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CARVER BANCORP, INC.

2003

Annual Report

AMEX: CNY
www.carverbank.com

Mission Statement

Carver Bancorp, Inc. is the holding company of Carver Federal Savings Bank, a federally chartered savings bank. Carver was founded 53 years ago by visionary community leaders to serve the financial services needs of African- and Caribbean-Americans in New York City. Today, Carver is the largest publicly traded African- and Caribbean-American run financial institution in the United States.

Carver Federal Savings Bank is an urban community development bank dedicated to providing a full range of financial services to its customers. Carver is committed to meeting the credit needs of the communities it serves, increasing profitability and enhancing stockholder value.

Dear Carver Stockholder,

Fiscal 2003 was another successful year for Carver. In addition to posting the second highest year of profitability in the Company's history, Carver launched online banking, introduced a debit card, implemented a comprehensive re-branding campaign and established a new 24/7 ATM Center in Bedford-Stuyvesant. The Company's strong performance led the Board of Directors to establish a quarterly dividend. In addition, the financial analyst community began to take note of Carver's achievements as did the local and industry press. These and other factors contributed to a significantly increased stock price.

This year's performance was achieved despite the backdrop of a challenging interest rate environment and a national and New York City recession. As before, we concluded that the best course of action was to focus on consistent execution of the business strategy on which we embarked in June of 1999 -- to create a customer-driven and efficient operating platform, to leverage our unique customer and market knowledge and to provide a full menu of financial products for our customers.

A summary of the Company's progress since our last letter to you is provided below.

- ***Record profits.***
  Fiscal 2003's profits were second only to fiscal 2002's as the highest level of profitability in the Company's history. Carver reported net income available to common stockholders of $3.6 million, or $1.52 per diluted common share, in fiscal 2003 down from net income available to common stockholders of $4.5 million, or $1.89 per diluted common share, in fiscal 2002. Because of net gains on asset sales recognized during fiscal 2002 and the Company's fiscal 2003 obligation to begin to accrue for federal taxes, net income available to common stockholders declined in fiscal 2003 compared to fiscal 2002.

  Return on average assets decreased to 0.83% for fiscal 2003 compared to 1.11% for fiscal 2002 while return on average equity decreased to 9.77 % compared to 13.78% over the same period.

  The Company is also off to a strong start for fiscal 2004. During the first three months of fiscal 2004, net income available to common stockholders was $1.0 million, or $0.42 per diluted common share, compared to $825,000, or $0.35 per diluted common share, during the first three months of fiscal 2003.

- ***Substantial value creation for stockholders.***
  For fiscal 2003, stockholders' equity increased $4.3 million, or 11.8%, to $41.1 million compared to $36.7 million at March 31, 2002.

  For the first three months of fiscal 2004, stockholders' equity increased $582,000, or 1.4%, to $41.7 million.

In April 2003, the Board of Directors established a regular quarterly dividend in an amount to be determined each quarter, based on the Company's strong quarterly performance, solid capital position and the Board's confidence in the Company's future. The Board subsequently declared a $0.05 per share cash dividend for the quarters ended March and June 2003. This compares to the Company's previous practice in which the Company declared a $0.05 per share cash dividend annually on its common stock.

In addition, Carver's profile in the financial community has grown considerably. Over the past year, Keefe, Bruyette & Woods, Inc. and The Chapman Company, both investment banks focused on financial services firms, initiated or expanded coverage of Carver.

- ***Increased net interest margin.***
  Our net interest margin increased to 4.26% in fiscal 2003 from 4.05% in fiscal 2002. Net interest income before provisions increased 13.5% in fiscal 2003 compared to fiscal 2002. We achieved these results against our objective of maintaining a stable net interest margin in a challenging economic environment characterized by continued declines in interest rates, significant competition for loan originations, high prepayments of mortgage loans and securities and declining investment yields.

  The challenge to maintain a stable net interest margin remained significant in the first quarter of fiscal 2004. Net interest income before provisions decreased 5.8% during the first three months of fiscal 2004 over the comparable prior year period, as interest rate declines and competitive pressures continued. We remain focused on effective balance sheet management by continuing our emphasis on solid underwriting of re-priceable loans, emphasizing re-priceable assets in our investment portfolio, restructuring our deposit rates where possible, and leveraging our balance sheet to purchase investments when spreads are attractive.

  Carver originated loans of $59.6 million during fiscal 2003 compared to $65.9 million in fiscal 2002, a decline of 9.6%. Loan originations during the first three months of fiscal 2004 were $12.6 million compared to $19.4 million during the first three months of fiscal 2003. While loan prepayments remain high relative to historical standards, our ability to supplement originations with quality loan purchases resulted in net loans receivable increasing by $9.6 million for the first quarter of fiscal 2004 compared to March 31, 2003.

- ***Realized greater internal efficiencies.***
  Our continued emphasis on cost containment coupled with improved revenues reduced the Company's efficiency ratio to 68.2% in fiscal 2003 compared to 77.9% in fiscal 2002. While improvements continue to be made, bringing Carver's efficiency ratio into line with industry peers remains a priority for Carver.

  Non-interest expense decreased 3.0% to $3.7 million during the first three months of fiscal 2004 compared to the prior year period as the Company efficiently completed advertising campaigns and increased consulting expenses related to establishment of the Bank's real estate investment trust. The efficiency ratio improved to 69.3% from 70.5% during the prior year period, reflecting our progress in overall revenue growth and cost containment.

- ***Increased fee income.***
  We continue to focus on opportunities to further develop recurring fee income from fees related to our deposit products, loan originations and ATM utilization. Excluding non-recurring items, non-interest income increased $1.0 million, or 43.7%, to $3.2 million for fiscal 2003 compared to $2.2 million for the prior year period.

Non-interest income increased 19.6% to $1.1 million in the first three months of fiscal 2004 compared to $953,000 in the prior year period. This increase is a result of loan prepayment penalties, increased ATM transactions based on the performance of our Bedford-Stuyvesant and Malcolm X Boulevard 24/7 ATM Centers, growth in debit card income, and the revamped fee structure on our deposit and loan products.

- ***Improved asset quality.***
  Asset quality remains strong. As a result, the Company did not provide provisions for loan losses in fiscal 2003 compared to a $900,000 loan loss provision for fiscal 2002. The Company experienced a net recovery to allowances for loan losses for fiscal 2003 of $30,000. At March 31, 2003, non-performing loans totaled $1.8 million, or 0.61% of total loans receivable, compared to $2.8 million, or 0.96% of total loans receivable, at March 31, 2002, resulting in a ratio of allowance to non-performing loans of 230.7% at March 31, 2003 compared to 146.2% at March 31, 2002.

  The Company did not provide for additional provisions for loan losses for the first three months of fiscal 2004. The allowance for loan losses decreased $35,000 due to net charge-offs in the first quarter of fiscal 2004. At June 30, 2003, non-performing assets totaled $1.8 million, or 0.59% of total loans receivable, resulting in a ratio of allowance to non-performing loans of 228.5%.

- ***Expanded delivery channels.***
  Carver successfully launched Online Banking in the second quarter of fiscal 2003 which aligns Carver with services provided by our larger competitors. Carver's enhanced website, www.carverbank.com, features unique sections including urban financial news focused on local and other urban businesses, financial literacy tools, and the latest information about the neighborhoods Carver serves. In addition, Carver opened its first free-standing 24/7 ATM Center on West 125th Street near Amsterdam Avenue in Harlem in the first quarter of fiscal 2004.

- ***Expanded product offerings.***
  The Carver Debit Card was launched in the second quarter of fiscal 2003. It has been well received by our customers and usage of the card continues to increase, making it a growing contributor to the Company's fee income.

- ***Strengthened leadership team.***
  The hallmark of our success in recent years has been Carver's willingness to invest in people with the skills to drive our strong performance. In addition to hiring Catherine A. Papayiannis as Chief Operating Officer, we were pleased during fiscal 2003 to name James H. Bason as Senior Vice President and Chief Lending Officer and Brian J. Maher as Senior Vice President and Chief Credit Officer. All are seasoned banking executives whose experience is helping Carver enhance its operations.

Focus on the Year Ahead

With the Bank's turnaround behind us we are focused on growth, generating continued earnings growth for Carver and stockholder returns that not only meet but exceed our industry peers. We recognize, however, that our efforts will continue to take place in an uncertain economic and interest rate environment and in a context of increased competition in the inner city communities we serve. Over the next year we are working to:

- ***Provide effective balance sheet management.*** The current interest rate environment will require even greater attention to the Bank's sensitivity to interest rate changes and asset allocation. In the first three months of this year we continue to evaluate the tradeoffs inherent in originating and/or purchasing loans, including our spread and asset quality objectives. Where appropriate, we have purchased re-priceable securities to enhance our flexibility and mitigate interest rate risk in a rising rate environment. While we believe that the conservatism of our balance sheet positions us well for this challenging environment, we will continuously evaluate the Company's asset allocation based on our analysis of yield and risk.

- ***Expand delivery channels.*** Prudently expanding our presence in our communities is the most direct way to reinforce Carver's identity as the financial institution of choice in its markets and expand market share. Carver therefore continues to evaluate further sites appropriate for free-standing 24/7 ATM Centers and full service branches to expand our presence in core geographic markets. Over the next 24 months we intend to open three new 24/7 ATM Centers and three full service branches in north Harlem, Brooklyn and Queens.

- ***Expand our product offering.*** We continue to evaluate the launch of additional products through strategic outsourcing partnerships with other financial institutions. In particular, in fiscal 2004 we intend to introduce the Carver Credit Card followed by insurance products and annuities with providers who can efficiently and effectively deliver relevant products to our customers without Carver taking on significant additional transaction or credit risk. These products are important to building fee income from existing customers as well as drawing new customers to the Bank.

- ***Market our brand effectively.*** During the first half of fiscal 2003, the Company worked with a marketing firm to re-brand Carver, including developing a new logo featured above and the advertising messages, "Our Branches Have Deep Roots" and "Building Wealth Block By Block." These steps were warmly received by our customers and noted in the communities in which we serve. In the coming year we expect to continue grass roots advertising along with other "hands on" strategies to introduce the "new" Carver to prospective customers.

In closing, we are excited about this important year for Carver as we move aggressively to expand our presence in inner city markets. With momentum building from our financial performance and the addition of key senior managers to our team, a strong foundation has been built for a strong and promising future. In the coming year we will be fully engaged in successfully executing our business strategy and working to develop Carver into one of the foremost community banks in the country. As we do so, our entire Board and management team remains committed to creating increased value for our stockholders and our community.

On behalf of the entire Carver team, thank you for your continued support of Carver.

Sincerely,

Frederick O. Terrell
Chairman

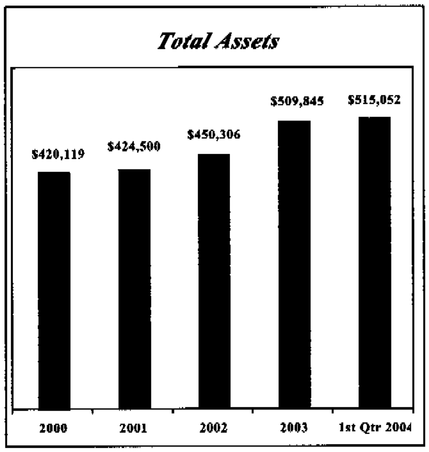
Deborah C. Wright
President & Chief Executive Officer

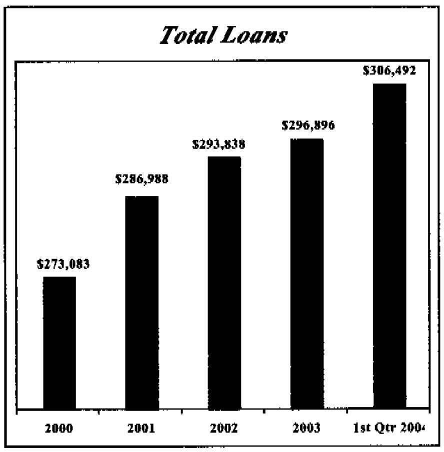
August 12, 2003

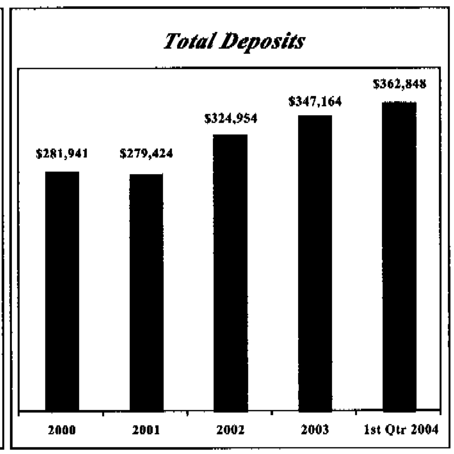
FINANCIAL HIGHLIGHTS

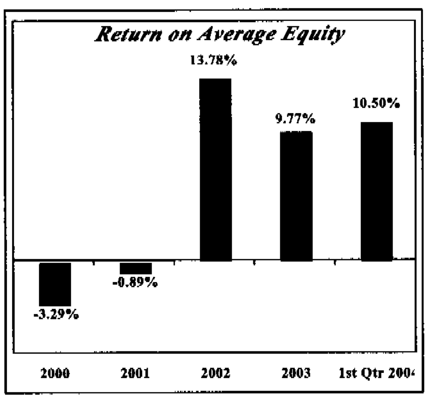
The following tables set forth certain information concerning the consolidated financial condition, earnings and other data regarding Carver Bancorp, Inc. at the dates and for the periods indicated. The financial information should be read in conjunction with the consoldiated financial statements and notes thereto included elsewhere herein.

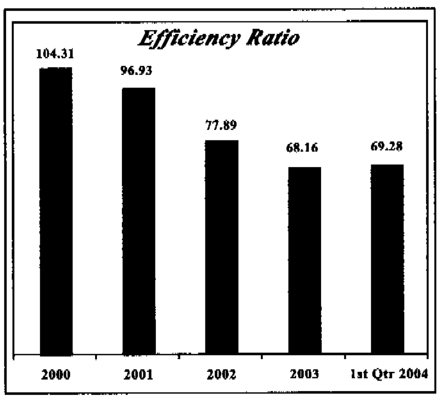
	Three Months Endin June 30, 2003	At or for the Fiscal Year Ended March 31, 2003	2002	2001	2000
		(Dollars in thousands, except per share data)			
Selected Financial Condition Data:					
Assets	$ 515,052	$ 509,845	$ 450,306	$ 424,500	$ 420,119
Total loans	306,492	296,896	293,838	286,988	273,083
Securities	160,804	165,585	105,464	87,788	104,177
Cash and cash equivalents	27,681	23,160	34,851	31,758	22,202
Deposits	362,848	347,164	324,954	279,424	281,941
Borrowed funds	102,195	108,996	75,651	105,600	98,578
Stockholders' equity	41,655	41,073	36,742	32,096	32,641
Number of deposit accounts	41,186	41,220	41,200	44,751	54,597
Number of offices	5	5	5	5	7

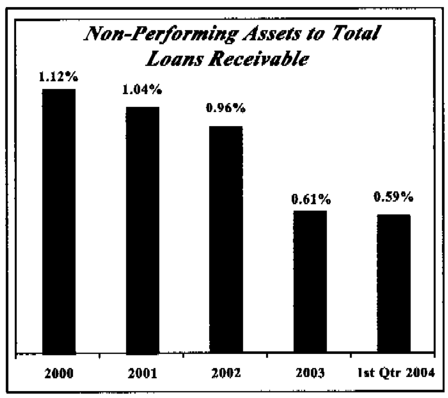






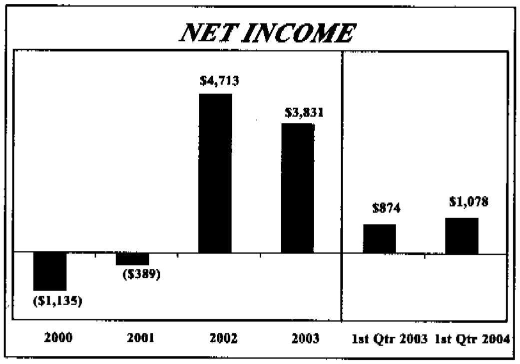


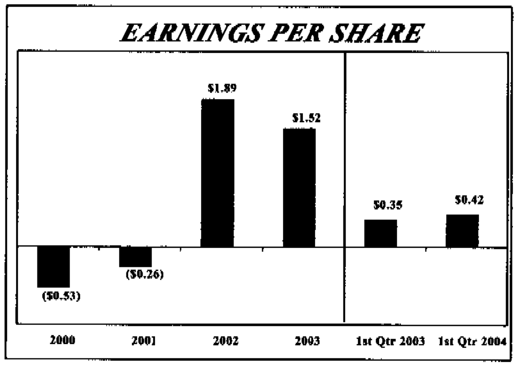




FINANCIAL HIGHLIGHTS (cont.)

