollars in thousands)</i>	Year Ended September 30,	
	2023	2022
Selected Operating Data:		
Total interest income	\$ 105,043	\$ 68,429
Total interest expense	50,551	7,175
Net interest income	54,492	61,254
Provision for loan losses	3,432	4,450
Total non-interest income	8,848	8,872
Total non-interest expense	39,721	35,181
Income before income taxes	20,187	30,495
Income tax expense	5,023	6,939
Net income	15,164	23,556

Selected Financial Data and Other Data:		
Return on average equity	8.40 %	16.14 %
Return on average assets	0.77 %	1.55 %
Yield on average interest earning assets	5.49 %	4.66 %
Cost of average interest bearing liabilities	3.18 %	0.62 %
Net interest rate spread	2.31 %	4.04 %
Net interest rate margin	2.85 %	4.18 %
Average equity to average assets	9.13 %	9.59 %

Analysis of Results of Operations

Net Interest Income

Net interest income is the primary source of the Company's revenue. Net interest income is the difference between interest income on interest-earning assets, such as loans and investment securities, and the interest expense on interest-bearing deposits and other borrowings used to fund interest-earning and other assets or activities. Net interest income is affected by changes in interest rates and by the amount and composition of earning assets and interest-bearing liabilities, as well as the sensitivity of the balance sheet to changes in interest rates, including characteristics such as the fixed or variable nature of the financial instruments, contractual maturities, repricing frequencies, and loan prepayment behavior.

Net interest income for the year ended September 30, 2023 was \$54.5 million, a decrease of 11.0% from \$61.3 million for the year ended September 30, 2022 primarily due to compression of the Company's net interest margin.

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Net interest margin was 2.85% for the year ended September 30, 2023, a decrease of 133 basis points from 4.18% for the year ended September 30, 2022. The Company's total interest income increased by \$36.6 million, or 53.5%, as the average yield on interest-earning assets for the year ended September 30, 2023 was 5.49%, an increase of 83 basis points from 4.66% for the year ended September 30, 2022. However, total interest expense increased by \$43.4 million, or 604.5%, reflecting the rapid and significant rise in interest rates driven by the Federal Reserve and, to a lesser extent, the Company's decision to maintain increased liquidity as a result of recent industry events resulted in the higher cost of funds as the average rate on interest bearing liabilities increased to 3.18% from 0.62%.

Average interest-bearing liabilities were \$1.59 billion for the year ended September 30, 2023, an increase of \$430.5 million compared to \$1.16 billion for the year ended September 30, 2022. The increase was primarily attributable to growth in interest-bearing deposits and borrowings, which increased by \$240.5 million and \$78.1 million, respectively, during fiscal year 2023.

The following table presents daily average balances, interest, yield/cost, and net interest margin on a fully tax-equivalent basis for the periods presented:

(dollars in thousands)	Year Ended September 30,					
	2023		2022			
	Average Balance	Average Interest	Average Yield/Cost	Average Balance	Average Interest	Average Yield/Cost
Assets:						
Interest-earning assets:						
Loans ⁽¹⁾⁽²⁾	\$ 1,771,878	\$ 97,560	5.51 %	\$ 1,344,369	\$ 67,005	4.98 %
Investment securities ⁽¹⁾	16,007	806	5.04 %	12,788	484	3.78 %
Interest-earning balances and other	126,740	6,677	5.27 %	109,922	940	0.86 %
Total interest-earning assets	<u>1,914,625</u>	<u>105,043</u>	<u>5.49 %</u>	<u>1,467,079</u>	<u>68,429</u>	<u>4.66 %</u>
Other assets	62,248			55,295		
Total assets	<u>\$ 1,976,873</u>			<u>\$ 1,522,374</u>		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Savings, NOW and money market deposits	\$ 997,068	\$ 32,647	3.27 %	\$ 737,057	\$ 3,166	0.43 %
Time deposits	420,495	11,204	2.66 %	313,435	2,209	0.70 %
Total interest-bearing deposits	<u>1,417,563</u>	<u>43,851</u>	<u>3.09 %</u>	<u>1,050,492</u>	<u>5,375</u>	<u>0.51 %</u>
Borrowings	145,705	5,396	3.70 %	82,362	469	0.57 %
Subordinated debentures	24,593	1,304	5.30 %	24,533	1,331	5.43 %
Total interest-bearing liabilities	<u>1,587,861</u>	<u>50,551</u>	<u>3.18 %</u>	<u>1,157,387</u>	<u>7,175</u>	<u>0.62 %</u>
Non-interest bearing deposits	184,051			206,484		
Other liabilities	24,390			12,526		
Total liabilities	<u>1,796,302</u>			<u>1,376,397</u>		
Stockholders' equity	180,571			145,977		
Total liabilities and stockholders' equity	<u>\$ 1,976,873</u>			<u>\$ 1,522,374</u>		
Net interest rate spread ⁽³⁾			2.31 %			4.04 %
Net interest income/margin ⁽⁴⁾	<u>\$ 54,492</u>	<u>2.85 %</u>		<u>\$ 61,254</u>	<u>4.18 %</u>	

(1) There is no income tax exempt interest recorded for loans or investment securities for the periods presented.

(2) Includes non-accrual loans.

(3) Net interest spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average interest-earning assets.

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The following table details the variances in net interest income caused by changes in interest rates and volume for the periods presented:

(in thousands)	2023 vs. 2022		
	Increase (decrease) due to change in:		
	Volume	Rate	Total
Interest income			
Loans	\$ 22,986	\$ 7,569	\$ 30,555
Investment securities	139	183	322
Interest-earning balances and other	165	5,572	5,737
Total interest income	23,290	13,324	36,614
Interest expense			
Savings, NOW and money market deposits	1,494	27,987	29,481
Time deposits	983	8,012	8,995
Borrowings	603	4,324	4,927
Subordinated debentures	(27)	—	(27)
Total interest expense	3,053	40,323	43,376
Net increase (decrease) in net interest income	\$ 20,237	\$ (26,999)	\$ (6,762)

Provision for Loan Losses

The provision for loan losses was \$3.4 million for the year ended September 30, 2023 compared to \$4.5 million for the year ended September 30, 2022. Total net charge-offs were \$1.6 million and \$0.2 million for the years ended September 30, 2023, and 2022, respectively.

Provisions for loan losses are charged to income to bring the allowance for loan losses to a level deemed appropriate by management. In evaluating the allowance for loan losses, management considers factors that include recent growth, composition and industry diversification of the portfolio, historical loan loss experience, current delinquency levels, adverse situations that may affect a borrower's ability to repay, estimated value of any underlying collateral, prevailing economic conditions and other relevant factors. See additional discussion under "Asset Quality - Analysis of Allowance for Loan Losses" section.

Non-Interest Income

(in thousands)	Year Ended September 30,	
	2023	2022
Loan servicing and fee income	\$ 2,709	\$ 2,885
Service charges on deposit accounts	275	232
Net gain on sale of loans held for sale	4,093	5,143
Net gain on sale of investments available-for-sale	—	105
Other income	1,771	507
Total non-interest income	\$ 8,848	\$ 8,872

Non-interest income was \$8.8 million for the year ended September 30, 2023, a slight decrease of \$24 thousand from \$8.9 million for the year ended September 30, 2022. Net gain on the sale of loans held for sale decreased in 2023 due to a lower volume of SBA loan sales, zero residential loans sales in the current year and depressed secondary market premiums early in the year. In addition, offsetting this decline, in September 2023, the Company settled ongoing litigation and received a settlement payment of \$975 thousand recorded in Other income.

Non-Interest Expense

(in thousands)	Year Ended September 30,	
	2023	2022
Salaries and employee benefits	\$ 20,652	\$ 19,665
Occupancy and equipment	6,359	5,633
Data processing	1,951	1,629
Acquisition costs	—	250
Professional fees	3,145	2,568
Federal deposit insurance premiums	1,259	368
Other expenses	6,355	5,068
Total non-interest expense	\$ 39,721	\$ 35,181

Non-interest expense was \$39.7 million for the year ended September 30, 2023, an increase of \$4.5 million from \$35.2 million for the year ended September 30, 2022. The increase in non-interest expense was primarily due to growth related increases in compensation and benefits, occupancy and equipment, data processing, professional fees, federal deposit insurance premiums and other expenses. At the beginning of the year, the FDIC instituted a 2bps increase in the base deposit insurance assessment rate which accounted for approximately 31% of the increase in our deposit insurance premiums year over year.

Income Taxes

Income tax expense was \$5.0 million for the year ended September 30, 2023, a decrease from \$6.9 million for the year ended September 30, 2022. The decline in income tax expense reflects lower net income in 2023. The effective income tax rate for the years ended September 30, 2023 and 2022 was 24.9% and 22.8%, respectively.

Analysis of Financial Condition

Investment Securities

Our investment securities portfolio, which is structured with minimum credit exposure, is intended to provide us with adequate liquidity, flexibility in asset/liability management, and a source of stable income. Investment securities classified as available-for-sale are carried at fair value in the consolidated statements of financial condition, while investment securities classified as held-to-maturity are shown at amortized cost in the consolidated statements of financial condition.

The following table summarizes the amortized cost and fair value of investment securities:

(in thousands)	Balance at September 30,			
	2023	2022	Amortized Cost	Fair Value
Investment securities available-for-sale:				
U.S. GSE residential mortgage-backed securities	\$ 322	\$ 142	\$ 375	\$ 242
Corporate bonds	12,700	10,747	12,700	12,043
Total investment securities available-for-sale	13,022	10,889	13,075	12,285
Investment securities held-to-maturity:				
U.S. GSE residential mortgage-backed securities	1,531	1,353	1,778	1,618
U.S. GSE commercial mortgage-backed securities	2,577	2,407	2,636	2,477
Total investment securities held-to-maturity	4,108	3,760	4,414	4,095
Total investment securities	\$ 17,130	\$ 14,649	\$ 17,489	\$ 16,380

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We continually evaluate our investment securities portfolio in response to established asset/liability management objectives, changing market conditions that could affect profitability, and the level of interest rate risk to which we are exposed. These evaluations may cause us to change the level of funds we deploy into investment securities, change the composition of our investment securities portfolio, and change the proportion of investments made into the available-for-sale and held-to-maturity investment categories.

Our investment securities portfolio included no gross unrealized gains and gross unrealized losses of \$2.5 million at September 30, 2023, compared to no gross unrealized gains and gross unrealized losses of \$1.1 million at September 30, 2022. Management believes that all of its unrealized losses on individual investment securities at September 30, 2023 and 2022 are the result of fluctuations in interest rates and do not reflect deterioration in the credit quality of these investments. Accordingly, management considers these unrealized losses to be temporary in nature. We do not have the intent to sell these investment securities with unrealized losses and, more likely than not, will not be required to sell these investment securities before fair value recovers to amortized cost.

The tables below illustrate the maturity distribution and weighted average yield and amortized cost of our investment securities as of September 30, 2023 and 2022, on a contractual maturity basis.

Investment Securities Portfolio by Expected Maturities ⁽¹⁾

(dollars in thousands)	Balance at September 30, 2023			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
U.S. GSE residential mortgage-backed securities				
Due after five years through ten years	\$ —	— %	\$ 1,080	2.31 %
Due after ten years	322	3.28 %	451	2.66 %
	<u>322</u>	<u>3.28 %</u>	<u>1,531</u>	<u>2.41 %</u>
U.S. GSE commercial mortgage-backed securities				
Due after one year through five years	—	—	2,577	2.68 %
	<u>—</u>	<u>—</u>	<u>2,577</u>	<u>2.68 %</u>
Corporate bonds				
Due after five years through ten years	12,700	5.19 %	—	— %
	<u>12,700</u>	<u>5.19 %</u>	<u>—</u>	<u>— %</u>
Total investment securities	<u>\$ 13,022</u>	<u>5.14 %</u>	<u>\$ 4,108</u>	<u>2.58 %</u>

(dollars in thousands)	Balance at September 30, 2022			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
U.S. GSE residential mortgage-backed securities				
Due after five years through ten years	\$ —	— %	\$ 1,256	2.30 %
Due after ten years	375	3.02 %	522	2.66 %
	<u>375</u>	<u>3.02 %</u>	<u>1,778</u>	<u>2.41 %</u>
U.S. GSE commercial mortgage-backed securities				
Due after one through five years	—	—	2,636	2.68 %
	<u>—</u>	<u>—</u>	<u>2,636</u>	<u>2.68 %</u>
Corporate bonds				
Due after five years through ten years	12,700	5.19 %	—	— %
	<u>12,700</u>	<u>5.19 %</u>	<u>—</u>	<u>— %</u>
Total investment securities	<u>\$ 13,075</u>	<u>5.13 %</u>	<u>\$ 4,414</u>	<u>2.57 %</u>

(1) There is no income tax exempt interest recorded for investment securities for the periods presented.

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Loans

At September 30, 2023, our loan portfolio was \$1.87 billion, an increase of \$251.1 million from \$1.62 billion at September 30, 2022. Year over year growth was concentrated primarily in residential, commercial real estate and C&I loans.

For the year ended September 30, 2023, the Bank realized an increase in residential mortgage loans of \$139.9 million, representing growth of approximately 27%. Loans secured by commercial real estate properties increased by \$64.2 million, representing growth of approximately 14%. Commercial and industrial loans increased by \$39.7 million, representing growth of approximately 87%.

The following table provides the composition of the Company's loan portfolio by type at the dates indicated:

	At September 30, 2023		At September 30, 2022	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Real estate:				
Residential	\$ 657,332	35.07 %	\$ 516,258	31.80 %
Multi-family	578,895	30.88 %	575,061	35.42 %
Commercial	537,314	28.66 %	472,984	29.13 %
Total real estate	<u>1,773,541</u>	<u>94.61 %</u>	<u>1,564,303</u>	<u>96.35 %</u>
Commercial and industrial	87,575	4.67 %	46,285	2.85 %
Construction	13,021	0.70 %	12,907	0.80 %
Consumer	425	0.02 %	36	— %
Total loans	<u>1,874,562</u>	<u>100.00 %</u>	<u>1,623,531</u>	<u>100.00 %</u>
Allowance for loan losses	14,686		12,844	
Total loans, net	<u>\$ 1,859,876</u>		<u>\$ 1,610,687</u>	

The following table provides information for the contractual maturities of our total loan portfolio at September 30, 2023. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less. The table presents contractual maturities and does not reflect repricing or the effect of prepayments. Maturities are based on the final contractual payment date and do not reflect the impact of prepayments and scheduled principal amortization.

Time to Reprice/Mature	Commercial						Total
	Residential Real Estate	Multi- Family	Commercial Real Estate	and Industrial	Construction	Consumer	
<i>(in thousands)</i>							
One year or less	\$ 139,821	\$ 21,527	\$ 155,703	\$ 76,229	\$ 11,726	\$ —	\$ 405,006
More than one year to five years	381,071	555,147	358,819	9,300	1,295	\$ —	1,305,632
More than five years to fifteen years	61,827	2,221	22,300	2,046	—	425	88,819
After fifteen years	74,613	—	492	—	—	—	75,105
Total	<u>\$ 657,332</u>	<u>\$ 578,895</u>	<u>\$ 537,314</u>	<u>\$ 87,575</u>	<u>\$ 13,021</u>	<u>\$ 425</u>	<u>\$ 1,874,562</u>

The following table presents the Company's loans held for investment as of September 30, 2023 that are contractually due after September 30, 2024 according to rate type and loan category:

<i>(in thousands)</i>	Due After September 30, 2024		
	Fixed	Adjustable	Total
Real estate:			
Residential	\$ 139,642	\$ 377,869	\$ 517,511
Multi-family	19,549	537,819	557,368
Commercial	64,789	316,822	381,611
Total real estate	223,980	1,232,510	1,456,490
Commercial and industrial	8,150	3,196	11,346
Construction	—	1,295	1,295
Consumer	425	—	425
Total loans	\$ 232,555	\$ 1,237,001	\$ 1,469,556

Credit Policies and Procedures

Management uses the risk-grading program, as described under "Asset Quality," to facilitate evaluation of probable inherent loan losses and the adequacy of the allowance for loan losses. In this program, risk grades are initially assigned by loan officers, reviewed by Credit Administration, and a sample of these loans are tested by the Company's third-party independent loan reviewer. The testing program includes an evaluation of a sample of both new and existing loans, including large loans, loans that are identified as having potential credit weaknesses, and loans past due 90 days or more and still accruing. We strive to maintain the loan portfolio in accordance with our loan underwriting policies that result in loans specifically tailored to the needs of our market area. Every effort is made to identify and minimize the credit risks associated with such lending strategies. Generally, we do not engage in significant volumes of lease financing, highly leveraged transactions or loans to customers domiciled outside the United States.

Management follows a loan review program designed to evaluate the credit risk in our loan portfolio. Through this loan review process we maintain an internally-classified, adversely-risk-rated loan list that helps management assess the overall quality of the loan portfolio and the adequacy of the allowance for loan losses. In establishing the appropriate classification for specific assets, management considers, among other factors, the estimated value of the underlying collateral, the borrower's ability to repay, the borrower's payment history and the current delinquent status. As a result of this process, certain loans are categorized as substandard, doubtful or loss and the allowance is allocated based on management's judgment and historical experience.

Acquired loans are recorded at fair value as of the loan's acquisition date and allowances are recorded for post-acquisition credit quality deterioration. Subsequent to the acquisition date, recurring analyses are performed on the credit quality of acquired loans to determine if expected cash flows have changed. Based upon the results of the individual loan reviews, revised impairment amounts are calculated which could result in additional allowance for loan losses.

A loan is considered to be impaired under GAAP when, based upon current information and events, it is probable we will be unable to collect all amounts due according to the contractual terms of the loan. If applicable, the Company calculates a specific reserve for each loan that has been deemed impaired, which include nonaccrual loans and TDRs. The amount of the reserve is based on the present value of expected cash flows discounted at the loan's effective interest rate, and/or the value of collateral. If foreclosure is probable or the loan is collateral dependent, impairment is measured using the fair value of the loan's collateral, less estimated costs to sell.

Asset Quality

We consider asset quality to be of primary importance and employ a formal internal loan review process to ensure adherence to our lending policy as approved by our Board of Directors. It is the responsibility of each lending officer to assign an appropriate risk grade to every loan originated. The Company's internal credit risk review function, through focused review and sampling, validates the accuracy of commercial loan risk grades. Each loan risk grade corresponds to an estimated default probability. In addition, as a given loan's credit quality improves or deteriorates, the Company will update the borrower's risk grade accordingly. The function of determining the allowance for loan losses is fundamentally driven by the risk grade system. In determining the allowance for loan losses and any resulting provision to be charged against earnings, particular emphasis is placed on the results of the loan review process. Consideration is also given to historical loan loss experience, the value and adequacy of collateral, economic conditions in our market area and other factors. For loans determined to be impaired, the allowance is based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. This evaluation is inherently subjective, as it requires material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. The allowance for loan losses represents management's estimate of the appropriate level of reserve to provide for probable losses inherent in the loan portfolio. Our policy regarding past due loans normally requires a prompt charge-off to the allowance for loan losses following timely collection efforts and a thorough review. Further efforts are then pursued through various means available. Loans carried in a nonaccrual status are generally collateralized and probable losses are considered in the determination of the allowance for loan losses.

Nonperforming Assets

The following table presents information regarding nonperforming assets for the periods presented. The Company did not own any repossessed property for the periods presented.