	Three Months Endin June 30, 2003	At or for the Fiscal Year Ended March 31, 2003	2002	2001	2000
		(Dollars in thousands, except per share data)			
Selected Operating Data:					
Interest income	$ 6,402	$ 27,378	$ 28,254	$ 28,307	$ 27,367
Interest expense	2,230	8,983	12,047	14,278	14,009
Net interest income	4,172	18,395	16,207	14,029	13,358
Provision for loan losses	-	-	900	1,793	1,099
Net interest income after provision for loan losses	4,172	18,395	15,307	12,236	12,259
Non-interest income	1,140	3,161	4,485	2,934	2,539
Non-interest expenses	3,680	14,692	14,198	15,461	15,823
Income (loss) before income taxes	1,632	6,864	5,594	(291)	(1,025)
Income tax (benefit)	554	3,033	881	98	110
Net income (loss)	$ 1,078	$ 3,831	$ 4,713	$ (389)	$ (1,135)
Diluted earnings (loss) per common share	$ 0.42	$ 1.52	$ 1.89	$ (0.26)	$ (0.53)





	Three Months Ending June 30, 2003	At or for the Fiscal Year Ended March 31, 2003	2002	2001	2000
		(Dollars in thousands, except per share data)			
Selected Statistical Data:					
Return on average assets (1)(9)	0.84 %	0.83 %	1.11 %	(0.07) %	(0.27) %
Return on average equity (2)(9)	10.50	9.77	13.78	(0.89)	(3.29)
Net interest margin (3)	3.46	4.26	4.05	3.61	3.47
Average interest rate spread (4)	3.30	4.08	3.92	3.48	3.38
Efficiency ratio (5)	69.28	68.16	77.89	96.93	104.31
Operating expense to average assets (6)(9)	2.88	3.18	3.33	3.72	3.82
Equity to total assets at end of period	8.09	8.06	8.16	7.56	7.77
Average equity to average assets	8.02	8.48	8.03	7.85	8.33
Dividend payout ratio (7)	11.17	3.19	2.55	(17.24)	(5.17)
Asset Quality Ratios:					
Non-performing assets to total assets (8)	0.35 %	0.36 %	0.63 %	0.71 %	0.73 %
Non-performing assets to total loans receivable (8)	0.59	0.61	0.96	1.04	1.12
Allowance for loan losses to total loans receivable	1.35	1.40	1.41	1.24	1.07
Allowance for loan losses to non-performing assets (8)	228.50	230.74	142.31	140.97	138.07
Net loan charge-offs (recoveries) to average loans outstanding (9)	0.05	(0.07)	0.10	0.42	0.84

(1) Net income divided by average total assets.
(2) Net income divided by average total equity.
(3) Net interest income divided by average interest-earning assets.
(4) The difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
(5) Non-interest expense (other than real estate owned expenses) divided by the sum of net interest income and non-interest income (other than net security gains and losses and other non-recurring income).
(6) Non-interest expense less real estate owned expenses, divided by average total assets.
(7) Dividends paid to common stockholders as a percentage of net income (loss) available to common stockholders.
(8) Non performing assets consist of non-accrual loans, loans accruing 90 days or more past due, and property acquired in settlement of loans.
(9) Three month period ending June 30, 2003 annualized.

FORWARD-LOOKING STATEMENTS

Statements contained in this Annual Report on Form 10-K which are not historical facts are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995, and may be identified by the use of such words as "believe," "expect," "anticipate," "intend," "should," "could," "planned," "estimated," "potential" and similar terms and phrases. These forward-looking statements consist of estimates with respect to the financial condition, results of operations and business of the Company (as defined below) that are subject to various risks and uncertainties which could cause actual results to differ materially from these estimates due to a number of factors. Factors which could result in material variations include, but are not limited to, the Company's success in implementing its initiatives, including expanding its product line, successfully rebranding its image and achieving greater operating efficiencies; changes in interest rates which could affect net interest margins and net interest income; competitive factors which could affect net interest income and non-interest income; the ability of the Company to originate and purchase loans with attractive terms and acceptable credit quality; the ability of the Company to realize cost efficiencies; and general economic conditions which could affect the volume of loan origination, deposit flows, real estate values, the levels of non-interest income and the amount of loan losses. The Company assumes no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

GENERAL DESCRIPTION OF BUSINESS

Carver Bancorp, Inc.

Carver Bancorp, Inc., a Delaware corporation (on a stand-alone basis, the "Holding Company"), is the holding company for Carver Federal Savings Bank, a federally chartered savings bank, and its subsidiaries (collectively, the "Bank" or "Carver Federal"). Collectively, the Holding Company, the Bank and the Holding Company's other direct and indirect subsidiaries are referred to herein as the "Company" or "Carver." On October 17, 1996, the Bank completed its reorganization into a holding company structure (the "Reorganization") and became a wholly owned subsidiary of the Holding Company. Pursuant to an Agreement and Plan of Reorganization, dated May 21, 1996, each share of the Bank's outstanding common stock was exchanged for one share of common stock of the Holding Company. The Holding Company conducts business as a unitary savings and loan holding company, and the principal business of the Holding Company consists of the operation of its wholly owned subsidiary, the Bank.

The Holding Company's executive offices are located at the home office of the Bank at 75 West 125th Street, New York, New York 10027. The Holding Company's telephone number is (212) 876-4747.

Carver Federal Savings Bank

The Bank was chartered in 1948 and began operations in 1949 as Carver Federal Savings and Loan Association, a federally chartered mutual savings and loan association, at which time the Bank obtained federal deposit insurance and became a member of the Federal Home Loan Bank (the "FHLB") of New York. The Bank converted to a federal savings bank in 1986 and changed its name at that time to Carver Federal Savings Bank. On October 24, 1994, the Bank converted from mutual to stock form and issued 2,314,275 shares of its common stock at a price of $10 per share.

Carver Federal was founded as an African-American operated institution to provide residents of under-served communities with the ability to invest their savings and obtain credit. Carver Federal's principal business consists of attracting deposit accounts through its five branch offices and investing those funds in mortgage loans and other investments permitted to federal savings banks. Based on asset size as of March 31, 2003, Carver Federal is the largest African-American operated financial institution in the United States.

Company Website and Availability of Securities and Exchange Commission Filings

The Company makes available on or through its internet website, www.carverbank.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. Such reports are free of charge and are available as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission.

Management Strategy

The Company's general operating strategy focuses on the origination of commercial, construction, multifamily and, to a lesser extent, secured consumer and business loans and the efficient use of personnel and technological resources. During 1999, the Company reduced its previous emphasis on investing in one- to four-family loans in favor of investing in higher margin business lines, including commercial, construction and multifamily real estate loans. The Company's current operating strategy consists primarily of: (1) the origination of commercial construction and multifamily real estate in the Bank's primary market area; (2) investing funds not utilized for loan originations or purchases in the purchase of United States Government Agency securities, mortgage-backed securities and, to a lesser extent, repurchasing the Company's common stock; (3) expanding its branch network by opening de novo branches and stand-alone ATM centers; (4) generating fee income by attracting and retaining high transaction core deposit accounts; and (5) to continue to lower its expense ratio by efficiently utilizing personnel, branch facilities and alterative delivery channels (telephone banking, internet, and ATMs) to service its customers. The Company plans to generate additional fee income by utilizing third party providers to sell non-deposit investment products and to offer a Carver credit card.

Sarbanes-Oxley Act of 2002

On July 30, 2002, the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") was signed into law. The Sarbanes-Oxley Act imposes new significant responsibilities on publicly held companies, particularly in the area of corporate governance. We have carefully reviewed the Sarbanes-Oxley Act, and are monitoring and responding to the various implementing regulations that have been issued, and continue to be issued, by the Securities Exchange Commission and the American Stock Exchange. We have instituted procedures to address some of the Sarbanes-Oxley Act's specific concerns and will continue to adapt the Company's governance structure to the mandates of the Sarbanes-Oxley Act as interpreted by the regulatory authorities in upcoming periods.

Asset Quality

General. One of the Bank's key operating objectives has been and continues to be to maintain a high level of asset quality. Through a variety of strategies, including, but not limited to, monitoring loan delinquencies, borrower workout arrangements and marketing of foreclosed properties, the Bank has been proactive in addressing problem and non-performing assets which, in turn, has helped to build the strength of the Bank's financial condition. Such strategies, as well as the Bank's concentration on one to four-family and multifamily mortgage lending, the maintenance of sound credit standards for new loan originations and a strong real estate market, have resulted in the Bank maintaining a low level of non-performing assets.

The underlying credit quality of the Bank's loan portfolio is dependent primarily on each borrower's ability to continue to make required loan payments and, in the event a borrower is unable to continue to do so, the value of the collateral should be adequate to secure the loan. A borrower's ability to pay typically is dependent primarily on employment and other sources of income which, in turn, is impacted by general economic conditions, although other factors, such as unanticipated expenditures or changes in the financial markets, may also impact the borrower's ability to pay. Collateral values, particularly real estate values, are also impacted by a variety of factors, including general economic conditions, demographics, maintenance and collection or foreclosure delays.

Non-performing Assets. When a borrower fails to make a payment on a mortgage loan, immediate steps are taken by Carver Federal's sub-servicers to have the delinquency cured and the loan restored to current status. With respect to mortgage loans, once the payment grace period has expired (in most instances 15 days after the due date), a late notice is mailed to the borrower within two business days and a late charge is imposed if applicable. If payment is not promptly received, the borrower is contacted by telephone and efforts are made to formulate an affirmative plan to cure the delinquency. Additional calls are made by the 20th and 25th day of the delinquency. If a mortgage loan becomes 30 days delinquent, a letter is mailed to the borrower requesting payment by a specified date. If a mortgage loan becomes 60 days delinquent, Carver Federal seeks to make personal contact with the borrower and also has the property inspected. If a mortgage becomes 90 days delinquent, a letter is sent to the borrower demanding payment by a certain date and indicating that a foreclosure suit will be filed if the deadline is not met. If payment is still not made, management may pursue foreclosure or other appropriate action.

When a borrower fails to make a payment on a consumer loan, steps are taken by Carver Federal's loan department to have the delinquency cured and the loan restored to current status. With the exception of automobile loans, once the payment grace period has expired (10 days after the due date), a late notice is mailed to the borrower immediately and a late charge is imposed if applicable. If payment is not promptly received, the borrower is contacted by telephone, and efforts are made to formulate an affirmative plan to cure the delinquency. If a consumer loan becomes 30 days delinquent, a letter is mailed to the borrower requesting payment by a specified date. If the loan becomes 60 days delinquent, the account is given to an independent collection agency to follow up with the collection of the account. If the loan becomes 90 days delinquent, a final warning letter is sent to the borrower and any co-borrower. If the loan remains delinquent, it is reviewed for charge-off. The Bank's collection efforts generally continue after the loan is charged off.

The following table sets forth information with respect to Carver Federal's non-performing assets at the dates indicated. Loans generally are placed on non-accrual status when they become 90 days delinquent.

	At March 31,				
	2003	2002	2001	2000	1999
	(Dollars in thousands)				
Loans accounted for on a non-accrual basis (1):					
Real estate:					
One- to four-family	$ 1,113	$ 756	$ 947	$ 966	$ 392
Multifamily	-	253	978	870	1,051
Non-residential	639	1,754	565	-	
Construction	23	23	23	122	560
Consumer and business	27	37	6	168	414
Total non-accrual loans	1,802	2,823	2,519	2,126	2,417
Accruing loans contractually past due 90 days or more:					
Real estate:					
One- to four-family		–	–	–	568
Multifamily		–	–	–	804
Construction	–	–	–		530
Consumer and business	–	–	-	-	183
Total accruing 90-day past due loans	–	–	–		2,085
Total of non-accrual and accruing 90-day past due loans	1,802	2,823	2,519	2,126	4,502
Other non-performing assets (2):					
Real estate:					
One- to four-family	–	–		127	185
Multifamily	–	–	27	27	–
Non-residential	–		449	768	–
Consumer and business		–	–	16	99
Total other non-performing assets		–	476	938	284
Total non-performing assets (3)	$ 1,802	$ 2,823	$ 2,995	$ 3,064	$ 4,786
Non-performing loans to total loans	0.61%	0.96%	0.88%	0.79%	1.66%
Non-performing assets to total assets	0.35%	0.63%	0.71%	0.73%	1.15%

(1) Non-accrual status denotes any loan where the delinquency exceeds 90 days past due and in the opinion of management the collection of additional interest is doubtful. After a careful review of individual loan history and related collateral by management, the loan may be designated as an accruing loan that is contractually past due 90 days or more or if in the opinion of management the collection of additional interest is doubtful the loan will remain in non-accrual status. Payments received on a non-accrual loan are either applied to the outstanding principal balance or recorded as interest income, depending on assessment of the ability to collect on the loan. During the year ended March 31, 2003, gross interest income of $173,000 would have been recorded on loans accounted for on a non-accrual basis at the end of the fiscal year if the loans had been current throughout the year. Instead, there was no interest on such loans included in income during the period.

(2) Other non-performing assets represent property acquired by the Bank in settlement of loans (i.e., through foreclosure or repossession or as an in-substance foreclosure). These assets are recorded at the lower of their fair value or the unpaid principal balance plus unpaid accrued interest of the related loans.

(3) Total non-performing assets consist of non-accrual loans, accruing loans 90 days or more past due and property acquired in settlement of loans.

At March 31, 2003, total non-performing assets decreased by $1.0 million, or 36.2%, to $1.8 million, compared to $2.8 million at March 31, 2002. All non-performing assets at March 31, 2003 and 2002 relate to loans accounted for on a non-accrual basis. The decrease primarily reflects a decrease in non-accruing non-residential and multifamily real estate loans partially offset by an increase in non-accruing one- to four-family real estate loans.

There were no accruing loans contractually past due 90 days or more at March 31, 2003 and March 31, 2002, reflecting the continued practice adopted by the Bank during the fiscal year ended March 31, 2000 to either write off or place on non-accrual status all loans contractually past due 90 days or more.

Asset Classification and Allowances for Losses. Federal regulations and the Bank's policies require the classification of assets on the basis of quality on a regular basis. An asset is classified as "substandard" if it is determined to be inadequately protected by the current net worth and paying capacity of the obligor or the current value of the collateral pledged, if any. An asset is classified as "doubtful" if full collection is highly questionable or improbable. An asset is classified as "loss" if it is considered un-collectible, even if a partial recovery could be expected in the future. The regulations also provide for a "special mention" designation, described as assets that do not currently expose a savings institution to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving management's close attention. Assets classified as substandard or doubtful require a savings institution to establish general allowances for loan losses. If an asset or portion thereof is classified loss, a savings institution must either establish specific allowances for loan losses in the amount of the portion of the asset classified loss or charge off such amount. Federal examiners may disagree with a savings institution's classifications. If a savings institution does not agree with an examiner's classification of an asset, it may appeal this determination to the OTS Regional Director.

At March 31, 2003, Carver Federal had $2.1 million of loans classified as substandard which represented 0.4% of the Bank's total assets and 5.3% of the Bank's tangible regulatory capital at March 31, 2003. There were no loans classified as doubtful or loss at March 31, 2003.

The OTS, in conjunction with the other federal banking agencies, has adopted an interagency policy statement on the allowance for loan losses and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems, that management has analyzed all significant factors that affect the ability to collect the portfolio in a reasonable manner and that management has established acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Although management believes that adequate specific and general loan loss allowances have been established, actual losses are dependent upon future events and, as such, further additions to the level of specific and general loan loss allowances may become necessary. Federal examiners may disagree with the savings institution as to the appropriate level of the institution's allowance for loan losses. While management believes Carver Federal has established its existing loss allowances in accordance with generally accepted accounting principles, there can be no assurance that regulators, in reviewing Carver's assets, will not require Carver Federal to increase its loss allowance, thereby negatively affecting Carver's reported financial condition and results of operations.

Carver Federal's methodology for establishing the allowance for loan losses takes into consideration probable losses that have been identified in connection with specific loans as well as losses that have not been identified but can be expected to occur. Further, management reviews the ratio of allowances to total loans (including projected growth) and recommends adjustments to the level of allowances accordingly. The Internal Asset Quality Review Committee conducts quarterly reviews of the Bank's loans and evaluates the need to establish general and specific allowances on the basis of this review. In addition, management actively monitors Carver Federal's asset quality and charges off loans and properties acquired in settlement of loans against the allowances for losses on loans and such properties when appropriate and provides specific loss reserves when necessary. Although management believes it uses the best information available to make determinations with respect to the allowances for losses, future adjustments may be necessary if economic conditions differ substantially from the economic conditions in the assumptions used in making the initial determinations.

Carver Federal's Internal Asset Quality Review Committee reviews its assets on a quarterly basis to determine whether any assets require classification or re-classification. The Bank has a centralized loan servicing structure that relies upon outside servicers, each of which generates a monthly report of delinquent loans. The Board has designated the Internal Asset Quality Review Committee to perform quarterly reviews of the Bank's asset quality, and their report is submitted to the Board for review. The Asset Liability and Interest Rate Risk Committee establishes policy relating to internal classification of loans and also provides input to the Internal Asset Quality Review Committee in its review of classified assets. In originating loans, Carver Federal recognizes that credit losses will occur and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the security for the loan. It is management's policy to maintain a general allowance for loan losses based on, among other things, regular reviews of delinquencies and loan portfolio quality, character and size, the Bank's and the industry's historical and projected loss experience and current and forecasted economic conditions. In addition, considerable uncertainty exists as to the future improvement or deterioration of the real estate markets in various states, or of their ultimate impact on Carver Federal as a result of its purchased loans in such states. See "Lending Activities–Loan Purchases." Carver Federal increases its allowance for loan losses by charging provisions for possible losses against the Bank's income. General allowances are established by the Board on at least a quarterly basis based on an assessment of risk in the Bank's loans, taking into consideration the composition and quality of the portfolio, delinquency trends, current charge-off and loss experience, the state of the real estate market and economic conditions generally. Specific allowances are provided for individual loans, or portions of loans, when ultimate collection is considered improbable by management based on the current payment status of the loan and the fair value or net realizable value of the security for the loan.

At the date of foreclosure or other repossession or at the date the Bank determines a property is an impaired property, the

Bank transfers the property to real estate acquired in settlement of loans at the lower of cost or fair value, less estimated selling costs. Fair value is defined as the amount in cash or cash-equivalent value of other consideration that a real estate parcel would yield in a current sale between a willing buyer and a willing seller. Any amount of cost in excess of fair value is charged-off against the allowance for loan losses. Carver Federal records an allowance for estimated selling costs of the property immediately after foreclosure. Subsequent to acquisition, the property is periodically evaluated by management and an allowance is established if the estimated fair value of the property, less estimated costs to sell, declines. If, upon ultimate disposition of the property, net sales proceeds exceed the net carrying value of the property, a gain on sale of real estate is recorded. At March 31, 2003, the Bank had no real estate acquired in settlement of loans. See Note 1 of Notes to Consolidated Financial Statements.

The following table sets forth an analysis of Carver Federal's allowance for loan losses for the periods indicated.

	Year Ended March 31,				
	2003	2002	2001	2000	1999
	(Dollars in thousands)				
Balance at beginning of period	$ 4,128	$ 3,551	$ 2,935	$ 4,020	$ 3,138
Loans charged off:					
Real estate:					
One- to four-family	2	–	252	138	–
Non-residential	–	–	194	171	–
Consumer and business	226	500	931	2,260	3,229
Total charge-offs	228	500	1,377	2,569	3,229
Recoveries:					
Construction	–	–	–	–	45
One- to four-family	–	3	–	31	–
Multifamily	–	–	–	40	–
Non-residential	–	–	–	22	–
Consumer and business	258	174	200	292	37
Total recoveries	258	177	200	385	82
Net loans charged off (recovered)	(30)	323	1,177	2,184	3,147
Provision for losses	–	900	1,793	1,099	4,029
Balance at end of period	$ 4,158	$ 4,128	$ 3,551	$ 2,935	$ 4,020
Ratio of net charge-offs to average loans outstanding	-0.01%	0.11%	0.42%	0.84%	1.17%
Ratio of allowance to total loans	1.40%	1.41%	1.24%	1.07%	1.48%
Ratio of allowance to non-performing assets (1)	230.74%	146.23%	118.56%	95.79%	85.60%

(1) Non-performing assets consist of non-accrual loans, accruing loans 90 days or more past due and property acquired in settlement of loans.

The following table allocates the allowance for loan losses by asset category at the dates indicated. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

	At March 31,									
	2003		2002		2001		2000		1999	
	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans
	(Dollars in thousands)									
Loans:										
Real estate										
One- to four-family	$ 298	24.18 %	$ 429	41.28 %	$ 1,198	54.71 %	$ 1,050	55.54 %	$ 957	65.39
Multi-family	656	44.24	1,468	39.86	748	29.00	764	31.40	902	18.89
Non-residential	1,967	26.38	729	13.48	353	12.52	202	8.28	251	8.33
Construction	170	4.46	76	4.60	290	2.46	272	2.33	424	3.98
Consumer and business	344	0.74	377	0.78	962	1.31	647	2.45	1,486	3.41
Unallocated	723	—	1,049	—	—	—	—	—	—	—
Total allowance for loan losses	$ 4,158	100.00 %	$ 4,128	100.00 %	$ 3,551	100.00 %	$ 2,935	100.00 %	$ 4,020	100.00

EXECUTIVE OFFICERS OF THE HOLDING COMPANY

The name, position, term of office as officer and period during which he or she has served as an officer is provided below for each executive officer of the Holding Company as of May 31, 2003. Each of the persons listed below is an executive officer of the Holding Company and the Bank, holding the same office in each.

NAME	AGE	POSITION
Deborah C. Wright	45	President and Chief Executive Officer, Director
Catherine A. Papayiannis	43	Executive Vice President and Chief Operating Officer
James H. Bason	48	Senior Vice President and Chief Lending Officer
Frank Deaton	34	Senior Vice President and Chief Auditor
Linda J. Dunn	47	Senior Vice President, General Counsel and Corporate Secretary
William Gray	48	Senior Vice President and Chief Financial Officer
Brian J. Maher	61	Senior Vice President and Chief Credit Officer
Margaret Peterson	52	Senior Vice President and Chief Administrative Officer
Devon W. Woolcock	37	Senior Vice President and Chief of Retail Banking

Deborah C. Wright is President and Chief Executive Officer and a Director of the Holding Company and Carver Federal. Prior to joining Carver on June 1, 1999, Ms. Wright was President & CEO of the Upper Manhattan Empowerment Zone Development Corporation, a position she held since May 1996. She previously served as Commissioner of the Department of Housing Preservation and Development under Mayor Rudolph W. Giuliani from January 1994 through March 1996. Prior to that appointment, Ms. Wright was a member of the New York City Housing Authority Board. She is a member of the Board of Overseers of Harvard University and serves on the boards of Kraft Foods, Inc., The Lower Manhattan Development Corporation, the Initiative for a Competitive Inner City, The New York City Partnership, Inc. and the Ministers and Missionaries Benefit Board of the American Baptist Churches. Ms. Wright earned A.B., J.D. and M.B.A. degrees from Harvard University.

Catherine A. Papayiannis is Executive Vice President and Chief Operating Officer. She joined Carver in June 2002. Ms. Papayiannis was previously Senior Vice President/Director of Community Banking at Atlantic Bank of New York, where she oversaw the regional retail distribution network, the offsite ATM network, wealth and cash management services, residential and consumer lending and small business banking. Prior to joining Atlantic Bank Ms. Papayiannis was employed by Olympian Bank of Brooklyn where she held numerous roles. Ms. Papayiannis earned a B.B.A. and an M.B.A from Baruch College.

James H. Bason is Senior Vice President and Chief Lending Officer. He joined Carver in March 2003. Previously Mr. Bason was Vice President and Real Estate Loan Officer at The Bank of New York where he had been employed since 1991 when The Bank of New York acquired Barclays Bank (where he had been employed since 1986). At The Bank of New York he was responsible for developing and maintaining relationships with developers, builders, real estate investors and brokers to provide construction and permanent real estate financing. At Barclays, Mr Bason began his career in residential lending and eventually became the banks CRA officer. Mr. Bason earned a B.S. in Business Administration from the State University of New York at Oswego.

Frank Deaton is Senior Vice President and Chief Auditor. He joined Carver in May 2001. Mr. Deaton was previously Vice President and Risk Review Manager with Key Bank in Cleveland, Ohio. He joined Key Bank in 1990 and was responsible for developing the scope and overseeing completion of credit, operational and regulatory compliance audits for a variety of business units. Mr. Deaton is a Certified Bank Auditor and a member of the Institute of Internal Auditors.

Linda J. Dunn is Senior Vice President, General Counsel and Corporate Secretary. She joined Carver in June 2001. Ms. Dunn had been a corporate associate at the law firm Paul, Weiss, Rifkind, Wharton & Garrison since 1994. She was an Assistant Vice President in the Consumer Products Division of Chemical Bank from 1987 to 1991. From 1983 to 1987, she was employed at American/National Can Company where she held various positions from Financial Analyst to Manager of Performance Analysis in the Specialty Food Products Division. Ms. Dunn earned A.B., M.B.A. and J.D. degrees from Harvard University.

William Gray is Senior Vice President and Chief Financial Officer. He joined Carver in February 2002. Mr. Gray had been employed at the Dime Savings Bank of New York since 1992, most recently serving as Vice President/Director of Business Unit

Planning and Support in the Controller's Department where he was responsible for identifying and evaluating strategic initiatives for several businesses. Mr. Gray earned a B.A. in accounting from Adelphi University in 1986.

Brian J. Maher is Senior Vice President and Chief Credit Officer. Mr. Maher joined Carver in September 2002 and was appointed to the newly created Chief Credit Officer position in January 2003. Mr. Maher brings to Carver 30 years of experience in financial services, 20 years in credit and lending, 15 years of which were with Citibank and seven years with Alliance Funding. Mr. Maher earned a B.A. from St. Bonaventure University.

Margaret D. Peterson is Senior Vice President and Chief Human Resources Officer. She joined Carver in October 1999. Ms. Peterson came to Carver from Deutsche Bank where she served as a Compensation Planning Consultant in Corporate Human Resources. Prior to joining Deutsche Bank, she was a Vice President and Senior Human Resources Generalist for Citibank Global Asset Management. In addition to her 13 years in Human Resources, Ms. Peterson has ten years of Systems and Technology experience from various positions held at each of JP Morgan and Chase Manhattan Bank. Ms. Peterson is a member of the Board of Friends of Columbia University's Double Discovery Center. Ms. Peterson earned a Bachelors Degree from Pace University, an M.B.A. from Columbia University as a Citicorp Fellow, and has been designated a Certified Compensation Professional (CCP) by the American Compensation Association and a Senior Professional in Human Resources (SPHR) by the HR Certification Institute.

Devon W. Woolcock is Senior Vice President and Chief of Retail Banking. He is a 12-year veteran of retail banking. He joined Carver in 2000 from Citibank where he was a Division Executive Vice President and where, most recently, he managed six branches in Brooklyn and Queens. He joined Citibank in 1995 where he managed several South Florida branches before moving to New York City. Mr. Woolcock began his career with Barnett Bank in Florida, holding positions including Head Teller, Division Operations Manager and Branch Manager. Mr. Woolcock attended college at the University of Houston and Bethune Cookman College.

Market for Registrant's Common Equity and Related Stockholder Matters.

The Holding Company's common stock is listed on the American Stock Exchange under the symbol "CNY." As of May 31, 2003, there were 2,286,133 shares of the common stock outstanding, held by approximately 1,073 stockholders of record. The following table shows the high and low per share sales prices of the common stock and the dividends declared for the quarters indicated.

	High	Low	Dividend		High	Low	Dividend
Fiscal Year 2003				**Fiscal Year 2002**			
June 30, 2002	$13.10	$ 11.31	$ –	June 30, 2001	$ 9.18	$ 8.60	$ -
September 30, 2002	$12.15	$ 9.83	$ –	September 30, 2001	$ 10.13	$ 8.15	$ –
December 31, 2002	$11.27	$ 9.08	$ 0.05	December 31, 2001	$ 9.80	$ 8.64	$ –
March 31, 2003	$14.54	$ 11.13	$ 0.05	March 31, 2002	$ 11.49	$ 9.60	$ 0.05

On January 9, 2003, the Holding Company's Board of Directors announced the establishment of a quarterly cash dividend in an amount to be determined each quarter. As such, the Board of Directors declared two separate cash dividends of $0.05 per common share for the third and fourth quarters of fiscal 2003. They were paid on or about February 7, 2003 and May 19, 2003, respectively, to common stockholders of record at the close of business on January 20, 2003 and May 5, 2003, respectively. In each of the past five fiscal years other than fiscal 2003 the Company has paid an annual $0.05 per common share cash dividend.

The Bank will not be permitted to pay dividends to the Holding Company on its capital stock if its regulatory capital would be reduced below applicable regulatory capital requirements or if its stockholders' equity would be reduced below the amount required to be maintained for the liquidation account, which was established in connection with the Bank's conversion to stock form. The OTS capital distribution regulations applicable to savings institutions (such as the Bank) that meet their regulatory capital requirements permit, after not less than 30 days prior notice to the OTS, capital distributions during a calendar year that do not exceed the Bank's net income for that year plus its retained net income for the prior two years. For information concerning the Bank's liquidation account, see Note 11 of the Notes to the Consolidated Financial Statements.

Unlike the Bank, the Holding Company is not subject to OTS regulatory restrictions on the payment of dividends to its stockholders, although the source of such dividends will be dependent, in part, upon dividends from the Bank. The Holding Company is subject to the requirements of Delaware law, which generally limit dividends to an amount equal to the excess of the net assets of the Company (the amount by which total assets exceed total liabilities) over its statutory capital, or if there is no such excess, to its net profits for the current and/or immediately preceding fiscal year.

SELECTED FINANCIAL DATA.