<i>(dollars in thousands)</i>	Balance at September 30,	
	2023	2022
Nonaccrual loans	\$ 14,933	\$ 12,281
Loans greater than 90 days past due	128	1,231
Total nonperforming assets	\$ 15,061	\$ 13,512
Performing TDRs	\$ 1,727	\$ 2,370
Nonaccrual loans as a percentage of loans held-for- investment	0.80 %	0.76 %
Non-performing assets as a percentage of total assets	0.70 %	0.73 %

Total nonaccrual loans were \$14.9 million at September 30, 2023, an increase from total nonaccrual loans of \$12.3 million at September 30, 2022. At September 30, 2023, non-performing assets totaled \$15.1 million of which \$8.4 million represented legacy Savoy originated loans that were either written down to fair value at the acquisition date or are 100% guaranteed by the SBA. Subsequent to September 30, 2023, a \$1.1 million non-performing residential investor loan paid in full and \$0.1 million in nonaccrual interest was collected.

Analysis of Allowance for Loan Losses

The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. Management increases the allowance for loan losses by provisions charged to operations and by recoveries of amounts previously charged off. The allowance is reduced by loans charged off. Management evaluates the adequacy of the allowance at least monthly. In addition, on a monthly basis our Board of Directors reviews the loan portfolio, conducts an evaluation of credit quality and reviews the computation of the loan loss allowance. In evaluating the adequacy of the allowance, management considers the growth, composition and industry diversification of the portfolio, historical loan loss experience, current delinquency levels, adverse situations that may affect a borrower's ability to repay, estimated value of any underlying collateral, prevailing economic conditions and other relevant factors deriving from our history of operations. In addition to our history, management also considers the loss experience and allowance levels of other similar banks and the historical experience encountered by our management and senior lending officers prior to joining us. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require us to make additions for estimated losses based upon judgments different from those of management.

Management uses the risk-grading program, as described under "Asset Quality," to facilitate evaluation of probable inherent loan losses and the adequacy of the allowance for loan losses. Generally, we do not engage in significant lease financing, highly leveraged transactions or loans to customers domiciled outside the United States.

Management follows a loan review program designed to evaluate the credit risk in our loan portfolio. Through this loan review process, we maintain an internally classified watch list that helps management assess the overall quality of the loan portfolio and the adequacy of the allowance for loan losses. In establishing the appropriate classification for specific assets, management considers, among other factors, the estimated value of the underlying collateral, the borrower's ability to repay, the borrower's payment history and the current delinquent status. As a result of this process, certain loans are categorized as substandard, doubtful or loss and the allowance is allocated based on management's judgment and historical experience.

Acquired loans are recorded at fair value as of the loan's acquisition date and allowances are recorded for post-acquisition credit quality deterioration. Subsequent to the acquisition date, recurring analyses are performed on the credit quality of acquired loans to determine if expected cash flows have changed. Based upon the results of the individual loan reviews, revised impairment amounts are calculated which could result in additional allowance for loan losses.

A loan is considered to be impaired under GAAP when, based upon current information and events, it is probable we will be unable to collect all amounts due according to the contractual terms of the loan. The Company calculates a specific reserve for each loan that has been deemed impaired, which include nonaccrual loans and TDRs. The amount of the reserve is based on the present value of expected cash flows discounted at the loan's effective interest rate, and/or the value of collateral. If foreclosure is probable or the loan is collateral dependent, impairment is measured using the fair value of the loan's collateral, less estimated costs to sell.

The allowance for loan losses was \$14.7 million at September 30, 2023, an increase of \$1.8 million from \$12.8 million at September 30, 2022 due to growth in the loan portfolio. The ratio of the allowance for loan losses to total portfolio loans was 0.78% and 0.79% at September 30, 2023, and 2022, respectively.

The Company experienced \$1.6 million in net charge-offs during the year ended September 30, 2023, an increase compared to net charge-offs of \$0.2 million during the year ended September 30, 2022. The cumulative charge-offs of \$1.2 million during the fourth fiscal quarter were primarily related to one multi-family loan for which the Bank had a specific reserve approximately equal to the charge-off for that loan. The Company has recorded recoveries of \$0.1 million and \$0 during the years ended September 30, 2023 and 2022, respectively.

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The following table presents the allocation of the allowance for loan losses by loan category for the periods presented:

	At September 30,			
	2023		2022	
	Amount	% of Gross Loans	Amount	% of Gross Loans
(dollars in thousands)				
Residential real estate	\$ 4,778	0.73 %	\$ 3,951	0.77 %
Multi-family	4,206	0.73 %	4,308	0.75 %
Commercial real estate	3,197	0.60 %	3,707	0.78 %
Commercial and industrial	2,368	2.77 %	761	1.66 %
Construction	104	0.80 %	115	0.89 %
Consumer	33	9.82 %	2	9.09 %
Total allowance for loan losses	\$ 14,686	0.79 %	\$ 12,844	0.79 %

The following table presents information related activity in the allowance for loan losses for the periods presented:

	Year Ended September 30,	
	2023	2022
(dollars in thousands)		
Beginning balance	\$ 12,844	\$ 8,552
Provision for loan losses	3,432	4,450
Charge-Offs:		
Residential real estate	—	—
Multi-family	(959)	(66)
Commercial real estate	—	—
Commercial and industrial	(734)	(92)
Construction	—	—
Consumer	—	—
Total loan charge-offs	(1,693)	(158)
Recoveries:		
Commercial and industrial	103	—
Total recoveries	103	—
Total net charge-offs	(1,590)	(158)
Ending balance	\$ 14,686	\$ 12,844
Allowance for loan losses to total loans held-for- investment ⁽¹⁾	0.78 %	0.79 %
Net charge-offs to average loans held-for-investment	0.09 %	0.01 %

(1) Includes loans acquired from Savoy that do not carry an allowance for loans losses as of September 30 2023 and 2022.

Sources of Funds and Liquidity

Liquidity management is defined as both our and the Bank's ability to meet our 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 Bank of New York, Federal Home Loan Bank (the "FHLB") and correspondent banks, which totaled \$192.6 million and \$149.9 million at September 30, 2023 and 2022, 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 our ability to meet liquidity needs, including variations in the markets served, loan demand, asset/liability mix, reputation and credit standing in our 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 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. Daily, management receives a current cash position update to ensure that all obligations are satisfied. On a weekly basis, appropriate senior management receives a current liquidity position report and a ninety day forecasted cash flow to ensure that all short-term obligations will be met and there is sufficient liquidity available.

At September 30, 2023, undrawn liquidity sources, which include cash and unencumbered securities and secured and unsecured funding capacity, totaled \$534.7 million or approximately 204% of uninsured deposit balances.

Deposits

We provide a range of deposit services, including non-interest bearing demand accounts, interest-bearing demand and savings accounts, money market accounts and time deposits. These accounts generally pay interest at rates established by management based on competitive market factors and management's desire to increase or decrease certain types or maturities of deposits. Deposits continue to be our primary funding source.

Total deposits at September 30, 2023 were \$1.74 billion, an increase of \$207.0 million from total deposits of \$1.53 billion at September 30, 2022. Insured and collateralized deposits, which include municipal deposits, accounted for approximately 85% of total deposits at September 30, 2023.

The following is our average deposits and weighted-average interest rates paid thereon for the past two fiscal years:

	Year Ended September 30,			
	2023		2022	
	Average Balance	Average Rate	Average Balance	Average Rate
(dollars in thousands)				
Non-interest bearing demand	\$ 184,051	0.00 %	\$ 206,484	0.00 %
Savings	87,637	1.30 %	77,756	0.41 %
NOW	545,827	3.40 %	483,400	0.44 %
Money market	363,604	3.57 %	175,901	0.42 %
Time deposits	420,495	2.66 %	313,435	0.70 %
Total average deposits	\$ 1,601,614	2.74 %	\$ 1,256,976	0.43 %

The Company had municipal deposits of \$313.2 million at September 30, 2023, which comprised 18.1% of total deposits, a decrease of \$103.7 million or 24.9% from \$416.9 million, at September 30, 2022.

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Our sources of wholesale funding included brokered certificates of deposit, listing service certificates of deposit and insured cash sweep ("ICS") reciprocal deposits in excess of 20% of total liabilities, whose balances totaled approximately \$102.0 million, \$15.9 million and \$18.1 million, or 5.9%, 0.9% and 1.0% of total deposits, respectively, at September 30, 2023. We utilized brokered certificates of deposit and listing service certificates of deposit as alternatives to other forms of wholesale funding, including borrowings, when interest rates and market conditions favor the use of such deposits. For a portion of our brokered certificates of deposit we utilized interest rate swap contracts to effectively extend their duration and to fix their cost.

As of September 30, 2023 and 2022, we held \$106.9 million and \$87.9 million, respectively, of time deposits that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limit. The following table sets forth the maturity of time deposits exceeding the FDIC insurance limit as of September 30, 2023:

<i>(in thousands)</i>	September 30, 2023
Three months or less	\$ 104,363
Over three months through six months	253
Over six months through 12 months	1,005
Over 12 months	1,267
Total	\$ 106,888

See Note 6, "Deposits" to the accompanying Consolidated Financial Statements contained in Item 8 for additional details.

Borrowings

The total carrying value of our borrowings was \$204.5 million at September 30, 2023, an increase of \$78.2 million from \$126.3 million at September 30, 2022. The Company added \$100.7 million of extended duration FHLB term advances in March 2023 to provide additional liquidity and enhance the interest rate sensitivity profile. At September 30, 2023, \$67.9 million of these borrowings were classified as short-term, while the remaining was classified as long-term. Short-term borrowings are comprised of short-term FHLB advances. Long-term funding is comprised of long-term FHLB advances and subordinated debentures. The Company will prepay FHLB advances from time to time as funding needs change. See Note 7, "Borrowings" and Note 8, "Subordinated Debentures" to the accompanying Consolidated Financial Statements contained in Item 8 for additional details.

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 in 2030. The Notes bear interest, payable semi-annually, at the rate of 5.00% per annum, until October 15, 2025. From and including October 15, 2025 through maturity, the interest rate applicable to the outstanding principal amount due will reset quarterly to the then current three-month Secured Overnight Financing Rate 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 an existing holding company note in October 2020 and used the remainder of the net proceeds for acquisition financing and general corporate purposes, including contributing equity capital to the Bank.

At September 30, 2023, the Company had \$49.0 million in overnight borrowings and \$126.7 million in term borrowings outstanding both with the FHLB. At September 30, 2023, the Company had access to an additional \$291.2 million in FHLB lines of credit. At September 30, 2023, approximately \$92.0 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 September 30, 2023.

Derivatives

We utilize derivative instruments in the form of interest rate swaps to hedge our exposure to interest rate risk in conjunction with our overall asset/liability management process. In accordance with accounting requirements, we formally designate all of our hedging relationships as either fair value hedges or cash flow hedges, and document the strategy for undertaking the hedge transactions and its method of assessing ongoing effectiveness.

At September 30, 2023, our derivative instruments were comprised of interest rate swaps with a total notional amount of \$75.0 million. These instruments are intended to manage the interest rate exposure relating to certain brokered certificates of deposit.

Additional information regarding our use of interest rate derivatives is presented in Note 1 and Note 9 to Consolidated Financial Statements contained in Item 8.

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 September 30, 2023 and 2022, commitments to originate loans and commitments under unused lines of credit for which the Bank is obligated amounted to approximately \$119.6 million and \$73.1 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 September 30, 2023 and 2022, letters of credit outstanding were approximately \$0.5 million and \$0.8 million, respectively.

Capital Resources

Total stockholders' equity was \$185.9 million at September 30, 2023, an increase of \$13.3 million from stockholders' equity of \$172.6 million at September 30, 2022. The increase was primarily due to net income earned for the year ended September 30, 2023, less cash dividends paid to shareholders. Accumulated other comprehensive loss, net of tax, was \$1.3 million, reflecting the relatively small size of the Company's investment portfolio and representing approximately 0.71% of total capital at September 30, 2023.

We are subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and the regulatory framework for prompt corrective action prescribe specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. We use our capital primarily for our lending activities as well as acquisitions and expansions of our business and other operating requirements.

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The Bank capital level is characterized as "well-capitalized" under the Basel III Capital Rules. A summary of the Bank's regulatory capital amounts and ratios are presented below:

<i>(dollars in thousands)</i>	September 30,	
	2023	2022
Total capital	\$ 205,785	\$ 191,355
Tier 1 capital	190,928	178,340
Common equity tier 1 capital	190,928	178,340
Total capital ratio	14.60 %	16.32 %
Tier 1 capital ratio	13.55 %	15.21 %
Common equity tier 1 capital ratio	13.55 %	15.21 %
Tier 1 leverage ratio	9.16 %	10.90 %

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

On October 5, 2023, the Company announced that the Board of Directors approved a new stock repurchase program. Under the new repurchase program, the Company may repurchase up to 366,050 shares of its common stock, or approximately 5% of its then outstanding shares. The repurchase program permits shares to be repurchased in the open market as conditions allow, or in privately negotiated transactions, and pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. The Company has not made any stock repurchases under the program. The remaining buyback authority under the share repurchase program remained at 366,050 shares as of December 21, 2023, the filing date of this Annual Report on Form 10-K.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

A smaller reporting company is not required to provide the information related to this item.

ITEM 8. Financial Statements and Supplementary Data



Crowe LLP
Independent Member Crowe Global

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors of Hanover Bancorp, Inc.
Mineola, New York

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Hanover Bancorp Inc. and Subsidiary (the "Company") as of September 30, 2023 and 2022, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Crowe LLP
Crowe LLP

We have served as the Company's auditor since 2019.

Livingston, New Jersey
December 21, 2023

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

	September 30,	
	2023	2022
ASSETS		
Cash and non-interest-bearing deposits due from banks	\$ 5,496	\$ 9,934
Interest-bearing deposits due from banks	186,614	139,559
Federal funds sold	514	454
Total cash and cash equivalents	<u>192,624</u>	<u>149,947</u>
Securities:		
Held to maturity (fair value of \$ 3,760 and \$ 4,095 , respectively)	4,108	4,414
Available for sale, at fair value	10,889	12,285
Total securities	14,997	16,699
Loans	1,874,562	1,623,531
Allowance for loan losses	(14,686)	(12,844)
Loans, net	<u>1,859,876</u>	<u>1,610,687</u>
Premises and equipment, net	16,057	14,462
Operating lease assets	10,193	—
Accrued interest receivable	10,636	8,546
Prepaid post retirement plan	3,534	3,444
Stock in Federal Home Loan Bank ("FHLB"), at cost	10,547	6,280
Goodwill	19,168	19,168
Other intangible assets	327	399
Loan servicing rights	4,479	4,353
Deferred income taxes, net	1,509	2,508
Other assets	5,588	3,565
TOTAL ASSETS	<u><u>\$ 2,149,535</u></u>	<u><u>\$ 1,840,058</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	\$ 185,731	\$ 219,225
Savings, NOW and money market	1,019,263	969,808
Time	530,076	339,073
Total deposits	<u>1,735,070</u>	<u>1,528,106</u>
Borrowings	179,849	101,752
Subordinated debentures	24,621	24,568
Operating lease liabilities	10,899	—
Accrued interest payable	1,821	915
Other liabilities	11,368	12,133
TOTAL LIABILITIES	<u><u>1,963,628</u></u>	<u><u>1,667,474</u></u>
COMMITMENTS AND CONTINGENT LIABILITIES	—	—
STOCKHOLDERS' EQUITY		
Preferred stock, Series A (par value \$ 0.01 ; 15,000,000 shares authorized; issued and outstanding 150,000 and none , respectively)	2,963	—
Common stock (par value \$ 0.01 ; 17,000,000 shares authorized; issued and outstanding 7,170,419 and 7,285,648 , respectively)	72	73
Surplus	125,501	126,656
Retained earnings	58,693	46,475
Accumulated other comprehensive loss, net of tax	(1,322)	(620)
TOTAL STOCKHOLDERS' EQUITY	<u><u>185,907</u></u>	<u><u>172,584</u></u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 2,149,535</u></u>	<u><u>\$ 1,840,058</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

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

	Year Ended September 30,	
	2023	2022
INTEREST INCOME		
Loans	\$ 97,560	\$ 67,005
Taxable securities	806	484
Other interest income	6,677	940
Total interest income	<u>105,043</u>	<u>68,429</u>
INTEREST EXPENSE		
Savings, NOW and money market deposits	32,647	3,166
Time deposits	11,204	2,209
Borrowings	6,700	1,800
Total interest expense	<u>50,551</u>	<u>7,175</u>
Net interest income	54,492	61,254
Provision for loan losses	3,432	4,450
Net interest income after provision for loan losses	<u>51,060</u>	<u>56,804</u>
NON-INTEREST INCOME		
Loan servicing and fee income	2,709	2,885
Service charges on deposit accounts	275	232
Gain on sale of loans held-for-sale	4,093	5,143
Gain on sale of securities available-for-sale	—	105
Other income	1,771	507
Total non-interest income	<u>8,848</u>	<u>8,872</u>
NON-INTEREST EXPENSE		
Salaries and employee benefits	20,652	19,665
Occupancy and equipment	6,359	5,633
Data processing	1,951	1,629
Acquisition costs	—	250
Professional fees	3,145	2,568
Federal deposit insurance premiums	1,259	368
Other expenses	6,355	5,068
Total non-interest expense	<u>39,721</u>	<u>35,181</u>
Income before income tax expense	20,187	30,495
Income tax expense	5,023	6,939
NET INCOME	<u><u>\$ 15,164</u></u>	<u><u>\$ 23,556</u></u>
Earnings per share:		
BASIC	<u><u>\$ 2.07</u></u>	<u><u>\$ 3.74</u></u>
DILUTED	<u><u>\$ 2.05</u></u>	<u><u>\$ 3.68</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

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

	Year Ended September 30,	
	2023	2022
Net income	\$ 15,164	\$ 23,556
Other comprehensive (loss) income, net of tax:		
Unrealized losses on investment securities available for sale:		
Change in unrealized loss on securities available for sale arising during the period, net of tax of (\$ 293) and (\$ 215), respectively	(1,050)	(795)
Reclassification adjustment for gains realized in net income, net of tax of \$ 0 and \$ 24 , respectively	—	(81)
Net change in unrealized gains (losses) on securities available for sale	(1,050)	(876)
Unrealized gains on cash flow hedges:		
Change in unrealized gain on cash flow hedges arising during the period, net of tax of \$ 97 and \$ 0 , respectively	348	—
Total other comprehensive loss, net of tax	(702)	(876)
Total comprehensive income, net of tax	<u><u>\$ 14,462</u></u>	<u><u>\$ 22,680</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

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

	Common Stock (Shares)	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income, Net	Total Stockholders' Equity
Balance at October 1, 2021	5,563,426	\$ —	\$ 56	\$ 97,246	\$ 24,971	\$ 256	\$ 122,529
Net income	—	—	—	—	23,556	—	23,556
Other comprehensive loss, net of tax	—	—	—	—	—	(876)	(876)
Issuance of common stock in lieu of directors' fees	2,384	—	—	42	—	—	42
Cash dividends declared (\$ 0.10 per share)	—	—	—	—	(2,052)	—	(2,052)
Stock-based compensation	—	—	—	1,684	—	—	1,684
Stock awards granted, net of forfeitures	254,265	—	2	(2)	—	—	—
Shares received related to tax withholding	(677)	—	—	(28)	—	—	(28)
Common stock issued in Initial Public Offering ("IPO"), net of costs	1,466,250	—	15	27,714	—	—	27,729
Balance at September 30, 2022	<u>7,285,648</u>	<u>\$ —</u>	<u>\$ 73</u>	<u>\$ 126,656</u>	<u>\$ 46,475</u>	<u>\$ (620)</u>	<u>\$ 172,584</u>
Net income	—	—	—	—	15,164	—	15,164
Other comprehensive loss, net of tax	—	—	—	—	—	(702)	(702)
Cash dividends declared (\$ 0.10 per share)	—	—	—	—	(2,946)	—	(2,946)
Stock-based compensation	—	—	1	1,870	—	—	1,871
Stock awards granted, net of forfeitures	32,901	—	—	—	—	—	—
Shares received related to tax withholding	(8,744)	—	—	(170)	—	—	(170)
Preferred stock issued in exchange for common stock	(150,000)	2,963	(2)	(2,961)	—	—	—
Exercise of stock options	<u>10,614</u>	<u>—</u>	<u>—</u>	<u>106</u>	<u>—</u>	<u>—</u>	<u>106</u>
Balance at September 30, 2023	<u>7,170,419</u>	<u>\$ 2,963</u>	<u>\$ 72</u>	<u>\$ 125,501</u>	<u>\$ 58,693</u>	<u>\$ (1,322)</u>	<u>\$ 185,907</u>

The accompanying notes are an integral part of these consolidated financial statements.

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

	Year Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 15,164	\$ 23,556
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,432	4,450
Depreciation and amortization	1,812	1,663
Amortization of right-of-use assets	1,608	—
Net gain on sale of securities available-for-sale	—	(105)
Stock-based compensation	1,871	1,684
Net gain on sale of loans held-for-sale	(4,093)	(5,143)
Net accretion of premiums, discounts and loan fees and costs	(748)	(3,570)
Amortization of intangible assets	72	81
Amortization of debt issuance costs	53	55
Loan servicing rights valuation adjustments	767	495
Deferred tax expense	1,196	1,318
(Increase) decrease in accrued interest receivable	(2,090)	817
Increase in other assets	(1,768)	(5)
Increase (decrease) in accrued interest payable	906	(375)
Increase (decrease) in other liabilities	(264)	160
Payments on operating leases	(1,517)	—
Net cash provided by operating activities	16,401	25,081
Cash flows from investing activities:		
Purchases of securities available-for-sale	—	(8,000)
Purchases of restricted securities, net	(4,267)	(2,566)
Proceeds from sales of securities available-for-sale	—	2,105
Principal repayments of securities held to maturity	302	4,191
Principal repayments of securities available-for-sale	50	335
Proceeds from sales of loans	50,359	85,420
Net increase in loans	(299,397)	(454,509)
Purchases of premises and equipment	(3,407)	(1,122)
Net cash used in investing activities	(256,360)	(374,146)
Cash flows from financing activities:		
Net increase in deposits	207,472	364,519
Proceeds from term FHLB advances	100,725	—
Repayments of term FHLB advances	(11,800)	(4,000)
Repayments of Federal Reserve Bank borrowings	(4,768)	(108,710)
(Repayments) proceeds of other short-term borrowings, net	(6,000)	55,000
Payments related to tax withholding for equity awards	(170)	(28)
Cash dividends paid	(2,929)	(2,042)
Net proceeds from issuance of common stock	—	27,729
Proceeds from exercise of stock options	106	—
Net cash provided by financing activities	282,636	332,468
Increase (decrease) in cash and cash equivalents	42,677	(16,597)
Cash and cash equivalents, beginning of period	149,947	166,544
Cash and cash equivalents, end of period	\$ 192,624	\$ 149,947
Supplemental cash flow information:		
Interest paid	\$ 49,645	\$ 7,550
Income taxes paid	4,404	6,466
Supplemental non-cash disclosure:		
Transfers from portfolio loans to loans held-for-sale	\$ 51,816	\$ 80,277
Preferred stock issued in exchange for common stock	2,963	—
Lease liabilities arising from obtaining right-of-use assets	1,791	—
Other assets received in satisfaction of a loan	844	—

The accompanying notes are an integral part of these consolidated financial statements.

HANOVER BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Operations

Hanover Bancorp, Inc. (the "Company") is a New York corporation which is the holding company for Hanover Community Bank (the "Bank"). 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 FRB.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain prior period amounts have been reclassified to conform to the current year's presentation. These reclassifications had an immaterial effect on the Company's consolidated financial statements and had no effect on prior year net income or stockholders' equity.

Use of Estimates

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The United States economy is currently experiencing a level of price inflation not experienced since the late 1970's and early 1980's. It is therefore difficult to predict the response of consumers and businesses to this level of inflation, and its impact on the economy. In addition, in order to attempt to control and reduce the level of inflation, the Federal Reserve has embarked on a series of interest rate increases along with quantitative tightening to further constrict economic conditions. It is unclear whether the Federal Reserve's efforts will be successful, and what impact they may have on the United States' economy. It is possible that the combined effects of inflation and increases in market interest rates could cause the economy of the United States to enter a recession, which could negatively impact the businesses of our borrowers and their ability to repay their loans or need credit, which could negatively affect our results of operations.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located in Nassau, Queens and Kings Counties and surrounding areas of New York State. Note 3 discusses the types of lending that the Company engages in. Although the Company has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents

For purposes of reporting consolidated cash flows, cash and due from banks includes cash on hand, cash items in process of collection and amounts due from banks. Cash and cash equivalents also include interest-bearing deposits in banks and federal funds sold. Interest-bearing deposits in other financial institutions mature within 90 days and are carried at cost. Net cash flows are reported for customer loan and deposit transactions and short-term borrowings with original maturities of 90 days or less.

Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Investment Securities

Investment securities are classified as held-to-maturity or available-for-sale at the time of purchase. Investment securities classified as held-to-maturity, which management has the positive intent and ability to hold to maturity, are reported at amortized cost. Investment securities classified as available for sale, which management has the intent and ability to hold for an indefinite period of time, but not necessarily to maturity, are carried at fair value, with unrealized gains and losses, net of related deferred income taxes, included in stockholders' equity as a separate component of other comprehensive income. Any decision to sell investment securities available for sale would be based on various factors, including, but not limited to, asset / liability management strategies, changes in interest rates or prepayment risks, liquidity needs, or regulatory capital considerations.

Premiums are amortized and discounts accreted using the interest method over the remaining terms of the related securities. Dividend and interest income are recognized when earned. Sales of investment securities are recorded at trade date, with realized gains and losses on sales determined using the specific identification method and included in non-interest income.

The Company evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, the Company considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. The Company also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Federal Home Loan Bank Stock

As a member of the FHLB of New York, the Company is required to maintain an investment in the stock of the FHLB based upon the amount of outstanding FHLB borrowings. This stock does not have a readily determinable fair value and is carried at cost.

Loans Held for Sale

Loans held for sale are carried at estimated fair value in the aggregate as determined by outstanding commitments from investors. Gains or losses on loan sales are recognized at the time of sale and are determined by the difference between net sales proceeds and the principal balance of the loans sold, adjusted for net deferred loan fees or costs. Loan origination and commitment fees, net of certain direct loan origination costs, are deferred as an adjustment to the carrying value of the loan until it is sold.

Loans and Loan Interest Income Recognition

Loans that management 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, commercial real estate, multifamily, commercial and industrial, 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.

Acquired loans are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date.

Acquired loans are evaluated upon acquisition and classified as either purchased credit impaired or purchased non-impaired. Purchased credit impaired loans reflect credit deterioration since origination such that it is probable at acquisition that the Company will be unable to collect all contractually required payments. For purchased credit impaired loans, expected cash flows at the acquisition date in excess of the fair value of loans are recorded as interest income over the remaining life of the loans (accrable yield) using a level yield method if the timing and amount of the future cash flows is reasonably estimable. The excess of the loan's contractual principal and interest over expected cash flows is not recorded (nonaccrable difference).

Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized prospectively as interest income. Decreases in expected cash flows after the acquisition date are recognized immediately through the provision for loan losses. For purchased non-impaired loans, the difference between the fair value and unpaid principal balance of the loan at the acquisition date is amortized or accreted to interest income over the economic life of the loans using a method that approximates the interest method.

Lending Risk

The principal business of the Bank is lending in one-to-four family residential mortgage loans, commercial real estate mortgage loans, multi-family mortgage loans, commercial and industrial loans and consumer loans. The Bank considers its primary lending area to be Nassau County and the New York City boroughs. A substantial portion of the Bank's loans are secured by real estate in these areas. Accordingly, the ultimate collectability of the loan portfolio is susceptible to changes in market and economic conditions in this region.

One-to-four family residential mortgage loans involve certain risks such as interest rate risk and risk of nonpayment. Adjustable-rate loans decrease the interest rate risk to the Company that is associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. Repayment risk can be affected by the overall health of the economy, including unemployment rates and housing prices.

Commercial real estate lending entails significant additional risks as compared with single-family residential property lending. Such loans typically involve large loan balances to single borrowers or groups of related borrowers. Loans in this classification include income producing investment properties and owner-occupied real estate used for business purposes. The underlying properties are located largely in the Bank's primary market area. The cash flows of the income producing investment properties could be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, could have an effect on credit quality. In the case of owner-occupied real estate used for business purposes, a weakened economy and resultant decreased consumer and/or business spending could have an adverse effect on credit quality.

Multifamily lending entails additional risks as compared with single-family residential property lending, but less when compared to commercial real estate lending. Loans in this classification include income producing residential investment properties of five or more families. Loans are made to established owners with a proven and demonstrable record of strong performance. Loans are secured by a first mortgage lien on the subject property. Repayment is derived generally from the rental income generated from the property and may be supplemented by the owners' personal cash flow. Credit risk arises with changes in economic conditions that could cause an increase in vacancy rates.

Commercial and industrial lending is generally considered higher risk due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on the business. Generally, these loans are primarily secured by inventories and other assets of the business and repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer and/or business spending, will have an effect on the credit quality in this loan class.

The Company's construction loan portfolio covers the development of commercial properties. Construction loans involve the disbursement of funds during construction with repayment substantially dependent on the success of the ultimate project. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans because their ultimate repayment depends on the satisfactory completion of construction and is sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing. Repayment is dependent on completion of the project and the subsequent financing of the completed project as a commercial real estate loan, and in some instances on the rent or sale of the underlying project.

Consumer loans generally have shorter terms and higher interest rates than other lending but generally involve more credit risk because of the type and nature of the collateral and, in certain cases, the absence of collateral. Repayment is dependent on the credit quality of the individual borrower and, if applicable, sale of the collateral securing the loan. Therefore, the overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class.

Allowance for Loan Losses

A loan is considered past due when it is not paid in accordance with its contractual terms. The accrual of income on loans, including impaired loans, and other loans in the process of foreclosure, is generally discontinued when a loan becomes 90 days or more delinquent, or when certain factors indicate that the ultimate collection of principal and interest is in doubt. Loans on which the accrual of income has been discontinued are designated as non-accrual loans. All previously accrued interest is reversed against interest income, and income is recognized subsequently only in the period that cash is received, provided no principal payments are due and the remaining principal balance outstanding is deemed collectible. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Company defines an impaired loan as a loan for which it is probable, based on current information, that the Company will not collect all amounts due in accordance with the contractual terms of the loan agreement. The Company has defined the population of impaired loans to be all non-accrual loans, loans risk rated 9 (Doubtful) or 10 (Loss), and all loans subject to a troubled debt restructuring ("TDR"). Impaired loans are individually assessed to determine that the loan's carrying value is not in excess of the expected future cash flows, discounted at the loan's original effective interest rate, or the underlying collateral (less estimated costs to sell) if the loan is collateral dependent. Impairments are recognized through a charge to the allowance for loan losses for the amount that the loan's carrying value exceeds the discounted cash flow analysis or estimated fair value of collateral (less estimated costs to sell) if the loan is collateral dependent.

The allowance for loan losses is increased by the 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. Generally, the Company will record a loan charge-off (including a partial charge-off) to reduce a loan to the estimated fair value of the underlying collateral, less costs to sell, if it is determined that it is probable that recovery will come primarily from the sale of such collateral. The provision for loan losses is based on management's evaluation of the adequacy of the allowance which considers, 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. Additionally, 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 the statement of condition date.

The allowance for loan losses consists of the following components:

- 1) Specific allowances are established for impaired loans, generally defined by the Company to be all nonaccrual loans, loans risk rated 8 (Substandard), 9 (Doubtful) or 10 (Loss), and all loans subject to a TDR. The amount of impairment provided for as an allowance is represented by the deficiency, if any, between the present value of expected future cash flows discounted at the original loan's effective interest rate or the underlying collateral value (less estimated costs to sell) if the loan is collateral dependent, and the carrying value of the loan. Impaired loans that have no impairment losses are not considered for general valuation allowances described below.
- 2) General allowances are established for loan losses on a portfolio basis for loans that do not meet the definition of impaired. The portfolio is grouped into similar risk characteristics, primarily by loan segment and internal credit risk ratings. Historical loss experience is applied to each loan group using a three-year lookback period. The loss experience is adjusted, as appropriate, for the environmental factors discussed below. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and market conditions. Actual loan losses may be significantly more than the allowance for loan losses we have established, which could have a material negative effect on the Company's financial results.

In underwriting a loan secured by real property, the Company requires an appraisal (or an automated valuation model) of the property by an independent licensed appraiser approved by the Company's Board of Directors. The appraisal is subject to review by an independent third party hired by the Company. Management reviews and inspects properties before disbursement of funds during the term of a construction loan. Generally, management obtains updated appraisals when a loan is deemed impaired. These appraisals may be more limited than those prepared for the underwriting of a new loan. In addition, when the Company acquires other real estate owned, it generally obtains a current appraisal to substantiate the net carrying value of the asset at the time of foreclosure.

As noted above, the 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.

While management 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. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies 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.

A loan modification is deemed a TDR when two conditions are met: 1) the borrower is experiencing financial difficulty; and 2) a concession is made by the Company that would not otherwise be considered for a borrower or collateral with similar credit risk characteristics. Once an obligation has been restructured, it continues to be considered restructured until paid in full or otherwise settled, sold or charged off. The Company records an impairment charge equal to the difference between the present value of estimated future cash flows under the restructured terms discounted at the original loan's effective interest rate, or the underlying collateral value less costs to sell, if the loan is collateral dependent.

The allowance for loan and lease losses related to purchased credit impaired loans is based on an analysis that is performed each period to estimate the expected cash flows for each of the loan pools. To the extent that the expected cash flows of a loan pool have decreased since the acquisition date, the Company establishes an allowance for loan losses.

Servicing Rights

The Company originates and sells mortgage loans in the secondary market and may retain the servicing of these loans. When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. Servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported within non-interest expense on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Fees earned for servicing loans are reported on the statements of income as loan servicing income when the related mortgage loan payments are collected. The amortization of loan servicing rights is netted against loan servicing fee income. Servicing fees totaled \$ 2.0 million and \$ 1.6 million for the years ended September 30, 2023 and 2022, respectively. Late fees and ancillary fees related to loan servicing are not material.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Foreclosed Assets

Foreclosed assets are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Land is carried at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective assets, which are 39 years for buildings and 2 to 10 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Repairs and maintenance costs are recorded as a component of non-interest expense as incurred.

Leases

Leases are classified as operating or finance leases at the lease commencement date. Currently, the Company does not have any leases classified as financing leases. The Company leases certain locations and equipment. The Company records leases on the Consolidated Statements of Financial Condition in the form of an operating lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for such items as deferred or prepaid rent, lease incentives, any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Company could obtain for similar loans as of the date of commencement or renewal.

The Company does not record leases on the Consolidated Statements of Financial Condition that are classified as short term (12 months or less). Short-term lease payments are recognized in the income statement on a straight-line basis over the lease term. Certain leases may include one or more options to renew. The exercise of lease renewal options is typically at the Company's discretion, and are included in the operating lease liability if it is reasonably certain that the renewal option will be exercised. Certain real estate leases may contain lease and non-lease components, such as common area maintenance charges, real estate taxes, and insurance, which are generally accounted for separately and are not included in the measurement of the lease liability since they are generally able to be segregated. The Company does not sublease any of its leased properties. The Company does not lease properties from any related parties.

Goodwill and Other Intangible Assets

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company has selected August 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the balance sheet.

Other intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Core deposit intangible assets are amortized on an accelerated method over their estimated useful life of 10 years.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Derivatives

The Company records cash flow hedges at the inception of the derivative contract based on the Company's intentions and belief as to likely effectiveness as a hedge. Cash flow hedges represent a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income ("OCI") and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. The changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

Accrued settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Accrued settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods in which the hedged transactions will affect earnings.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Company is in the net receiving position. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. All the contracts to which the Company is a party settle monthly or quarterly. In addition, the Company obtains collateral above certain thresholds of the fair value of its derivatives for each counterparty based upon their credit standing and the Company has netting agreements with the dealers with which it does business.

Debt Issuance Costs

The costs attributable to issuing a debt instrument are reported on the Consolidated Statements of Financial Condition as a deduction from the face amount of the note and amortized as interest expense over the term of the note.

Earnings Per Share ("EPS")

Basic EPS is net income attributable to common shareholders divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted EPS includes the dilutive effect of additional potential common shares issuable under stock options. Potentially dilutive common shares are excluded from the computation of diluted EPS in the periods in which the effect would be anti-dilutive.

Series A Preferred Stock

Holders of the Company's Series A preferred stock will be entitled to receive dividends when, as and if declared by the Company's board of directors, in the same per share amount as the common stockholders. No dividends will be payable on the common stock unless a dividend identical to that paid on the common stock is paid at the same time on the Series A preferred stock. Therefore Series A preferred stock is treated as common stock for EPS calculations. Series A preferred stock has no voting rights. In the event of a dissolution of the Company, Series A preferred stock is entitled to the payment of any declared and unpaid dividend, and then will share in dissolution proceeds, if any, with the shares of common stock.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and unrealized gains and losses on cash flow hedges which are also recognized as separate components of stockholders' equity.

Loss Contingencies

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

Income Taxes

Income tax expense is comprised of two components, current and deferred. The current component reflects taxes payable or refundable for a current period based on applicable tax laws, and the deferred component represents the tax effects of temporary differences between amounts recognized for financial accounting and tax purposes. Deferred tax assets and liabilities reflect the tax effects of such differences that are anticipated to result in taxable or deductible amounts in the future, when the temporary differences reverse. Deferred tax assets are recognized if it is more likely than not they will be realized, and may be reduced by a valuation allowance if it is more likely than not that all or some portion will not be realized.

Tax positions that are uncertain but meet a more likely than not recognition threshold are initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position meets the more likely than not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

The Company recognizes interest expense and penalties on uncertain tax positions as a component of income tax expense and recognizes interest income on refundable income taxes as a component of other non-interest income.

Fair Value Measurements

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 16. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Revenue From Contracts With Customers

Revenue from contracts with customers generally comprises deposit service fees, which are included as a component of other non-interest income in the accompanying Consolidated Statements of Income. The Company identifies the performance obligations included in the contracts with customers, determines the transaction price, allocates the transaction price to the performance obligations, as applicable, and recognizes revenue when performance obligations are satisfied, which is generally at the point services are performed for the customer.

Operating Segments

While management monitors the revenue streams of the Company's various products and services, the identifiable segments are not material and operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all the financial service operations are considered by management to be aggregated in one reportable operating segment.

Stock Compensation Plans

Compensation cost is recognized for stock options, restricted stock awards ("RSAs") and restricted stock units ("RSUs") issued to employees and directors based upon the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used to estimate the fair value for RSAs and RSUs.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company's accounting policy is to recognize forfeitures as they occur.

Supplemental Executive Retirement Plan

In connection with the previous acquisition of Chinatown Federal Savings Bank ("CFSB"), the assets of the CFSB Supplemental Executive Retirement Plan ("CFSB SERP") are included in the Consolidated Statements of Financial Condition. The CFSB SERP provides benefits to two former executives of CFSB and the assets of the CFSB SERP are held in a Rabbi Trust which was fully funded prior to the acquisition of CFSB by the Company. The Company has no further liability or obligation with respect to the CFSB SERP assets other than record keeping. No ongoing valuation of the assets will be obtained and the amount of plan assets will continue to be equal to the liability reflected on the Consolidated Statement of Financial Condition. The SERP liability is included in other liabilities on the Consolidated Statement of Financial Condition.