	At or for the Fiscal Year Ended March				
	2003	2002	2001	2000	1999
	(Dollars in thousands, except per share				
Selected Financial Condition					
Assets	$ 509,845	$ 450,306	$424,500	$ 420,119	$ 416,483
Loans, net	292,738	289,710	283,437	270,148	270,522
Securities	164,750	105,464	87,788	104,177	96,502
Cash and cash	23,160	34,851	31,758	22,202	21,321
Deposits	347,164	324,954	279,424	281,941	276,999
Borrowed funds	108,996	75,651	105,600	98,578	102,038
Stockholders'	41,073	36,742	32,096	32,641	31,175
Number of Deposit	41,220	41,200	44,751	54,597	58,113
Number of	5	5	5	7	7
Operating Data:					
Interest	27,378	28,254	28,307	27,367	28,473
Interest expense	8,983	12,047	14,278	14,009	14,815
Net interest	18,395	16,207	14,029	13,358	13,658
Provision for loan	-	900	1,793	1,099	4,029
Net interest income after provision for loan	18,395	15,307	12,236	12,259	9,629
Non-interest	3,161	4,485	2,934	2,539	2,382
Non-interest	14,692	14,198	15,461	15,823	17,963
Income (loss) before income	6,864	5,594	(291)	(1,025)	(5,952)
Income tax	3,033	881	98	110	(1,499)
Net income	$ 3,831	$ 4,713	$ (389)	$ (1,135)	$ (4,453)
Diluted earnings (loss) per common	$ 1.52	$ 1.89	$ (0.26)	$ (0.53)	$ (2.02)
Selected Statistical Data:					
Return on average assets	0.83 %	1.11 %	(0.07)%	(0.27)%	(1.05)%
Return on average equity	9.77	13.78	(0.89)	(3.29)	(12.70)
Net interest margin	4.26	4.05	3.61	3.47	3.43
Average interest rate spread	4.08	3.92	3.48	3.38	3.29
Efficiency ratio (3)	68.16	77.89	96.93	104.31	112.02
Operating expense to average assets (3)	3.18	3.33	3.72	3.82	4.22
Equity to total assets at end of	8.06	8.16	7.56	7.77	7.49
Average equity to average	8.48	8.03	7.85	8.33	8.24
Dividend payout ratio	3.19	2.55	(17.24)	(5.17)	(2.60)
Book value	$ 16.26	$ 14.72	$ 13.03	$ 14.28	$ 14.13
Asset Quality					
Non-performing assets to total assets	0.36 %	0.63 %	0.71 %	0.73 %	1.15 %
Non-performing assets to total loans receivable	0.61	0.96	1.04	1.12	1.66
Allowance for loan losses to total loans	1.40	1.41	1.24	1.07	1.48

(1) Net income divided by average total

(2) Net income divided by average total

(3) For fiscal 1999, excluding non-recurring expenses amounting to $7.8 million, the return on average assets, return on equity, operating expenses to average assets and efficiency ratio were 0.24%, 2.85%, 2.98%, and 78.94%,

(4) Net interest income divided by average interest-earning

(5) The difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing

(6) Non-interest expense (other than real estate owned expenses) divided by the sum of net interest income and non-income (other than net security gains and losses and other non-recurring

(7) Non-interest expense less real estate owned expenses, divided by average total

(8) Dividends paid to common stockholders as a percentage of net income (loss) available to common

(9) Non performing assets consist of non-accrual loans, loans accruing 90 days or more past due, and property acquired in settlement

(10) Total stockholders' equity divided by diluted weighted average shares

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements presented elsewhere in this report.

General

Carver's net income is dependent primarily on its net interest income, which is the difference between interest income earned on its loan, investment and mortgage-backed securities portfolios and the interest paid on its interest-bearing liabilities, such as deposits and borrowings. In addition, net income is affected by the level of provision for loan losses, as well as non-interest income and operating expenses.

The operations of Carver are significantly affected by prevailing economic conditions, competition and the monetary and fiscal policies of governmental agencies. Lending activities are influenced by the demand for and supply of housing, competition among lenders, the level of interest rates and the availability of funds. Deposit flow and costs of funds are influenced by prevailing market rates of interest, primarily on competing investments, account maturities, and the levels of personal income and savings.

Asset/Liability Management

Net interest income, the primary component of Carver's net income, is determined by the difference or "spread" between the yield earned on interest-earning assets and the rates paid on its interest-bearing liabilities and the relative amounts of such assets and liabilities. Because Carver's interest-bearing liabilities consist primarily of shorter term deposit accounts, Carver's interest rate spread can be adversely affected by changes in general interest rates if its interest-earning assets are not sufficiently sensitive to changes in interest rates. Management has sought to reduce Carver's exposure to changes in interest rates by more closely matching the effective maturities and repricing periods of its interest-earning assets and interest-bearing liabilities through a variety of strategies, including the origination and purchase of adjustable-rate loans for its portfolio, investment in adjustable-rate mortgage-backed securities and shorter-term investment securities and the sale of all long-term fixed-rate loans originated into the secondary market. The Bank has also reduced interest rate risk through its origination and purchase of primarily adjustable-rate mortgage loans and extension of the term of borrowings.

Discussion of Market Risk—Interest Rate Sensitivity Analysis

As a financial institution, the Bank's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of the Bank's assets and liabilities, and the market value of all interest-earning assets, other than those which possess a short term to maturity. Since all of Carver's interest-bearing liabilities and virtually all of Carver's interest-earning assets are located at the Bank, most of Carver's interest rate risk ("IRR") exposure lies at the Bank level. As a result, all significant IRR management procedures are performed at the Bank level. Based upon the Bank's nature of operations, the Bank is not subject to foreign currency exchange or commodity price risk. The Bank does not own any trading assets.

Carver seeks to manage its IRR by monitoring and controlling the variation in repricing intervals between its assets and liabilities. To a lesser extent, Carver also monitors its interest rate sensitivity by analyzing the estimated changes in market value of its assets and liabilities assuming various interest rate scenarios. As discussed more fully below, there are a variety of factors which influence the repricing characteristics of any given asset or liability.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring an institution's interest rate sensitivity gap. An asset or liability is said to be interest rate sensitive within a specific period if it will mature or reprice within that period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific period of time and the amount of interest-bearing liabilities repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities and is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Generally, during a period of falling interest rates, a negative gap could result in an increase in net interest income, while a positive gap could adversely affect net interest income. Conversely, during a period of rising interest rates a negative gap could adversely affect net interest income, while a positive gap could result in an increase in net interest income. As illustrated below, Carver had a negative one-year gap equal to 6.26% of total rate sensitive assets at March 31, 2003, as a result of which its net interest income could be negatively affected by rising interest rates and positively affected by falling interest rates.

The following table sets forth information regarding the projected maturities, prepayments and repricing of the major rate-sensitive asset and liability categories of Carver as of March 31, 2003. Maturity repricing dates have been projected by applying prepayment rates which management believes are appropriate. The information presented in the following table is derived in part from data incorporated in "Schedule CMR: Consolidated Maturity and Rate," which is part of the Bank's quarterly reports filed with the OTS. The repricing and other assumptions are not necessarily representative of the Bank's actual results. Classifications of items in the table below are different from those presented in other tables and the financial statements and accompanying notes included herein and do not reflect non-performing loans.

Months	Three or Less Months	Four to Twelve Months	Over One Through Three Years	Over Three Through Five Years	Over Five Through Ten Years	Over Ten Years	Total
				(Dollars in thousands)			
Rate Sensitive Assets:							
Loans and Mortgage Backed Securities (1)	$28,823	$82,424	$77,738	$67,665	$46,680	$119,504	$422,83
Federal Funds Sold	5,500	–	–	–	–	–	5,50
Investment Securities	14,011	8,105	16,655	–	–	5,812	44,58
Total interest-earning assets	$48,334	$90,529	$94,393	$67,665	$46,680	$125,316	$472,91
Rate Sensitive Liabilities:							
NOW accounts	$1,287	$884	$1,950	$1,607	$7,159	$5,303	$18,19
Savings Accounts	3,738	7,964	14,711	14,735	30,344	57,443	128,93
Money market accounts	1,565	7,092	2,501	1,775	3,197	4,605	20,73
Certificate of Deposits	27,667	100,001	22,879	12,218	–	–	162,76
Borrowings	11,750	6,500	59,047	28,134	3,565	–	108,99
Total interest-bearing liabilities	$46,007	$122,441	$101,088	$58,469	$44,265	$67,351	$439,62
Interest Sensitivity Gap	$2,327	($31,912)	($6,695)	$9,196	$2,415	$57,965	$33,29
Cumulative Interest Sensitivity Gap	$2,327	($29,585)	($36,280)	($27,084)	($24,669)	$33,296	
Ratio of Cumulative Gap to Total Rate Sensitive assets	0.49%	-6.26%	-7.67%	-5.73%	-5.22%	7.04%	

(1) Includes securities available-for-sale.

The table above assumes that fixed maturity deposits are not withdrawn prior to maturity and that transaction accounts will decay as disclosed in the table above.

Certain shortcomings are inherent in the method of analysis presented in the table above. Although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in the market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as adjustable-rate mortgages, generally have features that restrict changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayments and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. Additionally, an increased credit risk may result as the ability of many borrowers to service their debt may decrease in the event of an interest rate increase. Virtually all of the adjustable-rate loans in Carver's portfolio contain conditions that restrict the periodic change in interest rate.

Net Portfolio Value ("NPV") Analysis. As part of its efforts to maximize net interest income and manage the risks associated with changing interest rates, management uses the NPV methodology.

Under this methodology, IRR exposure is assessed by reviewing the estimated changes in net interest income ("NII") and NPV that would hypothetically occur if interest rates rapidly rise or fall all along the yield curve. Projected values of NII and NPV at both higher and lower regulatory defined rate scenarios are compared to base case values (no change in rates) to determine the sensitivity to changing interest rates.

Presented below, as of March 31, 2003, is an analysis of the Bank's IRR as measured by changes in NPV and NII for instantaneous and sustained parallel shifts of 100 basis points in market interest rates. Such limits have been established with consideration of the impact of various rate changes and the Bank's current capital position. The information set forth below relates solely to the Bank; however, because virtually all of the Company's IRR exposure lies at the Bank level, management believes the table below also accurately reflects an analysis of the Company's IRR.

	Net Portfolio Value			NPV as a % of PV of Assets	
Change in Rate	**$ Amount**	**$ Change**	**% Change**	**NPV Ratio**	**Change**
			(Dollars in thousands)		
+300 bp	66,134	-9,080	-12%	12.69%	-121 bp
+200 bp	70,004	-5,209	-7%	13.24%	- 66 bp
+100 bp	72,874	-2,339	-3%	13.62%	- 28 bp
0 bp	75,213	–	–	13.90%	–
(100) bp	77,241	2,028	3%	14.12%	+ 22bp

	March 31, 2003
Risk Measures: +200 BP Rate Shock	
Pre-Shock NPV Ratio: NPV as % of PV of Assets	13.90%
Post-Shock NPV Ratio	13.24%
Sensitivity Measure; Decline in NPV Ratio	- 66 bp

Certain shortcomings are inherent in the methodology used in the above IRR measurements. Modeling changes in NPV require the making of certain assumptions, which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV table presented assumes that the composition of Carver's interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV table provides an indication of Carver's IRR exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on Carver's net interest income and will differ from actual results.

Average Balance, Interest and Average Yields and Rates

The following table sets forth certain information relating to Carver's average interest-earning assets and average interest-bearing liabilities and reflects the average yield on assets and the average cost of liabilities for the years indicated. Such yields and costs are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods shown. Average balances are derived from average month-end balances, except for federal funds which are derived from daily balances. Management does not believe that the use of average monthly balances instead of average daily balances on all other accounts has caused any material difference in the information presented.

The table also presents information for the years indicated with respect to the difference between the weighted average yield earned on interest-earning assets and the weighted average rate paid on interest-bearing liabilities, or "interest rate spread," which savings institutions have traditionally used as an indicator of profitability. Another indicator of an institution's profitability is its "net interest margin," which is its net interest income divided by the average balance of interest-earning assets. Net interest income is affected by the interest rate spread and by the relative amounts of interest-earning assets and interest-bearing liabilities. When interest-earning assets approximate or exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income.

	At March 31, 2003		Year Ended March 31, 2003		
	Balance	Average Yield	Average Balance	Interest	Yield
	(Dollars in thousands)				
Interest-earning Assets:					
Loans (1)	$ 292,738	7.62%	$282,439	$ 21,182	7.50%
Investment securities (2)	44,212	3.61%	36,660	1,614	4.40%
Mortgage-backed securities	126,813	4.23%	93,002	4,282	4.60%
Federal funds	5,500	3.00%	19,744	300	1.52%
Total interest-earning assets	469,263	6.28%	431,845	27,378	6.34%
Non-interest-earning assets	40,582		30,414		
Total assets	$ 509,845		$462,259		
Interest-bearing Liabilities:					
Deposits:					
Checking	$ 18,190	0.52%	$ 18,138	130	0.72%
Savings and clubs	128,935	1.06%	127,004	1,477	1.16%
Money market accounts	20,735	0.91%	16,747	189	1.13%
Certificates of deposit	162,765	2.15%	155,187	3,964	2.55%
Total deposits	330,625	1.56%	317,076	5,760	1.82%
Borrowed money	108,996	3.38%	80,861	3,223	3.99%
Total deposits and interest-bearing liabilities	439,621	2.01%	397,937	8,983	2.26%
Non-interest-bearing liabilities:					
Checking	16,539		15,234		
Other liabilities	12,612		9,880		
Total liabilities	468,772		423,051		
Stockholders' equity	41,073		39,208		
Total liabilities and stockholders' equity	$ 509,845		$462,259		
Net interest income				$ 18,395	
Average interest rate spread		4.27%			4.08%
Net interest margin		4.36%			4.26%
Ratio of average interest-earning assets to interest-bearing liabilities		106.74%			108.52%

(1) Includes non-accrual loans.
(2) Includes FHLB stock.

	Year Ended March 31,					
	2002			2001		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
	(Dollars in thousands)					
Interest-earning Assets:						
Loans (1)	$ 297,130	$ 22,586	7.60%	$ 278,264	$ 21,398	7.69%
Investment securities (2)	38,505	2,324	6.04%	43,350	2,874	6.63%
Mortgage-backed securities	50,450	2,918	5.78%	48,899	3,012	6.16%
Federal funds	13,662	426	3.12%	18,256	1,023	5.60%
Total interest-earning assets	399,747	28,254	7.07%	388,769	28,307	7.28%
Non-interest-earning assets	26,177			27,127		
Total assets	$ 425,924			$ 415,896		
Interest-bearing Liabilities:						
Deposits:						
Checking	$ 21,114	237	1.12%	$ 15,926	253	1.59%
Savings and clubs	126,065	2,342	1.86%	137,305	3,051	2.22%
Money market accounts	16,181	302	1.87%	17,598	412	2.34%
Certificates of deposit	133,624	5,246	3.93%	94,006	4,740	5.04%
Total deposits	296,984	8,127	2.74%	264,835	8,456	3.19%
Borrowed money	78,153	3,920	5.02%	99,783	5,822	5.84%
Total interest-bearing liabilities	375,137	12,047	3.21%	364,618	14,278	3.92%
Non-interest-bearing liabilities:						
Checking	7,781			11,568		
Other liabilities	8,809			7,072		
Total liabilities	391,727			383,258		
Stockholders' equity	34,197			32,638		
Total liabilities and stockholders' equity	$ 425,924			$ 415,896		
Net interest income		$ 16,207			$ 14,029	
Interest rate spread			3.86%			3.36%
Net interest margin			4.05%			3.61%
Ratio of avg interest-earning assets to interest-bearing liabilities			106.56%			106.62%

(1) Includes non-accrual loans.
(2) Includes FHLB stock.