Adoption of New Accounting Standards

Standards Adopted in Fiscal Year 2023

On October 1, 2022, the Company adopted ASU No. 2016-02 "Leases (Topic 842)" and subsequent amendments thereto, which requires the Company to recognize most leases on the balance sheet. The Company adopted the standard under a modified retrospective approach as of the date of adoption and elected to apply several of the available practical expedients, including: 1) carryover of historical lease determination and lease classification conclusions, 2) carryover of historical initial direct cost balances for existing leases, and 3) accounting for lease and non-lease components in contracts in which the Company is a lessee as a single lease component.

Adoption of the leasing standard resulted in the recognition of operating right-of-use assets, and operating lease liabilities of approximately \$ 10 million as of October 1, 2022. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the Company's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Company's Consolidated Statements of Income. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Company's leasing activities are presented in Note 5.

In December 2022, the Financial Accounting Standards Board (the "FASB") issued ASU 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848" that extends the period of time preparers can utilize the reference rate reform relief guidance. In 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" which provides optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The objective of the guidance in Topic 848 is to provide relief during the temporary transition period, so the FASB included a sunset provision within Topic 848 based on expectations of when LIBOR would cease being published. In 2021, the UK Financial Conduct Authority delayed the intended cessation date of certain tenors of USD LIBOR to June 30, 2023. To ensure relief in Topic 848 covers the period of time during which a significant number of modifications may take place, ASU 2022-06 defers the sunset date of Topic 848 from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. For all entities, the amendments in ASU 2022-06 are effective upon issuance. The Company adopted this ASU on July 1, 2023. The adoption of this standard did not have material effect on the Company's operating results or financial condition.

Standards That Have Not Yet Been Adopted

In June 2016, the FASB issued ASU 2016-13, Financial Instruments — Credit Losses Topic 326: Measurement of Credit Losses on Financial Instruments. The objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses, which is referred to as the current expected credit loss ("CECL") methodology, and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. In November 2019, the FASB adopted changes to delay the effective date of ASU 2016-13 to 2023 for certain entities, including certain Securities and Exchange Commission filers, public business entities, and private companies. As the Company is a smaller reporting company under SEC regulations, the Company is eligible for the delay and will adopt CECL effective October 1, 2023. The Company has reviewed the potential impact to our securities portfolio, which primarily consists of U.S. government sponsored entities, mortgage-backed securities and corporate bonds which have no history of credit loss and have strong credit ratings. The Company does not expect the standard to have a material impact on its financial statements as it relates to the Company's securities portfolio. The Company is also currently evaluating the impact the CECL model will have on our accounting and allowance for loan losses. The Company has engaged a third-party to assist in the development of a CECL model for the calculation of the allowance for loan and lease losses in preparation for the change to the current expected credit loss model. The Company has also engaged a third-party to perform a model validation of its CECL model. The Company is also in the process of updating its policies, procedures and internal controls accordingly. The Company will adopt the ASU using the required modified retrospective method with a one-time cumulative effect adjustment to retained earnings, net of tax, as of the beginning of the reporting period. The Company is in the process of finalizing its CECL calculation for adoption.

In March 2022, the FASB issued ASU 2022-02, which eliminates creditor accounting guidance for troubled debt restructurings ("TDRs") for entities that have adopted ASU 2016-13, Financial Instruments-Credit Losses (Topic 326) and enhances Vintage Disclosures of Gross Writeoffs. This ASU eliminates Subtopic 310-40 guidance for TDRs, and requires creditors to apply the loan refinancing and restructuring guidance in Subtopic 310-20 when evaluating modifications granted to borrowers experiencing financial difficulty to determine whether the modification is considered a continuation of an existing loan or a new loan. The vintage disclosure component of the ASU requires entities to disclose current-period gross writeoffs by origination year for financing receivables and investment leases within the scope of Subtopic 326-20. The Company will adopt ASU 2022-02 concurrently with the adoption of ASU 2016-13.

Note 2. Investment Securities

The following table summarizes the amortized cost and fair value of securities available for sale and securities held to maturity at September 30, 2023 and 2022 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

September 30, 2023				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. GSE residential mortgage-backed securities	\$ 322	\$ —	\$ (180)	\$ 142
Corporate bonds	12,700	—	(1,953)	10,747
Total available for sale securities	<u>\$ 13,022</u>	<u>\$ —</u>	<u>\$ (2,133)</u>	<u>\$ 10,889</u>
 Held to maturity:				
U.S. GSE residential mortgage-backed securities	\$ 1,531	\$ —	\$ (178)	\$ 1,353
U.S. GSE commercial mortgage-backed securities	2,577	—	(170)	2,407
Total held to maturity securities	<u>\$ 4,108</u>	<u>\$ —</u>	<u>\$ (348)</u>	<u>\$ 3,760</u>
September 30, 2022				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. GSE residential mortgage-backed securities	\$ 375	\$ —	\$ (133)	\$ 242
Corporate bonds	12,700	—	(657)	12,043
Total available for sale securities	<u>\$ 13,075</u>	<u>\$ —</u>	<u>\$ (790)</u>	<u>\$ 12,285</u>
 Held to maturity:				
U.S. GSE residential mortgage-backed securities	\$ 1,778	\$ —	\$ (160)	\$ 1,618
U.S. GSE commercial mortgage-backed securities	2,636	—	(159)	2,477
Total held to maturity securities	<u>\$ 4,414</u>	<u>\$ —</u>	<u>\$ (319)</u>	<u>\$ 4,095</u>

The amortized cost and fair value of investment securities at September 30, 2023, by contractual maturity, are shown 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 date are shown separately.

	September 30, 2023	
	Amortized Cost	Fair Value
<i>(in thousands)</i>		
Securities available for sale:		
Five to ten years	\$ 12,700	\$ 10,747
U.S. GSE residential mortgage-backed securities	322	142
Total securities available for sale	<u>13,022</u>	<u>10,889</u>
Securities held to maturity:		
U.S. GSE residential mortgage-backed securities	1,531	1,353
U.S. GSE commercial mortgage-backed securities	2,577	2,407
Total securities held to maturity	<u>4,108</u>	<u>3,760</u>
Total investment securities	<u><u>\$ 17,130</u></u>	<u><u>\$ 14,649</u></u>

At September 30, 2023 and 2022, respectively, investment securities with a carrying amount of \$ 2.0 million and \$ 1.8 million were pledged to secure public deposits and for other purposes required or permitted by law.

There were no holdings of securities of any one issuer in an amount greater than 10% of stockholders' equity at September 30, 2023 and 2022.

The following table presents a summary of realized gains and losses from the sale of investment securities:

	Year Ended September 30,	
	2023	2022
<i>(in thousands)</i>		
Proceeds from sales	\$ —	\$ 2,105
Gross realized gains on sales	\$ —	\$ 105
Gross realized losses on sales	—	—
Total realized gains, net⁽¹⁾	<u><u>\$ —</u></u>	<u><u>\$ 105</u></u>

(1) Amount does not include associated income tax of \$ 0 and \$ 24 for year ended September 30, 2023 and 2022, respectively.

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The following tables summarize gross unrealized and unrecognized losses and fair values of investment securities aggregated by investment category and length of time that the individual securities have been in a continuous unrealized or unrecognized loss position at September 30, 2023 and 2022.

^(in thousands, except number of securities)	September 30, 2023						
	Less than Twelve Months		Twelve Months or Longer		Total		
	Gross Unrealized		Gross Unrealized		Number of Securities	Gross Unrealized	
Available-for-sale:	Fair Value	Losses	Fair Value	Losses	Securities	Fair Value	Losses
U.S. GSE residential mortgage-backed securities							
Corporate bonds	\$ 1,080	\$ (120)	\$ 9,667	\$ (1,833)	7	\$ 10,747	\$ (1,953)
Total available-for-sale	<u>\$ 1,080</u>	<u>\$ (120)</u>	<u>\$ 9,809</u>	<u>\$ (2,013)</u>	<u>12</u>	<u>\$ 10,889</u>	<u>\$ (2,133)</u>
Held-to-maturity:							
U.S. GSE residential mortgage-backed securities	\$ —	\$ —	\$ 1,353	\$ (178)	4	\$ 1,353	\$ (178)
U.S. GSE commercial mortgage-backed securities	—	—	2,407	(170)	1	2,407	(170)
Total held-to-maturity	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,760</u>	<u>\$ (348)</u>	<u>5</u>	<u>\$ 3,760</u>	<u>\$ (348)</u>
September 30, 2022							
^(in thousands, except number of securities)	Less than Twelve Months		Twelve Months or Longer		Total		
	Gross Unrealized		Gross Unrealized		Number of Securities	Gross Unrealized	
	Fair Value	Losses	Fair Value	Losses	Securities	Fair Value	Losses
Available-for-sale:							
U.S. GSE residential mortgage-backed securities	\$ 152	\$ (126)	\$ 90	\$ (7)	6	\$ 242	\$ (133)
Corporate bonds	10,843	(657)	—	—	6	10,843	(657)
Total available-for-sale	<u>\$ 10,995</u>	<u>\$ (783)</u>	<u>\$ 90</u>	<u>\$ (7)</u>	<u>12</u>	<u>\$ 11,085</u>	<u>\$ (790)</u>
Held-to-maturity:							
U.S. GSE residential mortgage-backed securities	\$ 1,618	\$ (160)	\$ —	\$ —	4	\$ 1,618	\$ (160)
U.S. GSE commercial mortgage-backed securities	2,477	(159)	—	—	1	2,477	(159)
Total held-to-maturity	<u>\$ 4,095</u>	<u>\$ (319)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>5</u>	<u>\$ 4,095</u>	<u>\$ (319)</u>

There was no other than temporary impairment loss recognized on any securities at September 30, 2023 or 2022.

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Unrealized losses on corporate bonds have not been recognized into income because the decline in fair value is largely due to changes in interest rates and other market conditions, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2023 and 2022

The mortgage-backed securities held by the Company were issued by U.S government-sponsored entities and agencies. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2023 and 2022.

Note 3. Loans

The following table sets forth the major classifications of loans:

	September 30,	
	2023	2022
(in thousands)		
Real estate:		
Residential real estate	\$ 655,194	\$ 515,316
Multi-family	578,278	574,413
Commercial real estate	536,732	472,511
Commercial and industrial	85,450	45,758
Construction and land development	12,990	12,871
Consumer	336	22
Gross loans	1,868,980	1,620,891
Net deferred loan fees and costs	5,582	2,640
Total loans	1,874,562	1,623,531
Allowance for loan losses	(14,686)	(12,844)
Total loans, net	\$ 1,859,876	\$ 1,610,687

The Company's Small Business Administration ("SBA") Paycheck Protection Program ("PPP"), loans outstanding, included in commercial and industrial ("C&I") loans in the table above, totaled \$ 4.8 million and \$ 10.2 million at September 30, 2023 and 2022, respectively. SBA loans of \$ 1.0 million and \$ 4.9 million included in commercial real estate and C&I loans, respectively, in the table above were sold as of September 30, 2023 and settled in early October 2023.

As of September 30, 2023 and 2022, the Company was servicing approximately \$ 255.7 million and \$ 246.0 million, respectively, of loans for others. In the years ended September 30, 2023 and 2022, the Company sold approximately \$ 51.8 million and \$ 80.3 million, respectively, of loans and recognized gains on the sales of loans of \$ 4.1 million and \$ 5.1 million, respectively.

Purchased Credit Impaired Loans

The Company has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount for those loans at September 30, 2023 and 2022 is as follows:

	September 30,	
	2023	2022
(in thousands)		
Commercial real estate	\$ —	\$ 602
Commercial and industrial	128	629
Total recorded investment	\$ 128	\$ 1,231

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The Company has recorded an allowance for loan losses of \$ 0 and \$ 50 thousand related to these loans at September 30, 2023 and 2022, respectively. During the year ended September 30, 2023, two purchased credit impaired loans acquired in the Savoy Bank acquisition totaling \$ 457 thousand were charged off to the allowance for loan losses.

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

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

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

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

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

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

Loans not meeting the criteria above are considered to be pass rated loans.

The following tables represent loans categorized by class and internally assigned risk grades.

(in thousands)	September 30, 2023				
	Pass	Special Mention	Substandard	Doubtful	Total
Real Estate:					
Residential	\$ 648,012	\$ 756	\$ 8,564	\$ —	\$ 657,332
Multi-family	576,443	—	2,452	—	578,895
Commercial	518,508	9,444	9,362	—	537,314
Commercial and industrial	86,110	540	925	—	87,575
Construction and land development	13,021	—	—	—	13,021
Consumer	425	—	—	—	425
Total	\$ 1,842,519	\$ 10,740	\$ 21,303	\$ —	\$ 1,874,562

(in thousands)	September 30, 2022				
	Pass	Special Mention	Substandard	Doubtful	Total
Real Estate:					
Residential	\$ 512,595	\$ 512	\$ 3,151	\$ —	\$ 516,258
Multi-family	571,128	—	3,933	—	575,061
Commercial	453,321	8,085	11,578	—	472,984
Commercial and industrial	43,314	540	2,431	—	46,285
Construction and land development	10,499	2,408	—	—	12,907
Consumer	36	—	—	—	36
Total	<u>\$ 1,590,893</u>	<u>\$ 11,545</u>	<u>\$ 21,093</u>	<u>\$ —</u>	<u>\$ 1,623,531</u>

Past Due and Nonaccrual Loans

The following table represents the aging of the recorded investment in past due and non-accrual loans as of September 30, 2023 and 2022 by portfolio segment:

(in thousands)	Past Due and Non-Accrual							
	30 - 59 Days		60 - 89 Days		Greater than 89 Days		Total past due and non-accrual	Purchased Credit Impaired ⁽¹⁾
	Past Due	Past Due	Past Due	Past Due	Non-accrual	Non-accrual	Current	Total Loans
September 30, 2023								
Residential real estate	\$ 2,314	\$ 668	\$ —	\$ 5,750	\$ 8,732	\$ —	\$ 648,600	\$ 657,332
Multi-family	—	—	—	2,452	2,452	—	576,443	578,895
Commercial real estate	3,765	858	—	6,119	10,742	—	526,572	537,314
Commercial and industrial	1,444	—	—	612	2,056	128	85,391	87,575
Construction and land development	—	—	—	—	—	—	13,021	13,021
Consumer	—	—	—	—	—	—	425	425
Total	<u>\$ 7,523</u>	<u>\$ 1,526</u>	<u>\$ —</u>	<u>\$ 14,933</u>	<u>\$ 23,982</u>	<u>\$ 128</u>	<u>\$ 1,850,452</u>	<u>\$ 1,874,562</u>

(1) Purchased credit impaired loans at September 30, 2023 were greater than 89 days past due.

(in thousands)	Past Due and Non-Accrual							
	30 - 59 Days		60 - 89 Days		Greater than 89 Days		Total past due and non-accrual	Purchased Credit Impaired ⁽¹⁾
	Past Due	Past Due	Past Due	Past Due	Non-accrual	Non-accrual	Current	Total Loans
September 30, 2022								
Residential real estate	\$ 961	\$ 351	\$ —	\$ 3,151	\$ 4,463	\$ —	\$ 511,795	\$ 516,258
Multi-family	—	—	—	2,348	2,348	—	572,713	575,061
Commercial real estate	936	—	—	5,875	6,811	602	465,571	472,984
Commercial and industrial	539	161	—	907	1,607	629	44,049	46,285
Construction and land development	—	—	—	—	—	—	12,907	12,907
Consumer	—	—	—	—	—	—	36	36
Total	<u>\$ 2,436</u>	<u>\$ 512</u>	<u>\$ —</u>	<u>\$ 12,281</u>	<u>\$ 15,229</u>	<u>\$ 1,231</u>	<u>\$ 1,607,071</u>	<u>\$ 1,623,531</u>

(1) Purchased credit impaired loans at September 30, 2022 were greater than 89 days past due.

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The following table presents information related to impaired loans by portfolio segment as of and for the years ended September 30, 2023 and 2022:

		September 30, 2023				
		Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Interest Income Recognized	Average Recorded Investment
(in thousands)						
With no related allowance recorded:						
Residential real estate		\$ 7,484	\$ 7,477	\$ —	\$ 105	\$ 4,243
Multi-family		3,282	2,452	—	3	2,489
Commercial real estate		6,118	6,119	—	—	5,761
Commercial and industrial		846	612	—	23	431
Total		\$ 17,730	\$ 16,660	\$ —	\$ 131	\$ 12,924

		September 30, 2022				
		Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses	Interest Income Recognized	Average Recorded Investment
(in thousands)						
With no related allowance recorded:						
Real estate:						
Residential		\$ 5,394	\$ 5,392	\$ —	\$ 124	\$ 4,646
Multi-family		2,348	2,348	—	—	1,066
Commercial		5,950	5,875	—	—	3,627
Commercial and industrial		908	907	—	77	389
Total		\$ 14,600	\$ 14,522	\$ —	\$ 201	\$ 9,728

Accrual basis income recognized on impaired loans approximates cash basis income. The recorded investment in loans excludes accrued interest receivable due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

Troubled Debt Restructurings

A restructuring constitutes a troubled debt restructuring when the restructuring includes a concession by the Bank and the borrower is experiencing financial difficulty. In order to determine 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 on any of its debt in the foreseeable future without the modification. The Company has six and seven loans that are classified as a troubled debt restructurings at September 30, 2023 and 2022 with a total recorded investment of \$ 1.7 million and \$ 2.3 million, respectively.

The Company has not allocated any specific reserves for these loans at September 30, 2023 and 2022. The Company had no commitment to lend additional funds to these debtors at September 30, 2023 and 2022.

There are no troubled debt restructurings for which there was a payment default during 2023 and 2022 for loans that were modified during the twelve- month period prior to default. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

There were no new troubled debt restructurings recorded for the year ended September 30, 2023.

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The following table presents loans modified as troubled debt restructurings that occurred during the year ended September 30, 2022:

(Dollars in thousands)	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Residential real estate	2	\$ 1,011	\$ 1,011

There was no increase in the allowance for loan losses and no charge-offs during the year ended September 30, 2022 for the troubled debt restructurings described above.