Rate/Volume Analysis

The following table sets forth information regarding the extent to which changes in interest rates and changes in volume of interest related assets and liabilities have affected Carver Federal's interest income and expense during the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided for changes attributable to (i) changes in volume (changes in volume multiplied by old rate), (ii) changes in rates (change in rate multiplied by old volume), and (iii) changes in rate/volume. Changes in rate/volume variance are allocated proportionately between changes in rate and changes in volume.

	Year Ended March 31,					
	2003 vs. 2002 Increase (Decrease) due to			2002 vs. 2001 Increase (Decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
Interest-earning assets:						
Loans	($1,102)	($302)	($1,404)	$1,434	($246)	$1,188
Investment securities	(81)	(629)	(710)	(292)	(258)	(550)
Mortgage-backed securities	1,959	(595)	1,364	89	(184)	(94)
Federal funds	92	(218)	(126)	(143)	(454)	(597)
Total interest earning assets	868	(1,744)	(876)	1,088	(1,142)	(53)
Interest-bearing liabilities:						
Checking	(21)	(85)	(106)	58	(74)	(16)
Savings and clubs	11	(876)	(865)	(209)	(500)	(709)
Money Market accounts	6	(119)	(113)	(26)	(84)	(110)
Certificates of deposit	551	(1,834)	(1,283)	1,555	(1,049)	506
Total deposits	547	(2,914)	(2,367)	1,378	(1,707)	(329)
Borrowed money	107	(804)	(697)	(1,085)	(817)	(1,902)
Total deposits and interest-bearing liabilities	654	(3,718)	(3,064)	293	(2,524)	(2,231)
Net change in net interest income	$ 214	$ 1,974	$ 2,188	$ 795	$ 1,382	$ 2,178

Comparison of Financial Condition at March 31, 2003 and 2002

At March 31, 2003, total assets increased by $59.5 million, or 13.2%, to $509.8 million, compared to $450.3 million at March 31, 2002. The increase in total assets was primarily attributable to increases in total securities. Total securities at March 31, 2003 increased $60.1 million to $165.6 million from $105.5 million at March 31, 2002, reflecting a $39.2 million increase in available-for-sale securities and a $20.9 million increase in held-to-maturity securities. In November 2002, the Bank transferred $22.8 million of mortgage-backed and other securities from available-for-sale to held-to-maturity. The increase in available-for-sale securities, excluding securities transferred to held-to-maturity, primarily reflects purchases of $91.1 million substantially offset by $28.7 million in principal repayments, maturities and calls and a $686,000 increase in the market value of the portfolio. The increase in held-to-maturity securities reflects securities transferred from available-for-sale of $22.8 million and purchases of $4.1 million offset by principal payments and maturities of $6.6 million. Available-for-sale securities represented 77.9% of the total securities portfolio at March 31, 2003, compared to 85.2% at March 31, 2002.

Loans receivable, net, increased by $3.0 million, or 1.0%, to $292.7 million, compared to $289.7 million one year ago. The loan growth during fiscal 2003 represented loan originations of $59.6 million and loan purchases of $42.3 million, offset by principal repayments of $96.4 million and loans sold to Fannie Mae of $2.5 million. The increase in mortgage loan principal repayments, originations and purchases in fiscal 2003 and fiscal 2002 is primarily a result of the lower interest rate environment during both fiscal years which has increased the level of mortgage refinance activity.

At March 31, 2003, total liabilities increased $55.2 million, or 13.3%, to $468.8 million, compared to $413.6 million at March 31, 2002. Deposits increased $22.2 million, or 6.8%, to $347.2 million at March 31, 2003 from $325.0 million at March 31, 2002. The increase in deposits was primarily attributable to increases of $11.4 million in certificates of deposit, of which $5.0 was an individual government deposit, $5.5 million in money market accounts, $3.1 million in demand accounts and $2.2 million in regular savings and club accounts. Advances from the FHLB-NY and other borrowed money increased $33.3 million, or 44.1%, to $109.0 million at March 31, 2003, from $75.7 million one year ago.

At March 31, 2003, stockholders' equity increased $4.3 million, or 11.8%, to $41.1 million, compared to $36.7 million at March 31, 2002. The increase in stockholders' equity was primarily attributable to net income of $3.8 million, other comprehensive income, net of taxes, of $634,000 and the amortization of the allocated portion of shares held by the Carver Federal Employee Stock Ownership Plan of $152,000. These increases were partially offset by a net increase in treasury stock holdings of $52,000 and dividends declared of $313,000. The Bank's capital levels meet regulatory requirements of a well capitalized financial institution.

Comparison of Operating Results For The Years Ended March 31, 2003 and 2002

Net Income

The Bank reported net income for fiscal 2003 of $3.8 million, compared to $4.7 million for the prior fiscal year. Net income available to common stockholders for fiscal 2003 was $3.6 million, or $1.52 per diluted common share, compared to $4.5 million, or $1.89 per diluted common share, for fiscal 2002. The decrease in net income was primarily due to a $2.2 million increase in federal income taxes, a $1.3 million decrease in non-interest income and a $494,000 increase in non-interest expense partially offset by a $2.2 million improvement in net interest income and a $900,000 decrease in the provision for loan losses.

Interest Income

Interest income for fiscal 2003 was $27.4 million, a decrease of $876,000, or 3.1%, from the prior year. The average balance of interest-earning assets increased to $431.8 million for fiscal 2003 from $399.7 million for the prior year. This increase was more than offset by a decline in the average yield on interest-earning assets to 6.34% for fiscal 2003, compared to 7.07% for fiscal 2002.

Interest income on loans decreased by $1.4 million, or 6.2%, to $21.2 million for fiscal 2003 compared to $22.6 million for fiscal 2002. The decrease in interest income from loans reflects a decrease of $14.7 million, or 4.9%, in the average balance of loans to $282.4 million for fiscal 2003 compared to $297.1 million for fiscal 2002, coupled with a 10 basis point decrease in the average rate earned on loans to 7.50% for fiscal 2003 from 7.60% for the prior year. The decrease in the average balance of loans reflects amortization of prepayments in excess of originations and purchases. The decline in the average rate earned on loans was principally due to the downward pricing on loan products during the continuing declining interest rate environment during fiscal 2003.

Interest income on mortgage-backed securities increased by $1.4 million, or 46.7%, to $4.3 million for fiscal 2003, compared to $2.9 million for the prior year, reflecting an increase of $42.6 million in the average balance of mortgage-backed securities to $93.0 million for fiscal 2003 compared to $50.5 million for fiscal 2002. The increase in the average balance of such securities was due to the utilization of part of the proceeds received from increased borrowings and deposits, coupled with the redeployment of mortgage loan principal repayments, to purchase mortgage-backed securities. This increase was partially offset by a 118 basis point decrease in the average rate earned on mortgage-backed securities to 4.60% from 5.78%.

Interest income on investment securities decreased by approximately $710,000, or 30.6%, to $1.6 million for fiscal 2003, compared to $2.3 million for the prior year. The increase in interest income on investment securities reflects a 164 basis point decrease in the average rate earned on investment securities to 4.40% from 6.04% and a decrease of $1.8 million in the average balance of investment securities to $36.7 million for fiscal 2003 compared to $38.5 million for fiscal 2002.

Interest income on federal funds decreased $126,000, to $300,000 for fiscal 2003, compared to $426,000 for the prior year. The decrease is attributable to a 160 basis point decrease in the average rate earned on federal funds, partially offset by a $6.1 million increase in the average balance of federal funds.

Interest Expense

Interest expense decreased by $3.1 million, or 25.4%, to $9.0 million for fiscal 2003, compared to $12.0 million for the prior year. The decrease in interest expense reflects a decline of 95 basis points in the average cost of interest-bearing liabilities. This decline in average rate paid was partially offset by a $22.8 million increase in the average balance of interest-bearing liabilities to $397.9 million in fiscal 2003 from $375.1 million in fiscal 2002. The increase in the average balance of interest-bearing liabilities in fiscal 2003 compared to fiscal 2002 was due to increases in the average balance of interest-bearing deposits and, to a lesser extent, increases in the average balance of borrowed money.

Interest expense on deposits decreased $2.4 million, or 29.1%, to $5.8 million for fiscal 2003, compared to $8.1 million for the prior year. This decrease is attributable to a 92 basis point decrease in the cost of average deposits partially offset by a $20.1 million, or 6.8%, increase in the average balance of interest-bearing deposits to $317.1 million for fiscal 2003, compared to $297.0 million for fiscal 2002. The increase in the average balance of interest-bearing deposits was primarily due to an increase in the average balance of certificates of deposit of $21.6 million, or 16.1%. The increase in average interest-bearing deposits was achieved through increased retail production brought about by enhanced marketing efforts. The decrease in the average rate paid on deposits was principally due to the declining interest rate environment experienced in fiscal 2003.

Interest expense on borrowed money decreased by $697,000, or 17.8%, to $3.2 million for fiscal 2003, compared to $3.9 million for the prior year. The decrease in interest expense on borrowed money for fiscal 2003 reflects a decrease of 103 basis points in the average cost of borrowed money partially offset by a $2.7 million increase in the average balance of borrowed money. The decrease in average cost of borrowings was due to the continued declining interest rate environment experienced during fiscal 2003.

Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends primarily upon the volume of interest-earning assets and interest-bearing liabilities and the corresponding interest rates earned and paid. Our net interest income is significantly impacted by changes in interest rate and market yield curves. See "Discussion of Market Risk—Interest Rate Sensitivity Analysis" for further discussion on the potential impact of changes in interest rates on our results of operations.

Net interest income before the provision for loan losses increased $2.2 million, or 13.5%, to $18.4 million for fiscal 2003 compared to $16.2 million for the prior year. Net interest income benefited from a general interest rate decline, as well as an increase in deposits. This benefit was partially offset by an increase in borrowed money, a decrease in loan originations and average loan balances and accelerated prepayments of mortgage-backed securities. The 95 basis point decrease in the cost of interest-bearing liabilities used to fund interest-earning assets, coupled with a 73 basis point decrease in the return on average interest-earning assets, contributed to a 22 basis point increase in the interest rate spread to 4.08% for fiscal 2003, compared to 3.86% for the prior year. The net interest margin increased to 4.26% for fiscal 2003, compared to 4.05% for fiscal 2002.

Provision for Loan Losses

For fiscal 2003 there were no provisions recorded for loan losses, compared to $900,000 for fiscal 2002. The Bank records provisions for loan losses, which are charged to earnings, in order to maintain the allowance for loan losses at a level that is considered appropriate to absorb probable losses inherent in the existing loan portfolio. The provision in each period reflects management's evaluation of the adequacy of the allowance for loan losses. Factors considered include the volume and type of lending conducted, the Bank's previous loan loss experience, the known and inherent risks in the loan portfolio, adverse situations that may affect the borrowers' ability to repay, the estimated value of any underlying collateral, trends in the local and national economy and trends in the real estate market. Management believes that the decrease in provisions for loan losses was warranted by the decreases in charge-offs and non-performing assets.

During fiscal 2003, the Bank had net recoveries of approximately $30,000, compared to net charge-offs of $323,000 for fiscal 2002. At March 31, 2003, non-performing loans totaled $1.8 million, or 0.6% of total loans, compared to $2.8 million, or 1.0% of total loans, at March 31, 2002. At March 31, 2003, the Bank's allowance for loan losses was $4.2 million compared to $4.1 million at March 31, 2002, resulting in a ratio of the allowance to non-performing loans of 230.7% at March 31, 2003, compared to 146.2% at March 31, 2002, and a ratio of allowance for possible loan losses to total loans of 1.40% and 1.41% at March 31, 2003 and March 31, 2002, respectively. Management believes the Company's reported allowance for loan loss at March 31, 2003 is both appropriate in the circumstances and adequate to provide for estimated probable losses in the loan portfolio. For further discussion of non-performing loans and allowance for loan losses, see "Business—General Description of Business—Asset Quality" and Note 1 to the Consolidated Financial Statements.

Non-Interest Income

Non-interest income is composed of loan fees and service charges, gains or losses from the sale of securities and certain other items, fee income for banking services and miscellaneous non-interest income. Non-interest income decreased $1.3 million, or 29.5%, to $3.2 million for fiscal 2003, compared to $4.5 million for fiscal 2002. Despite increases in fees and charges for deposits and loans, non-interest income decreased due to the inclusion in fiscal 2002 of $1.4 million relating to the sale of securities, $987,000 relating to the sale of the Bank's East New York branch and the loss $101,000 from the sale of the Bank's automobile loan portfolio.

Excluding the income and loss from sales of securities, loans and deposits, total non-interest income increased by $961,000, or 43.7%, compared to fiscal 2002. Loan fees and service charges amounted to $1.3 million for fiscal 2003, a $655,000, or a 95.5%, increase from the prior year. The increase in loan fees and service charges is primarily attributable to substantially higher mortgage prepayment penalties, primarily resulting from multifamily borrowers prepaying due to the lower interest rate environment, and a restructuring of the Bank's loan fees in the second quarter of fiscal 2003. Depository fees and charges increased $316,000, or 21.1%, to $1.8 million for fiscal 2003 from $1.5 million for fiscal 2002. The increase in depository fees primarily relates to increased ATM fees and the restructuring of the Bank's service charges in the second quarter of fiscal 2003.

Non-Interest Expense

Non-interest expense increased by $494,000, or 3.5%, to $14.7 million for fiscal 2003, compared to $14.2 million for the prior fiscal year. The increase in non-interest expense was primarily attributable to increases of $307,000 in net occupancy and equipment expenses and $269,000 in salaries and employee benefits, slightly offset by a decrease of $82,000 in other non-interest expense. The increase in net occupancy and equipment expenses are related to the opening of the Malcolm X Blvd. branch in September 2001 and the renovation of an existing branch facility which resulted in increases in maintenance contracts, building taxes and water and sewer expense. The increase in salaries and employee benefits was primarily attributable to increased compensation resulting from the Bank being able to successfully fill key management positions including the Chief Operating Officer, Chief Financial Officer, Chief Lending Officer and Chief Credit Officer positions.

Income Tax Expense

Income tax expense was approximately $3.0 million for fiscal 2003, a $2.2 million, or 244.3%, increase from $881,000 for fiscal 2002, reflecting the benefit of the Bank's tax loss carryforward utilized in fiscal 2002 coupled with higher pre-tax income in fiscal 2003. During the fourth quarter of fiscal year 2002, the Bank fully utilized its tax loss carryforward resulting from prior period losses and began to accrue for federal taxes. The effective tax rate in fiscal 2003 was 44.2% compared to 15.7% in fiscal 2002.

Comparison of Operating Results For The Years Ended March 31, 2002 and 2001

Net Income

The Bank reported net income for fiscal 2002 of $4.7 million, compared to a net loss of $389,000 for the same period the prior year. Net income available to common stockholders for fiscal 2002 was $4.5 million, or $1.89 per diluted common share, compared to a loss of $586,000, or $0.26 per diluted common share, for fiscal 2001. The increase in the net income was primarily due to a $2.2 million improvement in net interest income, a gain on the sale of securities of $1.4 million, a $1.2 million reduction in non-interest expense, and a $893,000 decrease in the provision for loan losses, partially offset by a $783,000 increase in income taxes.

Interest Income

Interest income for fiscal 2002 amounted to $28.3 million, a decrease of $53,000, or 0.2%, from the prior year. The decrease in interest income was primarily attributable to a decline in the average yield on interest-earning assets to 7.07% for fiscal 2002, compared to 7.28% for fiscal 2001.

Interest income on loans increased by $1.2 million, or 5.6%, to $22.6 million for fiscal 2002 compared to $21.4 million for fiscal 2001. The increase in interest income from loans reflects an increase of $18.9 million, or 6.8%, in the average balance of loans to $297.1 million for fiscal 2002 compared to $278.3 million for fiscal 2001, partially offset by a nine basis point decrease in the average rate earned on loans to 7.60% for fiscal 2002 from 7.69% for the prior year.