The following tables represent the activity in the allowance for loan losses by portfolio segment for the years ended September 30, 2023 and 2022:

(in thousands)	Year Ended September 30, 2023						
	Residential Real Estate Loans	Multi-Family Loans	Commercial Real Estate Loans	Commercial and Industrial Loans	Construction and Land Development Loans	Consumer Loans	Total
Allowance for loan losses:							
Beginning Balance	\$ 3,951	\$ 4,308	\$ 3,707	\$ 761	\$ 115	\$ 2	\$ 12,844
Charge-offs	—	(959)	—	(734)	—	—	(1,693)
Recoveries	—	—	—	103	—	—	103
Provision (credit) for loan losses	827	857	(510)	2,238	(11)	31	3,432
Ending Balance	<u>\$ 4,778</u>	<u>\$ 4,206</u>	<u>\$ 3,197</u>	<u>\$ 2,368</u>	<u>\$ 104</u>	<u>\$ 33</u>	<u>\$ 14,686</u>

(in thousands)	Year Ended September 30, 2022						
	Residential Real Estate Loans	Multi-Family Loans	Commercial Real Estate Loans	Commercial and Industrial Loans	Construction and Land Development Loans	Consumer Loans	Total
Allowance for loan losses:							
Beginning Balance	\$ 4,155	\$ 2,433	\$ 1,884	\$ 79	\$ —	\$ 1	\$ 8,552
Charge-offs	—	(66)	—	(92)	—	—	(158)
Recoveries	—	—	—	—	—	—	—
Provision (credit) for loan losses	(204)	1,941	1,823	774	115	1	4,450
Ending Balance	<u>\$ 3,951</u>	<u>\$ 4,308</u>	<u>\$ 3,707</u>	<u>\$ 761</u>	<u>\$ 115</u>	<u>\$ 2</u>	<u>\$ 12,844</u>

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The following table represents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment evaluation method:

(in thousands)	September 30, 2023						
	Residential Real Estate	Multi-Family	Commercial Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
Allowance for loan losses:							
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment	4,778	4,206	3,197	2,368	104	33	14,686
Purchased-credit impaired	—	—	—	—	—	—	—
Total allowance for loan losses	<u>4,778</u>	<u>4,206</u>	<u>3,197</u>	<u>2,368</u>	<u>104</u>	<u>33</u>	<u>14,686</u>
Loans:							
Individually evaluated for impairment	\$ 7,477	\$ 2,452	\$ 6,119	\$ 612	\$ —	\$ —	\$ 16,660
Collectively evaluated for impairment	649,855	576,443	531,195	86,835	13,021	425	1,857,774
Purchased-credit impaired	—	—	—	128	—	—	128
Total loans held for investment	<u>657,332</u>	<u>578,895</u>	<u>537,314</u>	<u>87,575</u>	<u>13,021</u>	<u>425</u>	<u>1,874,562</u>
September 30, 2022							
(in thousands)	Residential Real Estate	Multi-Family	Commercial Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
	Residential Real Estate	Multi-Family	Commercial Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
Allowance for loan losses:							
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment	3,951	4,308	3,707	711	115	2	12,794
Purchased-credit impaired	—	—	—	50	—	—	50
Total allowance for loan losses	<u>3,951</u>	<u>4,308</u>	<u>3,707</u>	<u>761</u>	<u>115</u>	<u>2</u>	<u>12,844</u>
Loans:							
Individually evaluated for impairment	\$ 5,392	\$ 2,348	\$ 5,875	\$ 907	\$ —	\$ —	\$ 14,522
Collectively evaluated for impairment	510,866	572,713	466,507	44,749	12,907	36	1,607,778
Purchased-credit impaired	—	—	602	629	—	—	1,231
Total loans held for investment	<u>516,258</u>	<u>575,061</u>	<u>472,984</u>	<u>46,285</u>	<u>12,907</u>	<u>36</u>	<u>1,623,531</u>

Note 4. Premises and Equipment

The following table details the components of premises and equipment:

(in thousands)	September 30,	
	2023	2022
Land	\$ 1,600	\$ 1,600
Buildings and improvements	10,868	10,862
Leasehold improvements	4,247	2,615
Furniture, fixtures and equipment	7,491	5,978
Construction in progress	—	111
	24,206	21,166
Less: Accumulated depreciation and amortization	(8,149)	(6,704)
Premises and equipment, net	<u>\$ 16,057</u>	<u>\$ 14,462</u>

Depreciation and amortization was \$ 1.8 million and \$ 1.7 million for the years ended September 30, 2023 and 2022, respectively.

Note 5. Leases

Operating Leases

The Company enters into leases in the normal course of business primarily for branch locations, back-office operations locations, business development offices, and equipment. The Company's leases have remaining terms ranging from 2 to 10 years, some of which include renewal or termination options to extend the lease for up to 5 years and some include options to terminate the lease upon notification. The Company's lease agreements do not contain any material residual value guarantees, restrictions or covenants. The Company has no leases that are subject to sublease agreements.

As of September 30, 2023, the Company had lease liabilities totaling \$ 10.9 million and right-of-use assets totaling \$ 10.2 million. As of September 30, 2023, the weighted average remaining lease term was 7 years and the weighted average discount rate was 4.5 %. Total lease costs for the year ended September 30, 2023 was \$ 2.1 million.

Future undiscounted lease payments for operating leases with initial terms of one year or more as of September 30, 2023 are as follows:

(dollars in thousands)		
Years Ending September 30,		
2024		\$ 2,149
2025		2,157
2026		1,988
2027		1,582
2028		1,372
Thereafter		3,494
Total undiscounted lease payments		12,742
Less: imputed interest		1,843
Net lease liability		\$ 10,899

Note 6. Deposits

The following table details the components of deposits:

	September 30,	
	2023	2022
(in thousands)		
Non-interest bearing:		
Demand	\$ 185,731	\$ 219,225
Interest-bearing:		
NOW	503,704	582,457
Money market	461,057	258,424
Savings	54,502	128,927
Time deposits \$250,000 and greater	106,888	87,904
Time deposits less than \$250,000	423,188	251,169
Total interest-bearing	1,549,339	1,308,881
Total deposits	\$ 1,735,070	\$ 1,528,106

The scheduled maturities of time deposits are as follows:

(in thousands)	September 30, 2023
2024	\$ 489,975
2025	31,889
2026	2,930
2027	4,257
2028	776
Thereafter	249
Total	\$ 530,076

Note 7. Borrowings

Federal Home Loan Bank ("FHLB") Advances

At September 30, 2023 and 2022, FHLB term borrowings outstanding were \$ 126.7 million and \$ 37.8 million, respectively, all of which were fixed rate.

At September 30, 2023 and 2022, the Company had FHLB overnight borrowings outstanding of \$ 49.0 million and \$ 55.0 million at the rate of 5.59 % and 3.29 %, respectively.

The following table sets forth the contractual maturities in the next five years of the balance sheet date and weighted average interest rates of the Company's fixed rate FHLB advances (dollars in thousands):

Contractual Maturity	Balance at September 30, 2023	
	Amount	Weighted Average Rate
Overnight	\$ 49,000	5.59 %
2024, rates from 0.39 % to 2.53 %	18,860	0.98 %
2025, rates from 0.56 % to 0.59 %	7,080	0.58 %
2026, rates from 4.29 % to 4.98 %	40,475	4.50 %
2027, rates from 4.13 % to 4.74 %	40,250	4.32 %
2028, rates from 3.99 % to 4.58 %	20,000	4.18 %
Total term advances	126,665	3.65 %
Total FHLB advances	\$ 175,665	4.19 %

Contractual Maturity	Balance at September 30, 2022	
	Amount	Weighted Average Rate
Overnight	\$ 55,000	3.29 %
2023, rates from 0.37 % to 2.96 %	11,860	2.23 %
2024, rates from 0.39 % to 2.53 %	18,860	0.98 %
2025, rates from 0.56 % to 0.59 %	7,080	0.58 %
Total term advances	37,800	1.30 %
Total FHLB advances	\$ 92,800	2.48 %

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by residential and commercial mortgage loans under a blanket lien arrangement at September 30, 2023 and 2022, 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 \$ 291.2 million at September 30, 2023.

Federal Reserve Borrowings

At September 30, 2023 and 2022, the Company's borrowings from the Federal Reserve's Paycheck Protection Program Liquidity Facility ("PPPLF") were \$ 4.1 million and \$ 9.0 million, respectively. The borrowings have a rate of 0.35 % and the maturity date will equal the maturity date of the underlying PPP loan pledged to secure the extension of credit.

Correspondent Bank Borrowings

At September 30, 2023, approximately \$ 92 million in unsecured lines of credit extended by correspondent banks were available to be utilized for short-term funding purposes. No borrowings were outstanding under lines of credit with correspondent banks at September 30, 2023 and 2022.

Note 8. 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 bear interest, payable semi-annually, at the rate of 5.00 % per annum, until October 15, 2025. From and including October 15, 2025 through maturity, the interest rate applicable to the outstanding principal amount due will reset quarterly to the then current three-month Secured Overnight Financing Rate ("SOFR") plus 487.4 basis points. The Company may, at its option, beginning with the interest payment date of October 15, 2025, but not generally prior thereto, and on any scheduled interest payment date thereafter, redeem the Notes, in whole or in part, subject to the receipt of any required regulatory approval. The Notes are not subject to redemption at the option of the holder. The portion of the proceeds of these subordinated notes contributed to the Bank are included as a component of the Bank's Tier 1 capital for regulatory reporting.

At September 30, 2023 and 2022, the unamortized issuance costs of the Notes were \$ 0.4 million and \$ 0.4 million, respectively. For each of the years ended September 30, 2023 and 2022, \$ 0.1 million of 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.

Note 9. Derivatives

Cash Flow Hedges of Interest Rate Risk

As part of its asset liability management, the Company utilizes interest rate swap agreements to help manage its interest rate risk position. The notional amount of the interest rate swap does not represent the amount exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. The Company executed its first interest rate swap agreement in June 2023 and two additional in September 2023.

Interest rate swaps with notional amounts totaling \$ 75.0 million as of September 30, 2023 were designated as cash flow hedges of certain Brokered Certificates of Deposit. The swaps were determined to be fully effective during the periods presented and therefore no amount of ineffectiveness has been included in net income. The aggregate fair value of the swaps is recorded in other assets/(other liabilities) with changes in fair value recorded in other comprehensive income (loss). The amount included in accumulated other comprehensive income (loss) would be reclassified to current earnings should the hedges no longer be considered effective. The Company expects the hedges to remain fully effective during the remaining term of the swaps.

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The following table presents the net gains (losses) recorded in accumulated other comprehensive income and the consolidated statements of income relating to the cash flow derivative instruments for the periods indicated:

	Year Ended September 30,	
	2023	2022
(in thousands)		
Gain recognized in other comprehensive income	\$ 348	\$ —
Gain (loss) recognized in interest expense	104	—

The following table reflects the cash flow hedges included in the consolidated statements of financial condition as of the dates indicated:

	September 30, 2023			September 30, 2022		
	Notional Amount	Fair Value Asset	Fair Value Liability	Notional Amount	Fair Value Asset	Fair Value Liability
(in thousands)						
Included in other assets/(liabilities):						
Interest rate swaps related to Brokered Certificates of Deposit	\$ 75,000	\$ 445	\$ —	\$ —	\$ —	\$ —

Credit-Risk-Related Contingent Features

The Company has minimum collateral posting thresholds with certain of its derivative counterparties. If the termination value of derivatives is a net liability position, the Company is required to post collateral against its obligations under the agreements. However, if the termination value of derivatives is a net asset position, the counterparty is required to post collateral to the Company. At September 30, 2023, the Company received \$ 0.7 million in collateral from its counterparties under the agreements in a net asset position.

Note 10. Goodwill and Other Intangible Assets

FASB ASC 350, *Intangibles - Goodwill and Other*, requires a company to perform an impairment test on goodwill annually, or more frequently if events or changes in circumstance indicate that the asset might be impaired, by comparing the fair value of such goodwill to its recorded or carrying amount. If the carrying amount of goodwill exceeds the fair value, an impairment charge must be recorded in an amount equal to the excess.

The following table presents activity for goodwill and other intangible assets, which consist of core deposit intangibles:

	September 30,	
	2023	2022
(in thousands)		
Goodwill at beginning of period	\$ 19,168	\$ 19,168
Acquisition	—	—
Measurement period adjustment for previous acquisition	—	—
Goodwill at end of period	\$ 19,168	\$ 19,168
Other intangible assets at beginning of period	\$ 399	\$ 480
Acquisition	—	—
Amortization	(72)	(81)
Other intangible assets at end of period	\$ 327	\$ 399

The Company has identified the reporting unit for purposes of testing goodwill for impairment, the Bank, which is a component of the operating segment.

In assessing impairment, the Company has the option to perform a qualitative analysis to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If, after assessing the totality of such events or circumstances, the Company determines it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then the Company would not be required to perform a quantitative impairment test.

Due to recent declines in bank stock prices and events impacting the banking industry, the Company performed a quantitative impairment analysis at August 31, 2023. The annual quantitative assessment of goodwill for the reporting unit was performed utilizing a discounted cash flow analysis ("income approach") and estimates of selected market information ("market approaches"). The income approach measures the fair value of an interest in a business by discounting expected future cash flows to present value. The market approaches take into consideration fair values of comparable companies operating in similar lines of business that are potentially subject to similar economic and environmental factors and could be considered reasonable investment alternatives. The result of the income approach was weighted 50% and the results of the market approaches comprised the remaining 50% in determining the fair value of the reporting unit. The results of the annual quantitative impairment analysis indicated that the fair value exceeded the carrying value of the reporting unit.

No impairment charges were required to be recorded in the years ended September 30, 2023 and 2022.

The following table presents the gross carrying amount and accumulated amortization for the Company's other intangible assets, which consist of core deposit intangibles:

	September 30,	
	2023	2022
(in thousands)		
Gross carrying amount	\$ 517	\$ 517
Accumulated amortization	(190)	(118)
Net book value	\$ 327	\$ 399

At September 30, 2023, the weighted-average remaining life of the Company's other intangible assets was 3.73 years.

The following table presents estimated future amortization expense for other intangible assets:

(in thousands)	
2024	\$ 63
2025	55
2026	49
2027	43
2028	38
Thereafter	79
Total	\$ 327

Note 11. Income Taxes

The following table details the components of income tax expense:

	Year Ended September 30,	
	2023	2022
<i>(in thousands)</i>		
Current:		
Federal	\$ 2,997	\$ 5,081
State	830	540
Total current	<u>3,827</u>	<u>5,621</u>
Deferred:		
Federal	1,135	1,055
State	260	735
Total deferred	<u>1,395</u>	<u>1,790</u>
Change in valuation allowance	<u>(199)</u>	<u>(472)</u>
Total income tax expense	<u>\$ 5,023</u>	<u>\$ 6,939</u>

The following table reflects a reconciliation of reported income tax expense to the amount that would result from applying the federal statutory rate of 21 %:

	Year Ended September 30,			
	2023		2022	
	Amount	Percentage of Pre-tax Earnings	Amount	Percentage of Pre-tax Earnings
<i>(in thousands)</i>				
Federal income tax expense computed by applying the statutory rate to income before income taxes	\$ 4,239	21.0 %	\$ 6,404	21.0 %
State taxes, net of federal benefit	705	3.5 %	1,156	3.8 %
Salaries deduction limitation	31	0.2 %	—	— %
Non-deductible expenses	2	— %	(1)	— %
Other	245	1.2 %	(148)	(0.5)%
Change in valuation allowance	<u>(199)</u>	<u>(1.0)%</u>	<u>(472)</u>	<u>(1.5)%</u>
Income tax expense	<u>\$ 5,023</u>	<u>24.9 %</u>	<u>\$ 6,939</u>	<u>22.8 %</u>

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The following table summarizes the composition of deferred tax assets and liabilities:

(in thousands)	September 30,	
	2023	2022
Deferred tax assets:		
Allowance for loan losses and other contingent liabilities	\$ 4,544	\$ 4,014
Operating lease liability	3,334	—
Net operating loss carryforwards	2,758	2,415
Compensation and related benefit obligations	1,278	1,323
Accrued SERP	1,081	1,062
Unrealized loss on securities AFS	463	170
Purchase accounting fair value adjustments	379	727
Organizational costs	12	63
Total deferred tax assets	13,849	9,774
Deferred tax liabilities:		
Deferred fees and costs	(4,383)	(2,718)
Operating lease asset	(3,118)	—
Depreciation	(1,354)	(951)
Unrealized gain on derivatives	(97)	—
Mortgage servicing rights	(14)	(15)
Other	(149)	(158)
Total deferred tax liabilities	(9,115)	(3,842)
Total	4,734	5,932
Valuation allowance	(3,225)	(3,424)
Net deferred tax asset	\$ 1,509	\$ 2,508

The Company does not have net operating loss carryforwards available for federal income tax purposes as of September 30, 2023. The Company has net operating loss carryforwards available for state income tax purposes of approximately \$ 35.1 million. For state purposes, \$ 12.4 million expires in 2025 with the remaining balance of \$ 22.7 million will begin to expire in 2036. The Company has net operating loss carryforwards for city income tax purposes of approximately \$ 8.8 million, of which \$ 0.5 million will expire in 2025 and the remaining balance of \$ 8.3 million will begin to expire in 2037.

The Company has recorded a federal deferred tax asset as, based upon an analysis of the evidence, it is more likely than not that such federal deferred tax asset will be recoverable. In March of 2014, New York State adopted legislation that benefited small community banks with less than \$8 billion in average assets. Specifically, this legislation provides for a state and city subtraction modification for which the Company qualifies. This subtraction modification causes the Company to consistently generate net operating losses for New York State and New York City purposes and it will continue to do so for the foreseeable future. Accordingly, the Company has recorded a valuation allowance against the New York State and New York City portions of the deferred tax asset, as it is not more likely than not that such deferred tax assets will be recoverable. Management reassesses the need for a valuation allowance on an annual basis, or more frequently if warranted.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the states of Connecticut, New Jersey and New York and the city of New York. The Company is no longer subject to examination by taxing authorities for years before 2019. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination. The Company has no unrecorded tax benefits, and the Company does not expect the total amount of unrecognized income tax benefits to significantly increase in the next twelve months.

Note 12. Equity Compensation Plans

The Company's 2021 and 2018 Equity Compensation Plans (the "2021 Plan" and the "2018 Plan", respectively), provide for the grant of stock-based compensation awards to members of management, including employees and management officials, and members of the Board. Under the 2021 Plan, a total of 427,500 shares of the Company's common stock or equivalents were approved for issuance, of which 276,127 shares remain available for issuance at September 30, 2023. Of the total 346,000 shares of common stock approved for issuance under the 2018 Plan, 21,784 shares remain available for issuance at September 30, 2023.

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.

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

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term
Outstanding, October 1, 2022	227,406	\$ 9.50	\$ 2,298	2.45 years
Granted	—	—	—	—
Exercised	(10,614)	10.00	—	—
Forfeited	(18,459)	16.25	—	—
Outstanding, September 30, 2023 ⁽¹⁾	<u>198,333</u>	<u>\$ 8.85</u>	<u>\$ 1,864</u>	<u>1.19 years</u>

(1) All outstanding options are fully vested and exercisable

The following table presents information related to the stock option plan for the periods presented:

	Year Ended September 30,	
	2023	2022
(in thousands)		
Intrinsic value of options exercised	\$ 103	\$ —
Cash received from option exercises	106	—
Tax benefit from option exercises	36	—

There was no compensation expense attributable to stock options for the years ended September 30, 2023 and 2022, respectively.

Restricted Stock Awards

During the year ended September 30, 2023, restricted stock awards of 50,580 shares were granted with a five-year vesting period. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at issue date.

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A summary of restricted stock awards activity follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested, October 1, 2022	284,263	\$ 19.78
Granted	50,580	19.73
Vested	(72,160)	19.96
Forfeited	(17,679)	19.86
Unvested, September 30, 2023	<u>245,004</u>	<u>\$ 19.71</u>

Compensation expense attributable to restricted stock awards was \$ 1.7 million and \$ 1.5 million for the years ended September 30, 2023 and 2022, respectively. As of September 30, 2023, there was \$ 3.6 million of total unrealized compensation cost related to unvested restricted stock, expected to be recognized over a weighted-average term of 3.41 years. The total fair value of shares vested during the years ended September 30, 2023 and 2022 was \$ 1.4 million and \$ 0.9 million, respectively.

Restricted Stock Units

Long Term Incentive Plan

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

The following table summarizes the unvested performance-based RSU activity for the year ended September 30, 2023:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested, October 1, 2022	47,676	\$ 19.73
Granted	—	—
Vested	—	—
Forfeited	(9,405)	19.73
Unvested, September 30, 2023	<u>38,271</u>	<u>\$ 19.73</u>

No RSUs were granted during the year ended September 30, 2023. Performance-based RSUs granted in 2022 cliff vest after three years and are subject to the achievement of the Company's pre-defined performance goals for the three-year period ending December 31, 2024.

Compensation expense attributable to RSUs was \$ 0.2 million for the years ended September 30, 2023 and 2022. As of September 30, 2023, there was \$ 0.3 million of total unrecognized compensation cost related to non-vested RSUs. The cost is expected to be recognized over a weighted-average period of 1.39 years.

Note 13. Related Party Transactions

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, their immediate families and their affiliated companies (commonly referred to as related parties). Loans to related parties during 2023 were as follows:

(in thousands)		
Beginning balance, October 1, 2022		\$ 2,736
New loans		1,000
Repayments		(884)
Ending balance, September 30, 2023		\$ 2,852

Deposits from principal officers, directors and their affiliates at September 30, 2023 and 2022 were \$ 28.5 million and \$ 12.8 million, respectively.

Note 14. Loan Commitments and Other Related Activities

Some financial instruments such as loan commitments, credit lines, letters of credit, and overdraft protection are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk of credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance sheet risk were as follows:

(in thousands)	September 30,			
	2023		2022	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Standby letters of credit	\$ 488	\$ —	\$ 817	\$ —
Loan commitments outstanding	—	42,973	9,992	17,184
Unused lines of credit	4,561	72,078	—	45,920

Commitments to make loans are generally made for periods of 180 days or less. The fixed rate loan commitments have interest rates ranging from 4.75 % to 7.50 % and maturities ranging from 10 years to 30 years.

Note 15. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate regulatory action. The effects of accumulated other comprehensive income or loss is not included in computing regulatory capital. Management believes as of September 30, 2023, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized or worse, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2023 and 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

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

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

			Minimum Capital Adequacy Requirement		Minimum Capital Adequacy Requirement with Capital Conservation Buffer		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Actual Capital Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2023								
Total capital to risk-weighted assets	\$205,786	14.60 %	\$ 112,755	8.00 %	\$ 147,991	10.50 %	\$ 140,944	10.00 %
Tier 1 capital to risk-weighted assets	190,928	13.55 %	84,566	6.00 %	119,802	8.50 %	112,755	8.00 %
Common equity tier 1 capital to risk-weighted assets	190,928	13.55 %	63,425	4.50 %	98,661	7.00 %	91,613	6.50 %
Tier 1 capital to average total assets	190,928	9.16 %	83,338	4.00 %	N/A	N/A	104,173	5.00 %
September 30, 2022								
Total capital to risk-weighted assets	\$191,355	16.32 %	\$ 93,796	8.00 %	\$ 123,107	10.50 %	\$ 117,245	10.00 %
Tier 1 capital to risk-weighted assets	178,340	15.21 %	70,347	6.00 %	99,658	8.50 %	93,796	8.00 %
Common equity tier 1 capital to risk-weighted assets	178,340	15.21 %	52,760	4.50 %	82,071	7.00 %	76,209	6.50 %
Tier 1 capital to average total assets	178,340	10.90 %	65,429	4.00 %	N/A	N/A	81,786	5.00 %

Dividend restrictions - The Company's principal source of funds for dividend and debt service payments is dividends received from the Bank. During 2023 the Bank paid \$ 5.3 million in cash dividends to the Holding Company. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. As of September 30, 2023, the Bank had \$ 53.0 million of retained net income available for dividends to the Company, without obtaining regulatory approval.

Note 16. Fair Value Measurements

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

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

- Level 1: Valuation is based upon unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2: Fair value is calculated using significant inputs other than quoted market prices that are directly or indirectly observable for the asset or liability. The valuation may rely on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, rate volatility, prepayment speeds, credit ratings) or inputs that are derived principally or corroborated by market data, by correlation, or other means.
- Level 3: Inputs for determining the fair value of the respective assets or liabilities are not observable. Level 3 valuations are reliant upon pricing models and techniques that require significant management judgment or estimation.

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

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

Assets Measured at Fair Value on a Recurring Basis

The following table summarizes assets measured at fair value on a recurring basis:

(in thousands)	September 30, 2023			
	Fair Value Measurements Using:			
	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Available-for-sale securities:				
U.S. GSE residential mortgage-backed securities	\$ 142	\$ —	\$ 142	\$ —
Corporate bonds	10,747	—	10,747	—
Loan servicing rights	4,479	—	—	4,479
Derivatives	445	—	445	—
Total	\$ 15,813	\$ —	\$ 11,334	\$ 4,479

(In thousands)	September 30, 2022			
	Fair Value Measurements Using:			
	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Available-for-sale securities:				
U.S. GSE residential mortgage-backed securities	\$ 242	\$ —	\$ 242	\$ —
Corporate bonds	12,043	—	12,043	—
Loan servicing rights	4,353	—	—	4,353
Total	\$ 16,638	\$ —	\$ 12,285	\$ 4,353

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

Derivatives represent interest rate swaps for which the estimated fair values are based on valuation models using observable market data as of the measurement date resulting in a Level 2 classification.

The fair value of mortgage servicing rights are based on a valuation model that calculates the present value of estimated future servicing income. The valuation model utilizes interest rate, prepayment speed, and default rate assumptions that market participants would use in estimating future net servicing income. Fair value of loan servicing rights related to residential mortgage loans at September 30, 2023 was determined based on discounted expected future cash flows using discount rates ranging from 12.9 % to 15.4 %, prepayment speed of 26.25 % and a weighted average life ranging from 1.2 to 2.8 years. Fair value at September 30, 2022 for mortgage servicing rights was determined based on discounted expected future cash flows using discount rates ranging from 12.0 % to 14.5 %, prepayment speed of 26.25 % and a weighted average life ranging from 1.2 to 3.0 years.

The fair value of loan servicing rights for SBA loans at September 30, 2023 was determined based on discounted expected future cash flows using discount rates ranging from 10.09 % to 41.62 %, prepayment speeds ranging from 8.29 % to 29.26 % and a weighted average life ranging from 1.17 to 5.81 years. The fair value of loan servicing rights for SBA loans at September 30, 2022 was determined based on discounted expected future cash flows using discount rates ranging from 5.78 % to 26.72 %, prepayment speeds ranging from 8.42 % to 24.00 % and a weighted average life ranging from 1.47 to 5.79 years.

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

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

(in thousands)	Year Ended September 30,	
	2023	2022
Balance at beginning of period	\$ 4,353	\$ 3,690
Additions	893	1,158
Adjustment to fair value	(767)	(495)
Balance at end of period	\$ 4,479	\$ 4,353

Assets Measured at Fair Value on a Non-recurring Basis

There were no assets or liabilities measured at fair value on a non-recurring basis as of September 30, 2023 and 2022 and for the years then ended.

Financial Instruments Not Measured at Fair Value

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments not carried at fair value at September 30, 2023 and 2022:

(In thousands)	September 30, 2023				
	Fair Value Measurements Using:				
	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial assets:					
Cash and cash equivalents	\$ 192,624	\$ 192,624	\$ —	\$ —	\$ 192,624
Securities held-to-maturity	4,108	—	3,760	—	3,760
Loans, net	1,859,876	—	—	1,798,916	1,798,916
Accrued interest receivable	10,636	—	729	9,907	10,636
Financial liabilities:					
Time deposits	530,076	—	525,198	—	525,198
Demand and other deposits	1,204,994	1,204,994	—	—	1,204,994
Borrowings	179,849	—	176,693	—	176,693
Subordinated debentures	24,621	—	26,355	—	26,355
Accrued interest payable	1,821	53	1,768	—	1,821
September 30, 2022					
(In thousands)	Fair Value Measurements Using:				
	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial assets:					
Cash and cash equivalents	\$ 149,947	\$ 149,947	\$ —	\$ —	\$ 149,947
Securities held-to-maturity	4,414	—	4,095	—	4,095
Loans, net	1,610,687	—	—	1,549,171	1,549,171
Accrued interest receivable	8,546	—	219	8,327	8,546
Financial liabilities:					
Time deposits	339,073	—	328,964	—	328,964
Demand and other deposits	1,189,033	1,189,033	—	—	1,189,033
Borrowings	101,752	—	99,597	—	99,597
Subordinated debentures	24,568	—	24,199	—	24,199
Accrued interest payable	915	1	914	—	915

Note 17. Parent Company Only Condensed Financial Information

Condensed parent company only financial statements of Hanover Bancorp, Inc. are as follows:

Condensed Balance Sheets

	September 30,	
	2023	2022
(in thousands)		
ASSETS		
Cash and due from banks	\$ 729	\$ 304
Investment in Bank	209,554	197,290
Other assets	845	141
Total Assets	\$ 211,128	\$ 197,735
LIABILITIES AND STOCKHOLDERS' EQUITY		
Subordinated debentures	\$ 24,621	\$ 24,568
Accrued interest payable	573	573
Accrued expenses and other liabilities	27	10
Total Liabilities	25,221	25,151
Total Stockholders' Equity	185,907	172,584
Total Liabilities and Stockholders' Equity	\$ 211,128	\$ 197,735

Condensed Statements of Income

	Year Ended September 30,	
	2023	2022
(in thousands)		
Dividends received from Bank	\$ 5,300	\$ 400
Interest expense	(1,304)	(1,331)
Non-interest expense	(159)	(18)
Income (loss) before income taxes and equity in undistributed earnings of the Bank	3,837	(949)
Income tax benefit	232	253
Equity in undistributed earnings of the Bank	11,095	24,252
Net income	\$ 15,164	\$ 23,556

Condensed Statements of Cash Flows

	Year Ended September 30,	
	2023	2022
(in thousands)		
Cash flows from operating activities:		
Net income	\$ 15,164	\$ 23,556
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of the Bank	(11,095)	(24,252)
Amortization of debt issuance costs	53	55
(Increase) decrease in other assets	(704)	909
Decrease in accrued interest payable	—	(3)
Decrease in other liabilities	—	(191)
Net cash provided by operating activities	<u>3,418</u>	<u>74</u>
Cash flows from investing activities:		
Investment in Bank	—	(26,000)
Net cash used in investing activities	<u>—</u>	<u>(26,000)</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	106	—
Net proceeds from issuance of common stock	—	27,729
Payments related to tax withholding for equity awards	(170)	(28)
Cash dividends paid	(2,929)	(2,042)
Net cash (used in) provided by financing activities	<u>(2,993)</u>	<u>25,659</u>
Net increase (decrease) in cash and due from banks	425	(267)
Cash and due from banks, beginning of period	304	571
Cash and due from banks, end of period	<u>\$ 729</u>	<u>\$ 304</u>

Note 18. Earnings Per Share

The two-class method is used in the calculation of basic and diluted earnings per share ("EPS"). Under the two-class method, earnings available to common shareholders for the period are allocated between common shareholders and participating securities according to dividends declared and participation rights in undistributed earnings. The restricted stock awards granted by the Company contain non-forfeitable rights to dividends and therefore are considered participating securities.

The Company's basic and diluted EPS calculations are presented in the following table:

(in thousands, except share and per share data)	Year Ended September 30,	
	2023	2022
Net income available to common stockholders	\$ 15,164	\$ 23,556
Less: Dividends paid and earnings allocated to participating securities	(561)	(903)
Income attributable to common stock	<u>\$ 14,603</u>	<u>\$ 22,653</u>
Weighted average common shares outstanding, including participating securities	7,319,040	6,302,328
Less: Weighted average participating securities	(278,211)	(237,259)
Weighted average common shares outstanding	<u>7,040,829</u>	<u>6,065,069</u>
Basic EPS	\$ 2.07	\$ 3.74
Income attributable to common stock	\$ 14,603	\$ 22,653
Weighted average common shares outstanding	7,040,829	6,065,069
Weighted average common equivalent shares outstanding	80,118	92,977
Weighted average common and equivalent shares outstanding	<u>7,120,947</u>	<u>6,158,046</u>
Diluted EPS	\$ 2.05	\$ 3.68

There were no stock options that were antidilutive at September 30, 2023 and 2022.

Note 19. Accumulated Other Comprehensive (Loss) Income

The following presents changes in accumulated other comprehensive (loss) income by component, net of tax, for the years ended September 30, 2023 and 2022:

(in thousands)	Unrealized Gains and Losses on Available-for-Sale Debt Securities	Gains and Losses on Cash Flow Hedges	Total
	\$	\$	\$
Balance at October 1, 2022	\$ (620)	\$ —	\$ (620)
Other comprehensive (loss) income, before reclassification	(1,050)	348	(702)
Amount reclassified from accumulated other comprehensive loss	—	—	—
Net current period other comprehensive (loss) income	(1,050)	348	(702)
Balance at September 30, 2023	<u>\$ (1,670)</u>	<u>\$ 348</u>	<u>\$ (1,322)</u>

(in thousands)	Unrealized Gains and Losses on Available-for-Sale Debt Securities	Gains and Losses on Cash Flow Hedges	Total
	\$	\$	\$
Balance at October 1, 2021	\$ 256	\$ —	\$ 256
Other comprehensive loss, before reclassification	(795)	—	(795)
Amount reclassified from accumulated other comprehensive income	(81)	—	(81)
Net current period other comprehensive loss	(876)	—	(876)
Balance at September 30, 2022	<u>\$ (620)</u>	<u>\$ —</u>	<u>\$ (620)</u>

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The following represents the reclassification out of accumulated other comprehensive (loss) income for the years ended September 30, 2023 and 2022:

<i>(in thousands)</i>	Year Ended September 30,		Affected Line Item in Consolidated Statements of Income
	2023	2022	
Unrealized gains and losses on available-for-sale securities			
Realized gains on securities available-for-sale	\$ —	\$ 105	Gain on sale of investment securities available-for-sale, net
Tax effect	<u>—</u>	24	Income tax expense
Net of tax	<u>\$ —</u>	<u>\$ 81</u>	
Gains and losses on cash flow hedges			
Interest rate contracts	\$ —	\$ —	Interest income (expense)
Tax effect	<u>—</u>	<u>—</u>	Income tax (expense) or benefit
Net of tax	<u>\$ —</u>	<u>\$ —</u>	
Total reclassifications for the period, net of tax	<u>\$ —</u>	<u>\$ 81</u>	

Note 20. Revenue from Contracts with Customers

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Company's sources of non-interest income. Items outside the scope of ASC 606 are noted as such.

<i>(in thousands)</i>	Year Ended September 30,	
	2023	2022
Loan servicing and fee income ⁽¹⁾	\$ 2,709	\$ 2,885
Service charges on deposit accounts	275	232
Net gain on sale of loans held-for-sale ⁽¹⁾	4,093	5,143
Net gain on sale of investments available-for-sale ⁽¹⁾	<u>—</u>	105
Other income ⁽²⁾	1,771	507
Total non-interest income	<u>\$ 8,848</u>	<u>\$ 8,872</u>

(1) Not included within the scope of ASC 606

(2) Other income includes merchant card processing fees of \$ 47 and \$ 33 for the year ended September 30, 2023 and 2022, respectively, which are included in the scope of ASC 606 and loan related fee income, recoveries on acquired loans and miscellaneous income totaling \$ 1,724 and \$ 474 for 2023 and 2022, respectively, which are not included in the scope of ASC 606. The Company settled ongoing litigation and received a settlement payment of \$ 975 in 2023.

A description of the Company's revenue streams included in the scope of ASC 606 is as follows:

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Service-based fees, which include services such as ATM use fees, stop payment charges, wire transfers, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills its performance obligation to the customer. Account maintenance fees, which primarily relate to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies its performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on customer accounts are withdrawn from the customer's account balance.

Note 21. Subsequent Events

On October 26, 2023 the Company's Board of Directors declared a quarterly cash dividend of \$ 0.10 per share on the Company's common and preferred stock. The dividend was paid on November 15, 2023 to shareholders of record on November 8, 2023.

On October 25, 2023, the Company's Board of Directors approved a change in the Company's fiscal year end from September 30 to December 31. Accordingly, the Company will report a transition quarter that runs from October 1, 2023 through December 31, 2023 (Stub Period). The Company's next full fiscal year will be the calendar year January 1, 2024 through December 31, 2024.

On October 5, 2023, the Company announced that its Board of Directors approved a Share Repurchase Program. Under this program, the Company may purchase up to 366,050 shares, or approximately 5 % of its outstanding common stock, in the open market or in private transactions. The Company has not made any repurchases of its common stock through the issuance date of this report.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted pursuant to the Securities Exchange Act of 1934, as amended ("Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that information required to be disclosed by the Company in its Exchange Act reports is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of its management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e) as of September 30, 2023. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of such date.

(b) Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) of the Exchange Act. The Company's internal control system is a process designed to provide reasonable assurance to the Company's management, Board of Directors and shareholders regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As part of the Company's program to comply with Section 404 of the Sarbanes-Oxley Act of 2002, our management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2023 (the "Assessment"). In making this Assessment, management used the control criteria framework of the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission published in its report entitled Internal Control - Integrated Framework (2013). Management's Assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its Assessment with the Audit Committee.

Based on this Assessment, management determined that, as of September 30, 2023, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

There has been no change in the Company's internal control over financial reporting during the quarter ended September 30, 2023, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

This Annual Report does not include an attestation report of the independent registered public accounting firm because Hanover Bancorp, Inc. is an emerging growth company.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Management

Pursuant to New York law and our Certificate of Incorporation, oversight and supervision is vested in our Board of Directors. Our Certificate of Incorporation provides that number of Directors shall not be less than one (1) and permits the exact number to be determined from time to time by the Board of Directors. Our Bylaws provide for a Board of Directors divided into three (3) classes.

The following table sets forth the names, ages, principal occupations, and business experience during the past five years for all of our directors. Our directors also serve as the directors of Hanover Bank.

Name and Position with the Company	Age	Principal Occupation for Past Five Years	Term of Office Since-Expires(1)
Michael P. Puorro, Chairman and CEO	64	Chairman and CEO of the Company and the Bank Owner of Shoe Wholesale/Retail Company and Real Estate Investor	2012 - 2025
Varkey Abraham, Director	70	Founder and CEO of TREO Brands and President of Golden Properties Group LLC	2008 - 2024
Robert Golden, Director	60	Attorney and Certified Public Accountant, Retired Partner of the law firm of Jones Day and KPMG, LLP	2014 - 2024
Ahron H. Haspel, Director	80	Physician, Former President of Ear Nose and Throat Associates of New York, P.C.	2012 - 2024
Michael Katz, Director	85	Founder, Owner and President of Lexin Capital, a real estate investment, redevelopment and management company, Former Chairman of Savoy Bank	2012 - 2026
Metin Negrin, Director	57	Former President of Polimeni International and President of Skyline Management; Founding Partner of Realty Connect USA, LLC	2021 - 2025
Philip Okun, Director	69	Managing Partner of Durel Associates, AGEM LLC, and Riviera Development Corporation, real estate investment and management companies in New Jersey, Founder and Former Director of Savoy Bank	2008 - 2026
Elena Sisti, Director	68	Architect, Founder and President of JRS Architect, P.C.	2021 - 2025
John R. Sorrenti, Director	73		2012 - 2026

(1) Includes service on Hanover Bank's Board of Directors prior to the formation of Hanover Bancorp, Inc.

Executive Officers

The following table sets forth the names, ages, positions and term of office of each of the executive officers of Hanover.

Name	Age	Position with Hanover	Term of Office Since-Expires(1)
McClelland Wilcox	52	President	2021
Lance P. Burke	44	Executive Vice President, Chief Financial Officer	2021
Kevin Corbett	64	Executive Vice President, Chief Credit Officer	2020
Lisa A. Dilorio	60	First Senior Vice President, Chief Accounting Officer	2016

(1) Executive officers serve at the pleasure of the Board, and do not have set terms of office.