Interest income on mortgage-backed securities decreased by $94,000, or 3.1%, to $2.9 million for fiscal 2002, compared to $3.0 million for the prior year reflecting a 38 basis point decrease in the average rate earned on mortgage-backed securities to 5.78% from 6.16%, partially offset by an increase of $1.6 million in the average balance of mortgage-backed securities to $50.5 million for fiscal 2002, compared to $48.9 million for fiscal 2001.

Interest income on investment securities decreased by approximately $550,000, or 19.1%, to $2.3 million for fiscal 2002, compared to $2.9 million for the prior year, reflecting a decrease of $4.9 million in the average balance of investment securities to $38.5 million for fiscal 2002 compared to $43.4 million for fiscal 2001, coupled with a 59 basis point decrease in the average rate earned on investment securities to 6.04% from 6.63%.

Interest income on federal funds decreased $597,000, to $426,000 for fiscal 2002, compared to $1.0 million for the prior year. The decrease is attributable to a 248 basis point decrease in the average rate earned on federal funds, as well as a $4.6 million decrease in the average balance of federal funds.

Interest Expense

Interest expense decreased by $2.3 million, or 15.6%, to $12.0 million for fiscal 2002, compared to $14.3 million for the prior year. The decrease in interest expense reflects an improvement of 71 basis points in the average cost of interest-bearing liabilities, slightly offset by a $10.5 million increase in the average balance of interest-bearing liabilities.

Interest expense on deposits decreased $329,000, or 3.9%, to $8.1 million for fiscal 2002, compared to $8.5 million for the prior year. This decrease is attributable to a 45 basis point decrease in the cost of average deposits partially offset by a $32.2 million, or 12.2%, increase in the average balance of interest-bearing deposits to $297.0 million for fiscal 2002, compared to $264.8 million for fiscal 2001.

Interest expense on borrowed money decreased by $1.9 million, or 32.7%, to $3.9 million for fiscal 2002, compared to $5.8 million for the prior year. Funds from deposit growth were used to pay down borrowed money. The decrease in interest expense on borrowed money for fiscal 2002 reflects a $21.6 million decline in the average balance of borrowed money coupled with an 82 basis points decrease in the average cost of borrowed money.

Net Interest Income

Net interest income before the provision for loan losses increased $2.2 million, or 15.5%, to $16.2 million for fiscal 2002 compared to $14.0 million for the prior year. Net interest income benefited from a general interest rate decline, a reduction in borrowed money, as well as an increase in deposits, loan originations and average loan balances. This benefit was partially offset by accelerated prepayments of mortgage-backed securities and the sale of lower cost deposits in a non-strategic branch that were replaced by comparatively higher cost certificates of deposit. The 71 basis point decrease in the cost of interest-bearing liabilities used to fund interest-earning assets coupled with a 21 basis point decrease in the return on average interest-earning assets contributed to a 50 basis point increase in the interest rate spread to 3.86% for fiscal 2002, compared to 3.36% for the prior year. The net interest margin increased to 4.05% for fiscal 2002, compared to 3.61% for fiscal 2001.

Provision for Loan Losses

Provision for loan losses decreased by $893,000 or 49.8%, to $900,000, for fiscal 2002, compared to $1.8 million for fiscal 2001. When determining the provision for loan losses, management assesses the risk inherent in its loan portfolio based on information available at such time relating to the volume and type of lending conducted, the Bank's previous loan loss experience, the known and inherent risks in the loan portfolio, adverse situations that may affect the borrowers' ability to repay, the estimated value of any underlying collateral, trends in the local and national economy and trends in the real estate market. The provision for loan losses for fiscal 2002 represents the amount required to maintain the allowance for loan losses at the level required by the Company's policy. During fiscal 2002, the Bank charged-off approximately $323,000 of loans as compared to $1.2 million for fiscal 2001. At March 31, 2002, non-performing loans totaled $2.8 million, or 1.0% of total loans, compared to $2.5 million, or 0.9% of total loans, at March 31, 2001. At March 31, 2002, the Bank's allowance for loan losses was $4.1 million compared to $3.6 million at March 31, 2001, resulting in a ratio of the allowance to non-performing assets of 146.2% at March 31, 2002, compared to 118.6% at March 31, 2001, and a ratio of allowance for possible loan losses to total loans of 1.41% and 1.24% at March 31, 2002 and March 31, 2001, respectively.

Non-Interest Income

Non-interest income is composed of loan fees and service charges, gains or losses from the sale of securities and certain other items, fee income for banking services and miscellaneous non-interest income. Non-interest income increased $1.6 million, or 54.2%, to $4.5 million for fiscal 2002, compared to $2.9 million for fiscal 2001. The increase in non-interest income is primarily due to non-recurring income of $1.4 million relating to the sale of securities and to a lesser extent a $316,000 increase in other non-interest income, partially offset by a $101,000 loss in connection with the sale of the Bank's automobile loan portfolio during fiscal 2002. Excluding non-recurring income from sales of securities, loans and deposits, total non-interest income increased by $305,000, or 16.1%, compared to fiscal 2001.

Non-Interest Expense

Non-interest expense decreased by $1.2 million, or 8.0%, to $14.2 million for fiscal 2002, compared to $15.4 million for the prior fiscal year. The decrease in non-interest expense was primarily attributable to decreases of $1.0 million in other non-interest expenses and $279,000 in net occupancy and equipment expenses, slightly offset by an increase of $61,000 in salaries and employee benefits. The decreases in non-interest expense were attributable in part to cost reductions as a result of branch sales and decreases in professional fees and FDIC deposit insurance costs.

Income Tax Expense

Income tax expense was approximately $881,000 for fiscal 2002, an increase from $98,000 for fiscal 2001, reflecting higher pre-tax income in fiscal 2002 as compared to a pre-tax loss in fiscal 2001. During the fourth quarter of fiscal year 2002, the Bank fully utilized its tax loss carryforward resulting from prior period losses and began to accrue for federal taxes. The effective tax rate in fiscal 2002 was 15.7% as compared to (33.7%) in fiscal 2001.

Liquidity and Capital Resources

Carver Federal's primary sources of funds are deposits, FHLB advances, and proceeds from principal and interest payments on loans and mortgage-backed securities. While maturities and scheduled amortization of loans and investments are predictable sources of funds, deposit flow and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

Congress eliminated the statutory liquidity requirement which required federal savings banks to maintain a minimum amount of liquid assets of between four and ten percent, as determined by the Director of the OTS, the Bank's primary federal regulator. The Bank is required to maintain sufficient liquidity to ensure its safe and sound operation. As a result of the elimination of the liquidity requirement, the Bank manages its liquidity through a Board-approved liquidity policy. At March 31, 2003, the Bank's liquidity ratio was 1.4%. The Bank's most liquid assets are cash and short-term investments. The level of these assets are dependent on the Bank's operating, investing and financing activities during any given period. At March 31, 2003 and 2002, assets qualifying for short-term liquidity, including cash and short-term investments, totaled $45.3 million and $50.0 million, respectively.

The Consolidated Statements of Cash Flows present the change in cash from operating, investing and financing activities. During fiscal 2003, cash and cash equivalents decreased by $11.7 million. Net cash used in operating activities was $1.0 million, representing primarily the results of operations adjusted for depreciation and amortization and the provision for loan losses. Net cash used in investing activities was $65.8 million, which was primarily the result of purchases of loans and securities and originations of loans partially offset by repayments and maturities of loans and securities. Net cash provided by financing activities was $55.1 million, reflecting primarily net increases in deposits and borrowed money.

Regulatory Capital Position

The Bank must satisfy three minimum capital standards established by the OTS. For a description of the OTS capital regulation, see "Regulation and Supervision—Federal Banking Regulation—Capital Requirements."

The Bank presently exceeds all capital requirements as currently promulgated. At March 31, 2003, the Bank had tangible, core, and total risk-based capital ratios of 7.8%, 7.8% and 14.0%, respectively.

The following table reconciles the Bank's stockholders' equity at March 31, 2003 under accounting principles generally accepted in the United States of America to regulatory capital requirements.

		Regulatory Capital Requirements		
	GAAP Capital	Tangible Capital	Leverage Capital	Risk-Based Capital
		(In thousands)		
Stockholders' Equity at March 31, 2003 (1)	$ 40,653	$ 40,653	$ 40,653	$ 40,653
Add:				
General valuation allowances		–		3,885
Deduct:				
Unrealized loss (gain) on securities available-for-sale, net		(750)	(750)	(750)
Excess of cost over net assets acquired		(178)	(178)	(178)
Regulatory Capital		39,725	39,725	43,610
Minimum Capital requirement		7,628	20,341	24,844
Regulatory Capital Excess		$ 32,097	$ 19,384	$ 18,766

(1) Reflects Bank only.

Impact of Inflation and Changing Prices

The financial statements and accompanying notes appearing elsewhere herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of Carver Federal's operations. Unlike most industrial companies, nearly all the assets and liabilities of the Bank are monetary in nature. As a result, interest rates have a greater impact on Carver Federal's performance than do the effects of the general level of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

KPMG

345 Park Avenue
New York, NY 10154

Independent Auditor's Report

To the Board of Directors and Stockholders
Carver Bancorp, Inc.:

We have audited the accompanying consolidated statements of financial condition of Carver Bancorp, Inc. and subsidiaries (the "Company") as of March 31, 2003 and 2002 and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2003 and 2002, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

New York, New York

June 24, 2003

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except share data)

	March 31, 2003	March 31, 2002
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 17,660	$ 13,751
Federal Funds sold	5,500	21,100
Total cash and cash equivalents	23,160	34,851
Securities:		
Available-for-sale, at fair value (including pledged as collateral of $124,954 at March 31, 2003 and $76,720 at March 31, 2002)	129,055	89,821
Held-to-maturity, at amortized cost (including pledged as collateral of $35,138 at March 31, 2003 and $15,549 at March 31, 2002; fair value of $37,543 at March 31, 2003 and $15,716 at March 31, 2002)	36,530	15,643
Total securities	165,585	105,464
Loans receivable:		
Real estate mortgage loans	294,710	291,510
Consumer and commercial business loans	2,186	2,328
Allowance for loan losses	(4,158)	(4,128)
Total loans receivable, net	292,738	289,710
Office properties and equipment, net	10,193	10,251
Federal Home Loan Bank of New York stock, at cost	5,440	3,763
Accrued interest receivable	3,346	2,804
Identifiable intangible asset, net	178	391
Other assets	9,205	3,072
Total assets	$ 509,845	$ 450,306
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 347,164	$ 324,954
Advances from the Federal Home Loan Bank of New York and other borrowed money	108,996	75,651
Other liabilities	12,612	12,959
Total liabilities	468,772	413,564
Stockholders' equity:		
Preferred stock (par value $0.01 per share; 1,000,000 shares authorized; 100,000 issued and outstanding)	1	1
Common stock (par value $0.01 per share: 5,000,000 shares authorized; 2,316,358 shares issued; 2,296,960 and 2,300,896 outstanding at March 31, 2003 and March 31, 2002, respectively)	23	23
Additional paid-in capital	23,781	23,756
Retained earnings	16,712	13,194
Unallocated common stock held by employee stock ownership plan ("ESOP")	--	(152)
Unamortized awards of common stock under management recognition plan ("MRP")	(4)	(58)
Treasury stock, at cost (19,398 shares at March 31, 2003 and 15,489 at March 31, 2002)	(190)	(138)
Accumulated other comprehensive income	750	116
Total stockholders' equity	41,073	36,742
Total liabilities and stockholders' equity	$ 509,845	$ 450,306

See accompanying notes to consolidated financial statements.

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	For the Year Ended March 31,		
	2003	**2002**	**2001**
Interest income:			
Loans	$ 21,182	$ 22,586	$ 21,398
Mortgage-backed securities	4,282	2,918	3,012
Investment securities	1,614	2,324	2,874
Federal funds sold	300	426	1,023
Total interest income	27,378	28,254	28,307
Interest expense:			
Deposits	5,760	8,127	8,456
Advances and other borrowed money	3,223	3,920	5,822
Total interest expense	8,983	12,047	14,278
Net interest income	18,395	16,207	14,029
Provision for loan losses	–	900	1,793
Net interest income after provision for loan losses	18,395	15,307	12,236
Non-interest income:			
Depository fees and charges	1,813	1,497	1,342
Loan fees and service charges	1,341	686	481
Gain on sale of investment securities	–	1,399	–
Income from sale of branches	–	987	1,013
Loss from sale of loans	–	(101)	–
Other	7	17	72
Total non-interest income	3,161	4,485	2,908
Non-interest expense:			
Compensation and benefits	6,774	6,505	6,230
Net occupancy expense	1,261	1,144	1,401
Equipment	1,610	1,420	1,294
Other	5,047	5,129	6,510
Total non-interest expense	14,692	14,198	15,435
Income (loss) before income taxes	6,864	5,594	(291)
Income tax expense	3,033	881	98
Net income (loss)	$ 3,831	$ 4,713	$ (389)
Dividends applicable to preferred stock	$ 197	$ 197	$ 197
Net income (loss) available to common stockholders	$ 3,634	$ 4,516	$ (586)
Earnings (loss) per common share:			
Basic	$ 1.59	$ 1.98	$ (0.26)
Diluted	$ 1.52	$ 1.89	$ (0.26)

See accompanying notes to consolidated financial statements.

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands)

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME	COMMON STOCK ACQUIRED BY ESOP	COMMON STOCK ACQUIRED BY MRP	TOTAL STOCK-HOLDERS' EQUITY
Balance - March 31, 2000	**$ 1**	**$ 23**	**$ 23,789**	**$ 9,480**	**$ -**	**$ -**	**$ (652)**	**$ -**	**$ 32,641**
Comprehensive (loss):									
Net loss	-	-	-	(389)	-	-	-	-	(389)
Comprehensive (loss), net of taxes:									(389)
Dividends paid	-	-	-	(298)	-	-	-	-	(298)
Purchase of treasury stock	-	-	-	-	(61)	-	-	-	(61)
Allocation of ESOP Stock	-	-	(20)	-	-	-	318	-	298
Purchase of shares for MRP	-	-	-	-	-	-	-	(95)	(95)
Balance - March 31, 2001	**1**	**23**	**23,769**	**8,793**	**(61)**	**-**	**(334)**	**(95)**	**32,096**
Comprehensive income:									
Net income	-	-	-	4,713	-	-	-	-	4,713
Change in net unrealized gain on available-for-sale securities, net of taxes	-	-	-	-	-	116	-	-	116
Comprehensive income, net of taxes:									4,829
Dividends paid	-	-	-	(312)	-	-	-	-	(312)
Purchase of treasury stock	-	-	(5)	-	(77)	-	-	-	(82)
Allocation of ESOP Stock	-	-	(8)	-	-	-	182	-	174
Purchase of shares for MRP	-	-	-	-	-	-	-	37	37
Balance - March 31, 2002	**1**	**23**	**23,756**	**13,194**	**(138)**	**116**	**(152)**	**(58)**	**36,742**
Comprehensive income:									
Net income	-	-	-	3,831	-	-	-	-	3,831
Change in net unrealized gain on available-for-sale securities, net of taxes	-	-	-	-	-	634	-	-	634
Comprehensive income, net of taxes:									4,465
Dividends paid	-	-	-	(313)	-	-	-	-	(313)
Treasury stock activity	-	-	5	-	(52)	-	-	-	(47)
Allocation of ESOP Stock	-	-	20	-	-	-	152	-	172
Purchase of shares for MRP	-	-	-	-	-	-	-	54	54
Balance—March 31, 2003	**$ 1**	**$ 23**	**$ 23,781**	**$ 16,712**	**$ (190)**	**$ 750**	**$ -**	**$ (4)**	**$ 41,073**

See accompanying notes to consolidated financial statements.