There are no arrangements between any of our directors and any other individuals pursuant to which any director was selected as a director. No director is related to any other director or executive officer by blood, marriage, or adoption. No director is also a director of a company having a class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, or subject to the requirements of Section 15(d) of such Act or any company registered as an investment company under the Investment Company Act of 1940, except for Ahron Haspel, who serves as a Trustee of the North European Oil Royalty Trust.

The Business Background of Our Directors and Executive Officers

The following is a brief discussion of the business and banking background and experience of our directors and executive officers for at least the past five years. With respect to directors, the biographies also contain information regarding the person's experience, qualifications, attributes or skills that led to the conclusion that the person should serve as a director. Unless otherwise indicated, directors and senior officers have held their positions for the past five years. No director has any family relationship, as defined in Item 401 of Regulation S-K, with any other director or with any of our executive officers.

Michael P. Puorro, Chairman and Chief Executive Officer — Mr. Puorro has over thirty-five years of banking experience, with over thirty years as a senior executive. Prior to joining Hanover, Mr. Puorro was the Co-Chairman and President of Madison National Bancorp, Inc. and Madison National Bank where he was a leading member of Madison's entrepreneurial founding group and executive management team. Prior to this, Mr. Puorro served as Executive Vice President and Chief Financial Officer of New York Community Bancorp, Inc. and as Executive Vice President and Chief Financial Officer of Roslyn Bancorp, Inc. Mr. Puorro is a former Board member of the New York Bankers Association.

Mr. Puorro earned a Bachelor of Business Administration degree in Accounting from Dowling College's School of Professional Accountancy, and in addition to being a Certified Public Accountant, is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants. In May 2012, Mr. Puorro received an Honorary Doctorate Degree in Human Letters from Dowling College. Through his business contacts in our market, Mr. Puorro has been able to attract customers and investors, and his financial expertise is of great value to the Board. In addition, as our senior executive officer, his insight on our operations is invaluable to the Board.

Robert Golden, Lead Independent Director — Mr. Golden's family is the legacy co-founder of the Snapple Beverage Corporation which produced one of the nation's leading flavored beverages. By the time the Company was purchased by the Quaker Oats Company in 1994, it produced annual sales revenue of \$700 million. Today, Mr. Golden is the Founder and CEO of TREO Brands, an innovative beverage company focused on plant-based hydration. Mr. Golden is also President of Golden Properties Group LLC which is an active investor in commercial office buildings and retail and residential properties in New York City and the surrounding areas, as well as throughout the Midwest. Prior to forming Golden Properties Group LLC, Mr. Golden was the owner of one of the largest cleaning and security companies in New York (Golden Mark). His company serviced mainly large office buildings and financial institutions. Mr. Golden is a contributor to many charitable organizations and is currently on the Nassau County Police Department Foundation Advisory Board. Mr. Golden attended the University of Bridgeport. Through his business activities, Mr. Golden has a strong sense of business conditions in our market that is invaluable to the Board.

Varkey Abraham, Director — Mr. Abraham is a founding director of Hanover Community Bank. Mr. Abraham is the principal owner and Chief Executive Officer of the Eric's Shoe Stores chain in the United States, Abraham and Sons Leather Company and VA Smith Shoe Company International. Further, Mr. Abraham is a real estate investor, serves as Chairman of the Pravasi television channel, and is the President of the Queens Village, New York, Chamber of Commerce. Mr. Abraham is the former two-term President of the Indo-American Malayalee Chamber of Commerce and also served as a Sabha Council Member for Saint Thomas Mar Thoma Church. Mr. Abraham brings to the Board significant management expertise and leadership skills, as well as insight into the experience of locally owned businesses.

Ahron H. Haspel, Director — Mr. Haspel is an active investor and an attorney and CPA specializing in the tax area. He retired from Jones Day in January 2011 where he served as a partner specializing in the corporate tax and mergers and acquisitions area. Prior to joining Jones Day in February 2005, Mr. Haspel was a partner at KPMG and served on its Board of Directors and in a number of leadership positions. While on the Board of KPMG, Mr. Haspel served on the firm's Audit, Compensation and Strategic Planning Committees. Mr. Haspel serves as a member of the Board and Trustee of North European Oil Royalty Trust (NRT) a New York Stock Exchange listed company and serves as Chairman of NRT's Audit and Compensation Committees. Mr. Haspel is a qualified audit committee financial expert for SEC purposes. He earned a Bachelor of Science degree in Accounting from Long Island University, his Juris Doctor from Brooklyn Law School and his LLM degree in Taxation from New York University School of Law. He is a Certified Public Accountant and a member of the New York Bar. He is also a member of the Board of a number of philanthropic organizations. Mr. Haspel's extensive legal and accounting background and understanding of finance, and experience with public companies, proves invaluable to the Board.

Michael Katz, Director — Dr. Katz is an active financial institution investor and highly experienced and accomplished board-certified otolaryngologist. Dr. Katz has been in practice with Ear, Nose, and Throat Associates of New York, P.C. since 1969. For over 35 years, he served as President of the group practice which is one of the largest multi-specialty practices of its kind with offices located throughout Queens, Nassau, Suffolk, and the Bronx. While serving as President, Dr. Katz oversaw a growing practice of over 200 employees in multiple locations including over 30 physicians and physician assistants/nurse practitioners, specializing in otolaryngology, allergy & immunology, facial plastic and reconstructive surgery, audiology, sleep disorders and speech and swallowing disorders. Dr. Katz earned his undergraduate degree from Columbia University and his medical degree from the State University of New York, Downstate. He went on to complete general surgery training at Kings County Hospital in New York and then did his residency in otolaryngology at Manhattan Eye, Ear and Throat Hospital. He is board certified by the American Board of Otolaryngology. Dr. Katz was Chief of Ear, Nose and Throat ("ENT") at Flushing Hospital and was previously Chief of ENT at New York Hospital Medical Center of Queens. Apart from the medical field, Dr. Katz serves as Co-Chairman of the Fisher Island Condo Board #2, is highly active in environmental issues and is a large contributor to the UJA-Federation of NY. Dr. Katz's business development capabilities in the Long Island marketplace led the Board to conclude that Dr. Katz should serve as a director.

Metin Negrin, Director — Mr. Negrin is the Founder and President of Lexin Capital, a private investment, development and management company that manages its own capital along with that of a global client base and makes direct investments in real estate. The firm has real estate investments in New York City as well as Florida, Maryland, Arizona and Mexico. Mr. Negrin was also the Chairman of Savoy Bank prior to its acquisition by Hanover. In addition, Mr. Negrin is the President of the Board of the Allen-Stevenson School, a boys Kindergarten-8 day school of 400 students on the Upper East Side of Manhattan, as well as Treasurer and Executive Committee Board Member of the American Turkish Society. A graduate of Deutsche Schule High School in Istanbul, Mr. Negrin holds a BS in Economics and an MBA in Finance from NYU Stern School of Business. Mr. Negrin's management and business experience led the Board to conclude that Mr. Negrin should serve as a director.

Philip Okun, Director — Mr. Okun is a founding director of Hanover Community Bank. Additionally, he has been Chairman of the Loan Committee since the Bank's inception. Mr. Okun has worked in the commercial real estate industry for more than 30 years. As President of Polimeni International, Mr. Okun was responsible for the Company's development program in Poland, having completed numerous shopping centers throughout the country. As President of its affiliate company, Skyline Management Corp., he was responsible for the management of a three-million square foot portfolio of office buildings and shopping centers on Long Island and the east coast. Further, his experience includes redevelopment, leasing, financing, and brokerage. Mr. Okun is a founding partner of Realty Connect USA, LLC. Realty Connect currently has over 800 sales agents in 14 offices on Long Island and Queens. Mr. Okun is a licensed real estate broker in New York and Florida. He is author of the book "Make Money on Main Street" and a licensed sea captain. Mr. Okun earned a Bachelor of Arts degree in education from Fairleigh Dickinson University. Mr. Okun's experience in the commercial real estate market led the Board to conclude that Mr. Okun should serve as a director.

Elena Sisti, Director — Ms. Sisti was the founder and Chairperson Emeritus of Savoy Bank, only the second New York bank established by a woman. Ms. Sisti founded Savoy Bank following a 25-year career at Citibank, and she remained as a Board member of Savoy until its acquisition by Hanover. Ms. Sisti is the Managing Partner of a New Jersey based real estate investment and management firm started by her family. She received a B.A. in Economics from Barnard College, Columbia University. Ms. Sisti immigrated to the United States in 1963 from Caracas, Venezuela. Ms. Sisti's experience in banking and financial services, along with her knowledge of our local community will assist us as we continue to grow.

John R. Sorrenti, Director — Mr. Sorrenti, FAIA, is Founder and President of JRS Architect, P.C., a full service architectural, interior design and preservation firm serving the greater New York City region. Mr. Sorrenti has served on many committees both for the American Institute of Architects (AIA) and the National Council of Architectural Registration Board (NCARB) rising to the President of the New York State AIA, Vice President of the National AIA and Regional Director for the NCARB's national board. Mr. Sorrenti chaired the AIA/College of Fellows' Regional Representative Program nationally for six years and in 2016 was the Chancellor for the College of Fellows. He remains on the New York State Education Board of Architecture as an Extended Member, previously serving as Chair and is currently Chair of North Hempstead's Landmarks Commission. Mr. Sorrenti has served on the National Architectural Accrediting Board Committee for college accreditation and has performed reviews of his peers for the American Council of Engineering Companies. In 2008, Mr. Sorrenti was presented with the Lifetime Achievement Award from the AIA Long Island Chapter and in 2017 received their Community Service Honor Award. Mr. Sorrenti earned a Bachelor of Architecture degree from New York Institute of Technology (NYIT), a Masters in Architecture from Ohio University, and an MBA from NYIT. Mr. Sorrenti provides the Board with significant leadership and managerial experience, particularly from the perspective of a locally based business enterprise.

Executive Officers who are not Directors

McClelland ("Mac") Wilcox, President. Mr. Wilcox joined Savoy as President in 2012 and subsequently served as President and Chief Executive Officer through 2021. He has over twenty years of experience as a banking leader and entrepreneur.

Lance P. Burke, Executive Vice President and Chief Financial Officer. Mr. Burke has over twenty years of experience in the banking industry. Prior to joining Hanover, Mr. Burke served as Senior Vice President and Controller of Dime Bank (formerly BNB Bank) from 2009 to 2021.

Kevin Corbett, Executive Vice President and Chief Credit Officer. Mr. Corbett has over forty years of experience in the banking industry. Prior to joining Hanover, Mr. Corbett served as Senior Vice President and Chief Credit Officer of Dime Community Bank from 2017 to 2019 and Senior Vice President and Chief Credit Officer of Astoria Bank from 2012 to 2017.

Lisa A. Diiorio, First Senior Vice President & Chief Accounting Officer. Ms. Diiorio has over thirty years of experience in the banking industry. Prior to joining Hanover in 2016, Ms. Diiorio served as Vice President and Principal Accounting Officer at Bridgehampton National Bank.

Committees of Our Board of Directors

Audit Committee. We maintain an Audit Committee in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The Audit Committee is responsible for the selection of the independent registered public accounting firm for the annual audit and to establish, and oversee the adherence to, a system of internal controls. The Audit Committee reviews and accepts the reports of our independent auditors and regulatory examiners. The Audit Committee arranges for an annual audit through the independent registered public accounting firm, evaluates and implements the recommendations of the auditors as well as interim audits performed by our outsourced internal auditors, receives all reports of examination by bank regulatory agencies, analyzes such regulatory reports, and reports to the Board the results of its analysis of the regulatory reports. The Audit Committee met 7 times during the fiscal year ended September 30, 2023. The Board of Directors has adopted a written charter for the Audit Committee which is available on our website at www.hanoverbank.com. The Audit Committee currently consists of Directors Ahron H. Haspel (Chair), Michael Katz, Metin Negrin, Philip Okun, and Elena Sisti, all of whom are "independent" under the NASDAQ listing standards and meet the independence standards of the Sarbanes-Oxley Act. The Board has determined that Ahron H. Haspel, a member of Audit Committee, qualifies as an "audit committee financial expert" under the Rules of the Securities and Exchange Commission.

Compensation Committee Interlocks and Insider Participation

There are no Compensation Committee "interlocks," which generally means that no executive officer of the Company or the Bank served as a director or member of the compensation committee of another entity, one of whose executive officers serves as a director or member of the Compensation Committee.

Code of Ethics

The Board of Directors has adopted a Code of Ethics governing our Chief Executive Officer and senior financial officers, as required by the Sarbanes-Oxley Act and SEC regulations, as well as the Board of Directors and other senior members of management. Our Code of Ethics governs such matters as conflicts of interest, use of corporate opportunity, confidentiality, compliance with law and the like. Our Code of Ethics is available on our website at www.hanoverbank.com.

DELINQUENT SECTION 16(A) REPORTS

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten percent shareholders are required by regulation of the Securities and Exchange Commission to furnish the Company with copies of all Section 16(a) forms they file. The Company believes that all persons associated with the Company and subject to Section 16(a) have made all required filings on a timely basis for the fiscal year ended September 30, 2023.

Item 11. Executive Compensation

Summary Compensation Table

The table below sets forth information concerning the compensation of our Chief Executive Officer and our next two most highly compensated executive officers (the "NEO's") for the fiscal year ended September 30, 2023:

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards	Non-equity Incentive Plan Compensation	Change in Pension Value and Non-Qualified Deferred Compensation Earnings			All Other Compensation (2)	Total
							(h)	(i)	(j)		
(a) Michael P. Puorro, Chairman and Chief Executive Officer	2023	625,000	—	187,483	—	281,250	—	46,712	1,140,445		
	2022	625,000	—	736,462	—	391,500	—	39,292	1,792,254		
	2021	570,769	—	82,500	—	247,500	—	36,662	937,431		
McClelland Wilcox, President ⁽³⁾	2023	525,000	—	131,248	—	157,500	—	25,004	838,752		
	2022	525,000	—	517,498	—	222,750	—	21,716	1,286,964		
	2021	156,115	—	—	—	—	—	5,600	161,715		
Kevin Corbett, Executive Vice President and Chief Credit Officer	2023	315,000	—	47,243	—	78,750	—	9,208	450,201		
	2022	315,000	—	186,764	—	112,500	—	15,047	629,311		
	2021	295,385	—	21,384	—	66,500	—	14,892	398,161		

(1) Stock awards reported reflect the grant date fair value of restricted stock awards and performance awards under Accounting Standards Codification Topic No. 718, Compensation-Stock Compensation ("ASC Topic 718").

(2) All other compensation consists of 401(k) matching contributions, automobile allowance, and life insurance premiums.

(3) Mr. Wilcox commenced employment on May 26, 2021, upon the consummation of the acquisition of Savoy Bank.

Outstanding Equity Awards at Fiscal Year-End										
Name	Option Awards					Stock Awards				
	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) un- exercisable	Equity incentive plan awards: Number of securities underlying unexercised unearned options	Option exercise price	Option expiration date	Number of shares or units of stock that have not vested	Market value of shares or units of stock that have not vested	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested	Equity incentive plan awards market or payout value of unearned shares, units or other rights that have not vested
(#)	(#)	(#)	(#)	(\\$)	(#)	(#)	(\\$)	(#)	(#)	(\\$)
(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(j)	(j)
Michael P. Puorro	71,840	—	—	10.00	10/1/2024	14,257	257,909	39,382	712,240	
McClelland Wilcox	29,900	—	—	4.46	2/18/2024	9,978	180,502	26,760	484,088	
McClelland Wilcox	42,000	—	—	6.25	7/1/2025	—	—	—	—	
Kevin Corbett	—	—	—	—	—	3,592	64,979	9,973	180,412	

We are party to employment agreements with each of Messrs. Michael P. Puorro, Chairman and Chief Executive Officer, and McClelland Wilcox, President.

Mr. Puorro's agreement has a term of three years and renews for an additional twelve-month period each year. Mr. Puorro is to receive a base salary of at least \$364,375, subject to annual adjustment. During the fiscal year ended September 30, 2023, he received a base salary of \$625,000. He is also eligible to participate in our incentive plans and other benefit plans for executive officers. Mr. Puorro is to receive an \$800 per month car allowance, and we will reimburse Mr. Puorro for his premiums on a life insurance policy he owns. In the event that Mr. Puorro's employment is terminated without cause, he is entitled to receive a lump sum payment equal to the sum of two times (i) his then current base salary, (ii) the highest cash bonus paid to him over the prior three years, (iii) the highest grant date value of any equity award granted to Mr. Puorro over the prior three years, and (iv) his annual automobile allowance. In addition, we will maintain Mr. Puorro's then current health, hospital, medical and life insurance benefits in effect for two years after his termination or pay Mr. Puorro the value of the premiums for such coverage. In the event of a merger, acquisition or change-in-control transaction, Mr. Puorro will be entitled to a lump sum payment equal to the sum of 2.99 times (i) his then current base salary, (ii) the highest cash bonus paid to him over the prior three years, (iii) the highest grant date value of any equity award granted to Mr. Puorro over the prior three years, and (iv) his annual automobile allowance. In addition, Mr. Puorro's then current health, hospital, medical and life insurance benefits are to be maintained in effect for three years after the change in control transaction, or Mr. Puorro is to be paid the value of the premiums for such coverage. The benefits upon a change in control are subject to reduction to avoid the imposition of excise taxes under Section 4999 of the Code, provided that such reduction would result in a better after-tax result for Mr. Puorro. Had a change in control occurred as of September 30, 2023, at an assumed price equal to 120% of our then tangible book value (a price of \$27.28), Mr. Puorro would have been entitled to receive a net payment, after the reduction required to ensure that the payments would not constitute an excess parachute payment, of approximately \$2.8 million under his employment agreement.

Mr. Wilcox's agreement provides for a minimum base of \$525,000, subject to annual adjustment. During the fiscal year ended September 30, 2023, he received a base salary of \$525,000. He is also eligible to participate in our incentive plans and other benefit plans for executive officers. Mr. Wilcox's agreement has a term of three years and renews for an additional twelve-month period each year. In the event that Mr. Wilcox's employment is terminated without cause he is entitled to a lump sum payment equal to two times the sum of (i) his then current annual base salary, (ii) the highest cash bonus paid to him in the prior three years, and (iii) the highest full grant date value of any equity award granted over the prior three years, if any. In addition, in the event of a change in control, the employment agreement provides for payment to Mr. Wilcox of 2.99 times the sum of (i) his then current annual Base Salary, (ii) the highest cash bonus payment paid to Employee over the past three years, and (iii) the highest full grant date value of any equity award granted over the past three years. In addition, we will maintain Mr. Wilcox's then current health, hospital, medical and life insurance benefits in effect for three years after his termination or pay Mr. Wilcox the value of the premiums for such coverage. The benefits upon a change in control are subject to reduction to avoid the imposition of excise taxes under Sections 280G and 4999 of the Code, provided that such reduction would result in a better after-tax result for Mr. Wilcox. Had a change in control occurred as of September 30, 2023, at an assumed price equal to 120% of our then tangible book value (a price of \$27.28), Mr. Wilcox would have been entitled to receive a net payment, after the reduction required to ensure that the payments would not constitute an excess parachute payment, of approximately \$1.1 million under his employment agreement. The employment agreement subjects Mr. Wilcox to a covenant not to compete during the period of his employment and for one year following the termination of his employment except in cases where employment is terminated without cause.

Director Compensation

We pay our non-employee members of the Board a retainer of \$25,000 annually and a fee of \$1,000 per Board meeting attended. Our Lead Independent Director also receives an additional retainer of \$3,750 per quarter, and our committee chairs receive an additional fee of between \$2,500 and \$13,400 per year. We also pay committee fees to those Board members who serve on Board committees. Our Directors also participate in our equity compensation plans. The table below shows the compensation paid to our non-employee directors for the fiscal year ended September 30, 2023.