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended March 31, 2003	2002	2001
Cash flows from operating activities:			
Net income (loss)	$ 3,831	$ 4,713	$ (389)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Provision for loan losses	-	900	1,793
ESOP and MRP expense	206	206	203
Depreciation and amortization expense	1,224	1,155	1,142
Amortization of intangibles	213	213	214
Other accretion and amortization	481	625	(719)
Loss from sale of loans	-	101	-
Gain on sale of branches	-	(987)	(1,013)
Gain on sale of foreclosed real estate	-	(77)	(24)
Impairment of foreclosed real estate	-	-	90
Net gain on sales of available-for-sale securities	-	(1,399)	-
Charge-off of branch improvements and related items, net	-	-	222
Changes in assets and liabilities:			
(Increase) decrease in accrued interest receivable	(542)	(77)	112
(Increase) decrease in other assets	(6,112)	(1,451)	549
(Decrease) increase in other liabilities	(481)	6,185	802
Increase (decrease) in accrued interest payable	134	(606)	(381)
Net cash (used in) provided by operating activities	(1,046)	9,501	2,601
Cash flows from investing activities:			
Purchases of securities:			
Available-for-sale	(91,112)	(134,721)	(166,227)
Held-to-maturity	(4,145)	-	-
Proceeds from principal payments, maturities and calls of securities:			
Available-for-sale	28,705	79,233	172,254
Held-to-maturity	6,578	6,357	11,077
Proceeds from sales of available-for-sale securities	-	32,676	-
Disbursements for loan originations	(59,595)	(63,190)	(30,180)
Loans purchased from third parties	(42,260)	(45,881)	(31,265)
Principal collections on loans	96,432	100,306	46,207
(Purchase) redemption of FHLB stock	(1,677)	1,992	-
Proceeds from loans sold	2,453	1,260	160
Proceeds from sale of other real estate owned	-	553	380
Additions to premises and equipment	(1,166)	(1,172)	(610)
Net cash (used in) provided by investing activities	(65,787)	(22,587)	1,796
Cash flows from financing activities:			
Net increase in deposits	22,210	61,900	19,960
Repayment of securities repurchase agreements	-	(4,930)	(26,407)
Net Proceeds from (repayment of) FHLB advances and other borrowed money	33,345	(25,019)	33,429
Common stock repurchased	(100)	(77)	(61)
Cash paid to fund sale of deposits	-	(15,383)	(21,464)
Dividends paid on Common and Preferred Stocks	(313)	(312)	(298)
Net cash provided by financing activities	55,142	16,179	5,159
Net (decrease) increase in cash and cash equivalents	(11,691)	3,093	9,556
Cash and cash equivalents at beginning of the period	34,851	31,758	22,202
Cash and cash equivalents at end of the period	$ 23,160	$ 34,851	$ 31,758
Supplemental information:			
Noncash Transfers-			
Securities transferred from available-for -sale to held-to-maturity	$ 22,811	$ -	$ -
Securities transferred from held-to-maturity to available-for -sale	-	45,700	-
Change in unrealized gain on valuation of investments available-for-sale, net of taxes	634	116	-
Cash paid for-			
Interest paid	$ 9,616	$ 12,685	$ 13,897
Income taxes paid	3,106	473	238

See accompanying notes to consolidated financial statements

CARVER BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Carver Bancorp, Inc. ("Carver" or the "Holding Company"), was incorporated in May 1996 and its principal wholly owned subsidiary is Carver Federal Savings Bank (the "Bank" or "Carver Federal"). Carver Asset Corporation, CFSB Realty Corp. and CFSB Credit Corp. are wholly owned subsidiaries of the Bank. CFSB Credit Corp. is currently inactive. The Bank was chartered in 1948 and began operations in 1949 as Carver Federal Savings and Loan Association, a federally chartered mutual savings and loan association. The Bank converted to a federal savings bank in 1986 and changed its name at that time. On October 24, 1994, the Bank converted from mutual to stock form and issued 2,314,275 shares of its common stock, par value $0.01 per share. On October 17, 1996, the Bank completed its reorganization into a holding company structure (the "Reorganization") and became a wholly owned subsidiary of the Holding Company. In connection with the Reorganization, each share of the Bank's outstanding common stock was exchanged for one share of the Holding Company's common stock, par value $0.01 per share. See Note 11.

Carver Federal's principal business consists of attracting deposit accounts through its branch offices and investing those funds in mortgage loans and other investments permitted by federal savings banks. The Bank has five branches located throughout the City of New York that primarily serve the communities in which they operate.

Basis of consolidated financial statement presentation

The consolidated financial statements include the accounts of the Holding Company, the Bank, the Bank's wholly owned subsidiaries, Carver Asset Corporation, CFSB Realty Corp. and CFSB Credit Corp., and Alhambra Holding Corp., a subsidiary of the Holding Company which is inactive. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the period then ended. Estimates that are particularly susceptible to significant changes in the near-term relate to prepayment assumptions on mortgage-backed securities, the determination of the allowance for loan losses and the valuation of real estate owned. Actual results could differ significantly from those estimates.

Management believes that prepayment assumptions on mortgage-backed securities are appropriate, the allowance for loan losses is adequate and real estate owned is properly valued. While management uses available information to recognize losses on loans and real estate owned, future additions to the allowance for loan losses or future write downs of real estate owned may be necessary based on changes in economic conditions in the areas where Carver had extended mortgages and other credit instruments.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review Carver's allowance for loan losses and real estate owned valuations. Such agencies may require Carver to recognize additions to the allowance for loan losses or additional write downs of real estate owned based on their judgments about information available to them at the time of their examination.

Cash and cash equivalents

Cash and cash equivalents include cash and amounts due from depository institutions and federal funds sold. Generally, federal funds sold are sold for one-day periods.

Securities

The Bank does not have trading securities, but does differentiate between held-to-maturity securities and available-for-sale securities. When purchased, securities are classified in either the securities held-to-maturity portfolio or the securities available-for-sale portfolio. Securities can be classified as held-to-maturity and carried at amortized cost only if the Bank has a positive intent and ability to hold those securities to maturity. If not classified as held-to-maturity, such securities are classified as securities available-for-sale. Available-for-sale securities are reported at fair value. Unrealized holding gains or losses for securities available-for-sale are to be excluded from earnings and reported net of deferred income taxes as a separate component of accumulated other comprehensive income, a component of Stockholders' Equity.

Securities held-to-maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts using the level-yield method over the remaining period until maturity.

Gains or losses on sales of securities of all classifications are recognized based on the specific identification method.

Loans receivable

Loans receivable are carried at unpaid principal balances plus unamortized premiums, less the allowance for loan losses and deferred loan fees and discounts.

The Bank defers loan origination fees and certain direct loan origination costs and accretes such amounts as an adjustment of yield over the contractual lives of the related loans using methodologies which approximate the interest method. Premiums and discounts on loans purchased are amortized or accreted as an adjustment of yield over the contractual lives of the related loans using methodologies which approximate the interest method.

Loans are generally placed on non-accrual status when they are past due 90 days or more as to contractual obligations or when other circumstances indicate that collection is questionable. When a loan is placed on non-accrual status, any interest accrued but not received is reversed against interest income. Payments received on a non-accrual loan are either applied to the outstanding principal balance or recorded as interest income, depending on an assessment of the ability to collect the loan. A non-accrual loan is restored to accrual status when principal and interest payments become current and its future collectibility is reasonably assured.

Allowance for loan losses

An allowance for loan losses is maintained at a level considered adequate to provide for potential loan losses. Management is responsible for determining the adequacy of the allowance for loan losses and the periodic provisioning for estimated losses included in the consolidated financial statements. The evaluation process is undertaken on a quarterly basis, but may increase in frequency should conditions arise that would require management's prompt attention, such as business combinations and opportunities to dispose of non-performing and marginally performing loans by bulk sale or any development which may indicate an adverse trend.

The methodology employed for assessing the appropriateness of the allowance consists of the following criteria:

- Establishment of reserve amounts for all specifically identified criticized loans, that have been designated as requiring attention by management's internal loan review program, bank regulatory examinations or the external auditors.
- An average loss factor is applied to smaller balance homogenous types of loans not subject to specific review. These loans include residential 1-4 family, multifamily, nonresidential and construction properties, which also includes consumer and business loans.
- An allocation to the remaining loans giving effect to historical loss experience over several years and linked to cyclical trends.

Recognition is also given to the changed risk profile brought about by business combinations, customer knowledge, the results of ongoing credit quality monitoring processes and the cyclical nature of economic and business conditions. An important consideration in applying these methodologies is the concentration of real estate related loans located in the New York metropolitan area.

The initial allocation or specific-allowance methodology commences with loan officers and underwriters grading the quality of their loans on an eight-category risk classification scale. Loans identified from this process as below investment grade are referred to the Internal Asset Quality Review Committee for further analysis and identification of those factors that may ultimately affect the full recovery or collectibility of principal and/or interest. These loans are subject to continuous review and monitoring while they remain in the criticized category. Additionally, the Internal Asset Quality Review Committee is responsible for performing periodic reviews of the loan portfolio that are independent from the identification process employed by loan officers and underwriters. Gradings that fall into criticized categories are further evaluated and reserve amounts are established for each loan.

The second allocation or loss factor approach to common or homogeneous loans is made by applying the average loss factor to the outstanding balances in each loan category.

The final allocation of the allowance is made by applying several years of loss experience to categories of loans. It gives recognition to the loss experience of acquired businesses, business cycle changes and the real estate components of loans. Since many loans depend upon the sufficiency of collateral, any adverse trend in the real estate markets could seriously affect underlying values available to protect against loss.

Other evidence used to support the amount of the allowance and its components are as follows:

- Regulatory examinations
- Amount and trend of criticized loans
- Actual losses
- Peer comparisons with other financial institutions
- Economic data associated with the real estate market in the Company's market area
- Opportunities to dispose of marginally performing loans for cash consideration

Carver Federal maintains a loan review system, which allows for a periodic review of its loan portfolio and the early identification of potential problem loans. Such system takes into consideration, among other things, delinquency status, size of loans, type of collateral and financial condition of the borrowers. Loan loss allowances are established for problem loans based on a review of such information and/or appraisals of the underlying collateral. On the remainder of its loan portfolio, loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of loan portfolio, current economic conditions and management's judgment. Although management believes that adequate loan loss allowances have been established, actual losses are dependent upon future events and, as such, further additions to the level of the loan loss allowance may be necessary in the future.

A loan is considered to be impaired, as defined by Statement of Financial Accounting Standards ("SFAS") No. 114, *"Accounting by Creditors for Impairment of a Loan"* ("SFAS 114"), when it is probable that Carver Federal will be unable to collect all principal and interest amounts due according to the contractual terms of the loan agreement. Carver Federal tests loans covered under SFAS 114 for impairment if they are on nonaccrual status or have been restructured. Consumer credit nonaccrual loans are not tested for impairment because they are included in large groups of smaller-balance homogeneous loans that, by definition along with leases, are excluded from the scope of SFAS 114. Impaired loans are required to be measured based upon the present value of expected future cash flows, discounted at the loan's initial effective interest rate, or at the loan's market price or fair value of the collateral if the loan is collateral dependent. If the loan valuation is less than the recorded value of the loan, an impairment reserve must be established for the difference. The impairment reserve is established by either an allocation of the reserve for credit losses or by a provision for credit losses, depending on various circumstances. Impairment reserves are not needed when credit losses have been recorded so that the recorded investment in an impaired loan is less than the loan valuation.

Concentration of risk

The Bank's principal lending activities are concentrated in loans secured by real estate, a substantial portion of which is located in the State of New York. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio is susceptible to changes in New York's market conditions.

Premises and equipment

Premises and equipment are comprised of land, at cost, and buildings, building improvements, furnishings and equipment and leasehold improvements, at cost, less accumulated depreciation and amortization. Depreciation and amortization charges are computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 to 40 years
Furnishings and equipment	3 to 10 years
Leasehold improvements	The lesser of useful life or remaining term of lease

Significant renewals and betterments are charged to the property and equipment account. Maintenance and repairs are charged to expense in the year incurred.

Real estate owned

Real estate acquired by foreclosure or deed in lieu of foreclosure is recorded at the fair value at the date of acquisition and thereafter carried at the lower of cost or fair value less estimated selling costs. The fair value of such assets is determined based primarily upon independent appraisals and other relevant factors. The amounts ultimately recoverable from real estate owned could differ from the net carrying value of these properties because of economic conditions.

Costs incurred to improve properties or get them ready for sale are capitalized. Revenues and expenses related to the holding and operating of properties are recognized in operations as earned or incurred. Gains or losses on sale of properties are recognized as incurred.

Identifiable Intangible

Carver adopted Statement of Financial Accounting Standards No.142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets" on January 1, 2002. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually.

Identifiable intangible assets relate primarily to core deposit premiums, resulting from the valuation of core deposit intangibles acquired in the purchase of two branch offices. These identifiable intangible assets are amortized using the straight line method over periods not exceeding the estimated average remaining life of the existing customer deposits acquired. Amortization periods range from 5 to 15 years. Amortization periods for intangible assets are monitored to determine if events and circumstances require such periods to be reduced.

Income taxes

Carver accounts for income taxes using the asset and liability method. Temporary differences between the basis of assets and liabilities for financial reporting and tax purposes are measured as of the balance sheet date. Deferred tax liabilities or recognizable deferred tax assets are calculated on such differences, using current statutory rates, which result in future taxable or deductible amounts. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Impairment

The company periodically evaluates long-lived assets, certain indentifiable intangibles, deferred cost and goodwill for indication of impairment in value. There has been no impairment for the past three years. When required, asset impairment will be recorded as an expense in the current period.

Earnings (loss) per common share

Basic earnings per share ("EPS") is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS includes any additional common shares as if all potentially dilutive common shares were issued (e.g. convertible preferred stock). For the purpose of these calculations, unreleased shares of the Carver Federal Savings Bank Employee Stock Ownership Plan ("ESOP") are not considered to be outstanding.

Treasury Stock

Treasury stock is recorded at cost and is presented as a reduction of stockholders' equity.

Pension Plans

In February 1998, the FASB issued SFAS No. 132, *"Employers' Disclosures about Pensions and Other Postretirement Benefits"* ("SFAS 132"). SFAS 132 revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. Carver has made the required disclosures in the accompanying Notes to the Consolidated Financial Statements.

Stock-Based Compensation Plans

Compensation expense is recognized for the Bank's ESOP equal to the fair value of shares committed to be released for allocation to participant accounts. Any difference between the fair value at that time and the ESOP's original acquisition cost is charged or credited to stockholders' equity (additional paid-in capital). The cost of unallocated ESOP shares (shares not yet committed to be released) is reflected as a reduction of stockholders' equity.

The Holding Company accounts for its stock option plan ("Stock Option Plan") in accordance with Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees.* Accordingly, compensation expense is recognized only if the exercise price of the option is less than the fair value of the underlying stock at the grant date. SFAS 123, *"Accounting for Stock-Based Compensation" ("SFAS 123"),* encourages entities to recognize the fair value of all stock-based awards (measured on the grant date) as compensation expense over the vesting period. Alternatively, SFAS 123 allows entities to apply the provisions of APB Opinion No. 25 and provide pro forma disclosures of net income and earnings per share as if the fair-value-based method defined in SFAS 123 had been applied. The Holding Company has elected to apply the provisions of APB Opinion No. 25 and provide these pro forma disclosures.