Name	Director Compensation							
	Fees			Non-Qualified				
	Earned or Paid in Cash	Stock Awards	Option Awards	Non-equity Incentive Plan Compensation	Deferred Compensation Earnings	All Other Compensation		Total
(a)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Varkey Abraham	36,413	31,998	—	—	—	—	—	68,411
Robert Golden	49,663	31,998	—	—	—	—	—	81,661
Ahron H. Haspel	48,463	31,998	—	—	—	—	—	80,461
Michael Katz	37,038	31,998	—	—	—	—	—	69,036
Metin Negrin	42,788	31,998	—	—	—	—	—	74,786
Philip Okun	45,038	31,998	—	—	—	—	—	77,036
Elena Sisti	42,288	31,998	—	—	—	—	—	74,286
John R. Sorrenti	38,413	31,998	—	—	—	—	—	70,411

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information as October 31, 2023 regarding the number of common shares beneficially owned by all directors, executive officers described and by all directors and executive officers as a group. Beneficial ownership includes shares, if any, held in the name of the spouse, minor children or other relatives of the nominee living in such person's home, as well as shares, if any, held in the name of another person under an arrangement whereby the Director or executive officer can vest title in themselves at once or within sixty (60) days.

Beneficially owned shares also include shares over which the named person has sole or shared voting or investment power, shares owned by corporations controlled by the named person, and shares owned by a partnership in which the named person is a partner.

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Unless otherwise indicated, the address for each listed shareholder is: c/o Hanover Bancorp, Inc., 80 East Jericho Turnpike Mineola, NY 11501.

Name	Number of Shares Beneficially Owned	Percentage of Class
Directors		
Michael P. Puorro	337,828 (1)	4.57 %
Varkey Abraham	53,964 (2)	0.74 %
Robert Golden	463,921 (3)	6.33 %
Ahron H. Haspel	68,318 (4)	0.93 %
Michael Katz	248,287 (5)	3.39 %
Metin Negrin	233,607 (6)	3.19 %
Philip Okun	41,591 (7)	0.57 %
Elena Sisti	146,029 (8)	2.00 %
John R. Sorrenti	42,169 (9)	0.58 %
Executive Officers		
Lance P. Burke	19,201 (10)	0.26 %
Kevin Corbett	20,818 (11)	0.28 %
Lisa A. Dilorio	20,319 (12)	0.28 %
John P. Vivona	—	— %
McClelland Wilcox	137,099 (13)	1.85 %
All Executive Officers and Directors as a Group (14 persons)	1,833,151	24.97 %

- (1) Includes 71,840 vested options to purchase shares of Hanover's common stock. Also includes 39,382 shares of restricted stock subject to future vesting but as to which voting may currently be directed.
- (2) Includes 3,217 vested options to purchase shares of Hanover's common stock. Also includes 6,921 shares of restricted stock subject to future vesting but as to which voting may currently be directed.
- (3) Includes 10,000 vested options to purchase shares of Hanover's common stock. Also includes: (i) 6,921 shares of restricted stock subject to future vesting but as to which voting may currently be directed, (ii) 340,230 shares held by certain trusts, of which the beneficiary or trustee is Mr. Golden and his family members, and (iii) 52,771 shares held by a limited liability company which Mr. Golden controls.
- (4) Includes 8,139 vested options to purchase shares of Hanover's common stock. Also includes (i) 6,921 shares of restricted stock subject to future vesting but as to which voting may currently be directed and (ii) 39,673 shares held by a limited liability company which Mr. Haspel controls.
- (5) Includes 7,057 vested options to purchase shares of Hanover's common stock. Also includes 6,921 shares of restricted stock subject to future vesting but as to which voting may currently be directed and 96,760 shares held by various trusts.
- (6) Includes 6,587 shares of restricted stock subject to future vesting but as to which voting may currently be directed.
- (7) Includes 8,139 vested options to purchase shares of Hanover's common stock. Also includes 6,921 shares of restricted stock subject to future vesting but as to which voting may currently be directed.
- (8) Includes 6,587 shares of restricted stock subject to future vesting but as to which voting may currently be directed.
- (9) Includes 3,500 vested options to purchase shares of Hanover's common stock. Also includes 6,921 shares of restricted stock subject to future vesting but as to which voting may currently be directed.
- (10) Includes 12,136 shares of restricted stock subject to future vesting but as to which voting may currently be directed.
- (11) Includes 9,973 shares of restricted stock subject to future vesting but as to which voting may currently be directed.
- (12) Includes 6,000 vested options to purchase shares of Hanover's common stock. Also includes 4,106 shares of restricted stock subject to future vesting but as to which voting may currently be directed.
- (13) Includes 71,900 vested options to purchase shares of Hanover's common stock. Also includes 26,760 shares of restricted stock subject to future vesting but as to which voting may currently be directed.

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The following table sets forth information as of November 30, 2023, with respect to the beneficial ownership of Hanover Bancorp, Inc. Common Stock by each person or group of persons, other than members of the Board of Directors or management of the Company, known to the Company to be the beneficial owner of more than five percent (5%) of Hanover Bancorp, Inc. voting stock. There are no shareholders other than those set forth below of whom the Company is aware that beneficially own 5% or more of the Common Stock of the Company.

Name of Beneficial Owner of More Than 5% of the Common Stock	Number of Shares Beneficially Owned	Percentage of Class	
		Beneficially Owned	Class
Castle Creek Capital Partners VIII, LP (1)	705,500	9.9	%
Muthoot Holdings	443,181	6.2	%
AllianceBernstein L.P. (2)	395,162	5.5	%

- (1) All information regarding the number of shares beneficially owned and the percent of ownership by Castle Creek Capital Partners VIII, L.P. was obtained from the 13G filed with the U.S. Securities and Exchange Commission on February 13, 2023. The address of Castle Creek Capital Partners VIII, LP is 11682 El Camino Real, Suite 320, San Diego, CA 92130.
- (2) All information regarding the number of shares beneficially owned and the percent of ownership by AllianceBernstein L.P. was obtained from the 13G filed with the U.S. Securities and Exchange Commission on February 14, 2023. The address of AllianceBernstein L.P. is 1345 Avenue of the Americas, New York, NY 10105.

The following table provides information with respect to the equity securities that are authorized for issuance under the Company's equity compensation plans as of September 30, 2023.

Equity Compensation Plan Information			
	Number of securities to be issued upon exercise of outstanding options, warrants and rights (A)	Weighted-average exercise price of outstanding options, warrants and rights (B)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (A)) (C)
Equity compensation plans approved by shareholders	198,333	\$ 8.85	21,784
Equity compensation plans not approved by shareholders	—	—	276,127
Total	198,333	\$ 8.85	297,911

Item 13. Certain Relationships and Related Transactions, and Director Independence

Under Hanover Community Bank's Code of Ethics, the Chairman of the Audit Committee is to review and approve all related party transactions involving members of the Board, other than extensions of credit by the Bank in the ordinary course of its business. Under banking regulation, those extensions of credit must be approved by the full Board of Directors.

By "related party transaction," we mean a transaction between the Company or any of its subsidiaries, on the one hand, and an executive officer, director or immediate family member of an executive officer or a director, on the other hand.

We have made in the past and, assuming continued satisfaction of generally applicable credit standards, expect to continue to make loans to directors, executive officers and their associates (i.e., corporations or organizations for which they serve as officers or directors or in which they have beneficial ownership interests of ten percent or more). These loans have all been made in the ordinary course of the Bank's business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not affiliated with Hanover and do not involve more than the normal risk of collectability or present other unfavorable features.

Independence

A majority of the Board consists of individuals who are “independent” under the NASDAQ listing standards. Mr. Michael P. Puorro, our Chairman and CEO, is the only member of our Board who is not independent. In reaching this conclusion, the Board took into account the fact that several members of the Board conduct banking transactions with Hanover Bank. These transactions are in accordance with Federal law and regulation and do not involve risk or beneficial terms beyond those involved in transactions between Hanover Bank and third-party customers.

In addition, with regard to Mr. Sorrenti, the Board took into account certain transactions between the Bank and entities with which he was affiliated, described below.

Mr. Sorrenti is the principal of JRS Architect, P.C. JRS Architect, P.C., was retained by the Bank to provide design and architectural services in connection with renovations to the Bank's new Hauppauge, New York, branch and related back office space. Fees paid by the Bank to JRS Architect, P.C. for this engagement totaled approximately \$77,000. In determining that the engagement of JRS Architect, P.C., did not impair Mr. Sorrenti's independence, the Board took into account the amount of the fees paid to JRS Architect, P.C., compared to its total revenues, as well as the nature of the services rendered by JRS Architect, P.C., which are not advisory and did not involve access to sensitive Company information or strategic decision making.

Shareholders wishing to communicate directly with the independent members of the Board of Directors may send correspondence to Hanover Bancorp, Inc., Attn.: Robert Golden, Lead Independent Director, 80 East Jericho Turnpike, Mineola, New York 11501.

Item 14. Principal Accountant Fees and Services

Aggregate fees billed to the Company for the fiscal years ended September 30, 2023, and 2022, by the Company's principal accounting firm are shown in the following table:

<i>(in thousands)</i>	Fiscal Year Ended September 30,	
	2023	2022
Audit fees	\$ 347	\$ 330
Audit-related fees	—	213
Tax fees	—	—
Other fees	—	—
Total fees	\$ 347	\$ 543

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements and Schedules:

The following financial statements and supplementary data are filed as part of this annual report:

	Page
Report of Independent Registered Public Accounting Firm (PCAOB ID 173)	60
Consolidated Statements of Financial Condition	61
Consolidated Statements of Income	62
Consolidated Statements of Comprehensive Income	63
Consolidated Statements of Changes in Stockholders' Equity	64
Consolidated Statements of Cash Flows	65
Notes to Consolidated Financial Statements	66

(b) Exhibits. The following is a list of Exhibits to this annual report.

Exhibit

No.	Description
3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1(i) to Registration Statement on Form S-4 filed on January 20, 2021)
3.1(i)	Certificate of Amendment to Certificate of Incorporation designation the of Series A Convertible Perpetual Preferred Stock filed with the New York Secretary of State on October 25, 2022 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on October 31, 2022)
3.1(ii)	Bylaws (incorporated by reference to Exhibit 3.1(ii) to Registration Statement on Form S-4 filed on January 20, 2021)
10.1	Second Amended and Restated Employment Agreement effective as of the 1st day of January, 2015, by and between Michael P. Puorro and Hanover Community Bank (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 30, 2021)
10.2	Amended and Restated Change in Control Agreement with Kevin Corbett (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on July 30, 2021)
10.3	Hanover Community Bank 2013 Stock Option Plan (incorporated by reference to Exhibit 10.4 to Registration Statement on Form S-4 filed on January 20, 2021)
10.4	Savoy Bank 2013 Stock Option Plan (incorporated by reference to Exhibit 4.2 to Form S-8 filed on June 17, 2021)
10.5	Hanover Community Bank 2016 Stock Option Plan (incorporated by reference to Exhibit 10.6 to Registration Statement on Form S-4 filed on January 20, 2021)
10.6	2018 Equity Compensation Plan (incorporated by reference to Exhibit 10.7 to Registration Statement on Form S-4 filed on January 20, 2021)
10.7	Hanover Bancorp 2021 Equity Compensation Plan (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8- K filed on July 30, 2021)
10.8	Indenture between Hanover Bancorp, Inc. and U.S. Bank, National Association dated October 7, 2020 (incorporated by reference from Exhibit 10.8 to Registration Statement on Form S-4 filed on January 20, 2021)
10.9	First Supplemental Indenture between Hanover Bancorp, Inc. and U.S. Bank National Association dated October 7, 2020 (incorporated by reference from Exhibit 10.9 to Registration Statement on Form S-4 filed on January 20, 2021)
10.10	Second Amended and Restated Employment Agreement with McClelland Wilcox (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 27, 2023)

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10.11	<u>Amended and Restated Change in Control Agreement with Lance P. Burke (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 17, 2021)</u>
10.12	<u>Retirement and Transition Agreement (Certain confidential portions (as indicated therein) of this exhibit have been omitted.) (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 17, 2022)</u>
10.13	<u>Board Observer Agreement dated October 28, 2022 with Castle Creek Partners VIII, L.P. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on October 31, 2022)</u>
21.1	<u>Subsidiaries (incorporated by reference to Exhibit 21.1 to Registration Statement on Form S-4 filed on January 20, 2021)</u>
23.1	<u>Consent of Crowe LLP (filed herewith)</u>
31.1	<u>Certification of the Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of the Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Section 1350 Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	<u>Section 1350 Certification of Chief Financial Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002</u>
97	<u>Compensation Recoupment Policy</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document
104	Cover Page Interactive Data File (filed herewith)

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.
Registrant

December 21, 2023

/s/ Michael P. Puorro
Michael P. Puorro
Chairman and Chief Executive Officer

December 21, 2023

/s/ Lance P. Burke
Lance P. Burke
Executive Vice President and Chief Financial Officer

December 21, 2023

/s/ Lisa A. Diiorio
Lisa A. Diiorio
Senior Vice President, Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

December 21, 2023

/s/ Varkey Abraham
Varkey Abraham
Director

December 22, 2023

/s/ Robert Golden
Robert Golden
Director

December 21, 2023

/s/ Ahron Haspel
Ahron Haspel
Director

December 21, 2023

/s/ Michael Katz
Michael Katz
Director

December 21, 2023

/s/ Metin Negrin
Metin Negrin
Director

December 21, 2023

/s/ Philip Okun
Philip Okun
Director

December 21, 2023

/s/ Elena Sisti
Elena Sisti
Director

December 21, 2023

/s/ John Sorrenti
John Sorrenti
Director

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 333-261879 and 333-257161) of Hanover Bancorp Inc. and Subsidiary of our report dated December 21, 2023, related to the consolidated financial statements, appearing in this Annual Report on Form 10-K of Hanover Bancorp Inc. and Subsidiary for the year ended September 30, 2023.

Crowe LLP
Crowe LLP

Livingston, New Jersey
December 21, 2023

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 Annual Report on Form 10-K 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: December 21, 2023

/s/ Michael P. Puorro

Michael P. Puorro

Chairman & Chief Executive Officer
(principal executive officer)

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

I, Lance P. Burke, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: December 21, 2023

/s/ Lance P. Burke

Lance P. Burke

Chief Financial Officer

(principal financial and accounting officer)

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 annual report on Form 10-K of the Company for the year ended September 30, 2023 (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: December 21, 2023

/s/ Michael P. Puorro

Michael P. Puorro

Chairman & Chief Executive Officer
(principal executive officer)

EXHIBIT 32.2

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

I, Lance P. Burke, 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 Annual Report on Form 10-K of the Company for the year ended September 30, 2023 (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: December 21, 2023

/s/ Lance P. Burke

Lance P. Burke

Chief Financial Officer

(principal financial and accounting officer)

Compensation Recoupment Policy

Effective December 1, 2023

The Board of Directors (the "Board") of Hanover Bancorp, Inc. (the "Company") believes it is desirable, and in the best interests of the Company and its stockholders, to maintain and enhance a culture that is focused on integrity, accountability and that discourages conduct detrimental to the Company's risk profile and sustainable growth.

Therefore, it may be appropriate for the Company to recover Incentive Compensation (as defined herein) provided to certain employees, and it may be appropriate for those employees to repay such Incentive Compensation, in the event that the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (an "Accounting Restatement"). The Board has adopted the following Compensation Recoupment Policy (the "Policy") effective as of the date set forth above (the "Effective Date"). The Policy applies to the Company's Executive Officers (as defined below).

Additional Definitions

"**Erroneously Awarded Compensation**" means the amount of Incentive Compensation received that exceeds the amount of Incentive Compensation that otherwise would have been received had it been determined based on the amounts reflected in the Accounting Restatement and must be computed without regard to any taxes paid. For Incentive Compensation based on stock price or total shareholder return, where the amount of erroneously awarded compensation is not subject to mathematical recalculation directly from the information in an Accounting Restatement:

- (A) The amount must be based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive Compensation was received; and
- (B) The Company must maintain documentation of the determination of that reasonable estimate and provide such documentation to the Nasdaq.

"**Executive Officer**" shall mean the Company's president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the Company. Executive Officers of the Company's parent(s) or subsidiaries are deemed executive officers of the Company if they perform such policy making functions for the Company. As used herein, a policy-making function is not intended to include policy-making functions that are not significant.

"**Financial Reporting Measures**" means measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements and any measures that are derived wholly or in part from such measures. Stock price and total shareholder return shall be considered financial reporting measures. A Financial Reporting Measure need not be presented within the financial statements or included in a filing with the Securities and Exchange Commission.

"**Incentive Compensation**" shall mean any compensation payable in cash, shares of the Company's common stock, restricted stock units or stock options, that is granted, earned or vested based wholly or in part upon the attainment of any Financial Reporting Measure. For the avoidance of doubt, Incentive Compensation will be deemed

"received" by the Executive Officer for purposes of this policy in the fiscal period during which the financial reporting measure is attained, even if the payment or grant occurs after the end of that period.

"Restatement Date" shall mean the date that the Company concluded (or reasonably should have concluded), whether through its Board, a committee of the Board, or through officers of the Company if such officers are authorized to take such action without Board action, that an Accounting Restatement is required, or the date that a court or regulator directs the Company to prepare an Accounting Restatement.

Recoupment of Incentive Compensation

If the Company incurs an Accounting Restatement, the Company shall promptly require each current or former Executive Officer who received Incentive Compensation to reimburse the Company any Erroneously Awarded Compensation received by such Executive Officer during the three completed fiscal years immediately preceding the Restatement Date.

For the sake of clarity, Erroneously Awarded Compensation shall be recovered even if there was no misconduct or failure of oversight on the part of an individual Executive Officer.

Recoupment Amount and Procedures

The amount required to be reimbursed or returned to the Company shall be determined by the Compensation Committee of the Board (the "Committee") and will equal the amount of the Erroneously Awarded Compensation.

The Company will determine, in its sole discretion, the method for obtaining reimbursement or return of payments made, which may include, but is not limited to: (i) by offsetting the amount from any compensation owed by the Company to the affected Executive Officer (including, without limitation, amounts payable under a deferred compensation plan at such time as is permitted by Section 409A of the Internal Revenue Code of 1986, as amended); (ii) by reducing or eliminating future salary increases, cash incentive awards or equity awards; or (iii) by requiring the individual to pay the amount to the Company upon its written demand for such payment.

Exceptions to Recovery

Exceptions to the foregoing policy of recoupment are only available where:

- (i) pursuing such recovery would be impracticable because the direct expense paid to a third party to assist in enforcing the Policy would exceed the recoverable amounts and the Company has: (A) made a reasonable attempt to recover such amounts; and (B) provided documentation of such attempts to recover to the Nasdaq; or
- (ii) recoupment would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the registrant, to fail to meet the requirements of the Internal Revenue Code.

Miscellaneous

The Board intends that this Policy will be applied to the fullest extent permitted by law. In addition, the Committee may determine that any equity award agreement, employment agreement or similar agreement entered into or amended after the Effective Date shall, as a condition to the grant of any benefit covered by such agreement, require the affected employee to contractually agree to abide by the terms of this Policy. Further, the adoption of this Policy does not mitigate, and is intended to enhance, the effect of any recoupment or similar policies in any equity award agreement, employment agreement or similar agreement in effect prior to the Effective Date.

Binding on Successors

The terms of this Policy shall be binding and enforceable against all employees and their heirs, executors, administrators and legal representatives.