Carver applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for our stock-based Plan under which there is no charge to earnings for stock option awards and the dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Alternatively, Carver could have accounted for its Stock Option Plan under SFAS 123, under which compensation cost for stock option awards would be calculated and recognized over the service period (generally equal to the vesting period). Had Carver applied SFAS 123 for its Stock Option Plan, net income and earnings per common share would have been to the pro forma amounts indicated below for the years ended March 31:

	2003	2002	2001
	(Dollars in thousands, except per share data)		
Net Gain (loss) available to common shareholders:			
As reported	$3,634	$4,516	($586)
Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(88)	(102)	(173)
Pro forma	$ 3,546	$ 4,414	$ (759)
Basic gain (loss) per share:			
As reported	$1.59	$1.98	($0.26)
Pro forma	1.55	1.94	(0.34)
Diluted gain (loss) per share:			
As reported	$1.52	$1.89	($0.26)
Pro forma	1.48	1.85	(0.34)

The fair value of the option grants was estimated on the date of the grant using the Black-Scholes option pricing model applying the following weighted average assumptions: risk-free interest rates of 5.50%, 5.50% 5.50% 5.00% 4.50 % and 2.50%, for the relevant years 1997, 1999, 2000, 2001, 2002 and 2003, respectively; volatility of 30% for each of the years; expected dividend yield was calculated using annual dividends of $0.05 per share for 1997, 1999, 2001 and 2002,respectively, and $0.20 for 2003; and an expected life of five years for employee option grants and seven years for directors option grants.

The Holding Company's management recognition and retention plan ("MRP") is also accounted for in accordance with Accounting Principles Board Opinion No. 25. The fair value of the shares awarded, measured at the grant date, is recognized as unearned compensation (a deduction from stockholders' equity) and amortized to compensation expense as the shares become vested. When MRP shares become vested, the Company records a credit to additional paid-in capital for tax benefits attributable to any MRP deductions for tax purposes in excess of the grant-date fair value charged to expense for financial reporting purposes.

Reclassifications

Certain amounts in the consolidated financial statements presented for prior periods have been reclassified to conform with the current year presentation.

NOTE 2. SECURITIES

The following is a summary of securities at March 31, 2003:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(Dollars in thousands)		
Available-for-Sale:				
Mortgage-backed securities:				
Pass-through certificates:				
Government National Mortgage Association	$ 47,066	$ 184	$ (130)	$ 47,120
Federal Home Loan Mortgage Corporation	19,614	90	(11)	19,693
Federal National Mortgage Association	23,286	216	(32)	23,470
Total mortgage-backed securities	89,966	490	(173)	90,283
U.S. Government Agency Securities	38,187	585	-	38,772
Total available-for-sale	128,153	1,075	(173)	129,055
Held-to-Maturity:				
Mortgage-backed securities:				
Pass-through certificates:				
Government National Mortgage Association	2,473	157	-	2,630
Federal Home Loan Mortgage Corporation	27,482	682	-	28,164
Federal National Mortgage Association	6,203	177	-	6,380
Small Business Administration	372	-	(3)	369
Total mortgage-backed securities	36,530	1,016	(3)	37,543
Total held-to-maturity	36,530	1,016	(3)	37,543
Total securities	$ 164,683	$ 2,091	$ (176)	$ 166,598

The following is a summary of securities at March 31, 2002:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
Available-for-Sale:				
Mortgage-backed securities:				
Pass-through certificates:				
Government National Mortgage Association	$ 10,531	$ 55	$ (2)	$ 10,584
Federal Home Loan Mortgage Corporation	27,840	416	(7)	28,249
Federal National Mortgage Association	11,435	88	(72)	11,451
Collateralized Mortgage Obligations	136	-	-	136
Total mortgage-backed securities	49,942	559	(81)	50,420
U.S. Government Agency Securities	39,663	1	(263)	39,401
Total available-for-sale	89,605	560	(344)	89,821
Held-to-Maturity:				
Mortgage-backed securities:				
Pass-through certificates:				
Government National Mortgage Association	3,448	24	-	3,472
Federal Home Loan Mortgage Corporation	6,149	23	(53)	6,119
Federal National Mortgage Association	5,607	74	(2)	5,679
Small Business Administration	439	7	-	446
Total mortgage-backed securities	15,643	128	(55)	15,716
Total held-to-maturity	15,643	128	(55)	15,716
Total securities	$ 105,248	$ 688	$ (399)	$ 105,537

The net unrealized gain on available-for-sale securities was $902,000 ($750,000 after taxes) at March 31, 2003 as compared to $216,000 ($116,000 after taxes) at March 31, 2002. On November 30, 2002 the Bank transferred $22.8 million of mortgage-backed securities from available-for-sale to held-to-maturity as a result of management's intention to hold these securities in portfolio until maturity. A related unrealized gain of $464,000 as of March 31, 2003 continues to be reported as a separate component of stockholders' equity and is amortized over the remaining lives of the securities as an adjustment to yield. Changes in unrealized holding gains and losses resulted in an after-tax increase in stockholders' equity of $634,000. These gains and losses will continue to fluctuate based on changes in the portfolio and market conditions.

Sales of available-for-sale securities resulted in gross realized gains during the fiscal year ended March 31, 2002 ("fiscal 2002") of $1.4 million. There were no sales of securities in the fiscal years ended March 31, 2003 ("fiscal 2003") and 2001 ("fiscal 2001").

The following is a summary of the carrying value (amortized cost) and fair value of securities at March 31, 2003, by remaining period to contractual maturity (ignoring earlier call dates, if any). Actual maturities may differ from contractual maturities because certain security issuers have the right to call or prepay their obligations.

	Carrying Value	Fair Value
	(Dollars in thousands)	
Available-for-sale:		
Due in one year or less	$ 22,109	$ 22,117
One through five years	16,190	16,770
Five through ten years	1,813	1,933
After ten years	88,041	88,235
	$ 128,153	$ 129,055
Held-to-maturity:		
Five through ten years	$ 326	$ 345
After ten years	36,204	37,198
	$ 36,530	$ 37,543

NOTE 3. LOANS RECEIVABLE, NET

A summary of loans receivable, net follows:

	March 31,			
	2003		2002	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Real estate loans:				
One- to four-family	$ 71,735	23.66 %	$ 122,814	41.28 %
Multi-family	131,749	43.45	118,589	39.86
Non-residential	79,244	26.13	40,101	13.48
Construction	18,377	6.06	13,678	4.60
Consumer and business	2,125	0.70	2,328	0.78
Total gross loans	303,230	100.00 %	297,510	100.00 %
Add:				
Premium on loans	867		906	
Less:				
Loans in process	(6,838)		(3,936)	
Deferred fees and loan discounts	(363)		(642)	
Allowance for loan losses	(4,158)		(4,128)	
Net loan portfolio	$ 292,738		$ 289,710	

At March 31, 2003, 93.6% of the Company's real estate loans receivable were principally secured by properties located in the State of New York.

The mortgage loan portfolios serviced for the FHLMC and Fannie Mae are not included in the accompanying consolidated financial statements. The unpaid principal balances of these loans aggregated $4.1 million, $2.9 million and $2.1 million at March 31, 2003, 2002 and 2000, respectively. Custodial escrow balances, maintained in connection with the foregoing loan servicing, were approximately $16,000, $28,000 and $34,000 at March 31, 2003, 2002 and 2000, respectively. During the year ended March 31, 2003 the Bank sold $2.5 million in loans with minimal gain recognized, as compared to $1.3 million in loans sold during fiscal 2002 and a loss of $101,000 recognized.

The following is an analysis of the allowance for loan losses:

	Year ended March 31,		
	2003	2002	2001
	(Dollars in thousands)		
Balance at beginning of the year	$ 4,128	$ 3,551	$ 2,935
Provision charged to operations	-	900	1,793
Recoveries of amounts previously charged off	258	177	200
Loans charged-off	(228)	(500)	(1,377)
Balance at ending of the year	$ 4,158	$ 4,128	$ 3,551

Non-accrual loans consist of loans for which the accrual of interest has been discounted as a result of such loans becoming 90 days or more delinquent as to principal and/or interest payments. Interest income on non-accrual loans is recorded when received. Restructured loans consist of loans where borrowers have been granted concessions in regards to the terms of their loans due to financial or other difficulties, which rendered them unable to repay their loans under the original contractual terms.

At March 31, 2003, 2002 and 2001 the recorded investment in impaired loans was $1.8 million, $2.8 million and $2.5 million, respectively all of which represented non-accrual loans. The related allowance for credit losses was approximately $195,000 and $146,000 at March 31, 2003 and 2002, respectively. The impaired loan portfolio is primarily collateral dependent. The average recorded investment in impaired loans during the fiscal years ended March 31, 2003, 2002 and 2001 was approximately $1.8 million, $2.3 million and $3.2 million, respectively. For the fiscal years ended March 31, 2003, 2002 and 2001, the Company did not recognize any interest income on these impaired loans. Interest income of $173,000, $288,000 and $202,000, respectively, for the fiscal years ended March 31, 2003, 2002 and 2001 would have been recorded on impaired loans had they performed in accordance with the original contract.

At March 31, 2003 and 2002, there were no loans to officers.

NOTE 4. PREMISES AND EQUIPMENT, NET

The detail of premises and equipment is as follows:

	March 31,	
	2003	2002
	(Dollars in thousands)	
Land	$ 415	$ 415
Buildings and improvements	8,477	8,074
Leasehold improvements	975	934
Furniture and equipment	5,383	6,992
	15,250	16,415
Less accumulated depreciation and amortization	5,057	6,164
	$ 10,193	$ 10,251

Depreciation and amortization charged to operations for the fiscal years ended March 31, 2003, 2002 and 2001 amounted to $1.2 million, $1.2 million and $1.1 million, respectively.

NOTE 5. ACCRUED INTEREST RECEIVABLE

The detail of accrued interest receivable is as follows:

	March 31, 2003	March 31, 2002
	(Dollars in thousands)	
Loans receivable	$ 1,984	$ 1,735
Mortgage-backed securities	716	517
Investments and other interest bearing assets	646	552
Total accrued interest receivable	$ 3,346	$ 2,804

NOTE 6. IDENTIFIABLE INTANGIBLES

The identifiable intangible asset relates to the acquisition of the Bedford-Stuyvesant branch office. The detail is as follows:

	March 31, 2003			2002		
	(Dollars in thousands)					
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Core deposit premiums	$ 582	$ 410	$ 172	$ 582	$ 205	$ 377
Other	22	16	6	22	8	14
	$ 604	$ 426	$ 178	$ 604	$ 213	$ 391

NOTE 7. DEPOSITS

Deposit balances and weighted average stated interest rates at March 31 are summarized as follows:

	At March 31, 2003			2002		
	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate
	(Dollars in thousands)					
Non-interest -bearing demand	$ 16,539	4.8 %	- %	$ 13,463	4.1 %	- %
NOW accounts	18,190	5.2	0.52	18,095	5.6	1.24
Savings and club	128,935	37.1	1.06	126,779	39.0	1.71
Money market savings account	20,735	6.0	0.91	15,232	4.7	1.78
Certificates	162,765	46.9	2.15	151,385	46.6	2.73
Total	$ 347,164	100.0 %	1.48 %	$ 324,954	100.0 %	2.18 %

The scheduled maturities of certificates of deposits are as follows:

	March 31, 2003	March 31, 2002
	(In thousands)	
Certificates of deposit by remaining term to contractual maturity:		
Within one year	$ 127,668	$ 80,528
After one but within two years	12,492	26,638
After two but within three years	10,387	10,495
After three years	12,218	33,724
Total	$ 162,765	$ 151,385

The aggregate amount of certificates of deposit with minimum denominations of $100,000 or more was approximately $100.1 million at March 31, 2003.

Interest expense on deposits for the years ended March 31 consists of the following:

	2003	2002	2001
		(In thousands)	
Demand	$ 131	$ 237	$ 253
Savings and club	1,477	2,342	3,081
Money market	189	302	412
Certificates of deposit	3,975	5,263	4,739
	5,772	8,144	8,485
Penalty for early withdrawal of certificates of deposit	(12)	(17)	(29)
Total interest expense	$ 5,760	$ 8,127	$ 8,456

NOTE 8. BORROWED MONEY

FHLB Advances. FHLB advances and weighted average interest rates at March 31 are summarized as follows, by remaining period to maturity:

	March 31, 2003		March 31, 2002	
Maturing Year Ended March 31,	Weighted Average Rate	Amount	Weighted Average Rate	Amount
2003	- %	$ -	2.41 %	$ 15,500
2004	1.93	18,250	4.28	3,500
2005	4.05	26,000	4.05	26,000
2006	3.46	32,840	5.29	10,490
2007	4.42	28,134	5.17	19,484
2008	3.49	3,300	-	-
2012	3.50	265	3.50	288
	3.59 %	$ 108,789	4.18 %	$ 75,262

As a member of the FHLB, the Bank may have outstanding FHLB borrowings in a combination of term advances and overnight funds of up to 25% of its total assets, or approximately $126.7 million at March 31, 2003. Borrowings are secured by the Bank's investment in FHLB stock and by a blanket security agreement. This agreement requires the Bank to maintain as collateral certain qualifying assets (principally securities and residential mortgage loans) not otherwise pledged. At March 31, 2003 and 2002, the advances were secured by pledges of the Bank's investment in the capital stock of the FHLB-NY totaling $5.4 million and $3.8 million, respectively and a blanket assignment of the Bank's unpledged qualifying mortgage, mortgage-backed securities and investment portfolios.

Securities Sold Under Agreements to Repurchase. In securities sold under agreements to repurchase, the Bank borrows funds through the transfer of debt securities to the FHLB, as counterparty, and concurrently agrees to repurchase the identical securities at a fixed price on a specified date. Repurchase agreements are collateralized by the securities sold and, in certain cases, by additional margin securities. At March 31, 2003 and 2002 there were no securities sold under agreements to repurchase outstanding.

The following table sets forth certain information regarding Carver's borrowed money at the dates and for the periods indicated:

	At or for the Year Ended March 31,	
	2003	**2002**
	(Dollars in thousands)	
Amounts outstanding at the end of period:		
FHLB advances	$ 108,789	$ 75,262
Weighted average rate paid at period end:		
FHLB advances	3.59%	4.18%
Maximum amount of borrowing outstanding at any month end:		
FHLB advances	$ 108,789	$ 100,094
Repos	–	14,930
Approximate average amounts outstanding for period:		
FHLB advances	$ 80,861	$ 76,141
Repos		2,888
Approximate weighted average rate paid during period:		
FHLB advances	3.99%	5.50%
Repos	– %	5.91%

NOTE 9. INCOME TAXES

The components of income tax expense for the years ended March 31 are as follows:

	2003	2002	2001
		(In thousands)	
Federal income tax expense (benefit):			
Current	$ 4,200	$ 569	-
Deferred	(1,626)	1,792	-
	2,574	2,361	-
State and local income tax expense (benefit):			
Current	1,104	913	98
Deferred	(645)	46	-
	459	959	98
Valuation allowance	-	(2,439)	-
Total provision for income tax expense	$ 3,033	$ 881	$ 98

The reconciliation of the expected federal tax rate to the consolidated effective tax rate for the fiscal years ended March 31 is as follows:

	2003		2002		2001	
	Amount	Percent	Amount	Percent	Amount	Percent
			(Dollars in thousands)			
Statutory Federal income tax	$ 2,334	34.0 %	$ 1,902	34.0 %	$ (99)	34.0 %
State and local income taxes, net of Federal tax benefit	303	4.4	632	11.3	98	(33.6)
Change in valuation allowance	-	-	(2,439)	(43.6)	157	(54.0)
Other	396	5.8	786	14.0	(58)	19.9
Total income tax expense	$ 3,033	44.2 %	$ 881	15.7 %	$ 98	(33.7) %

At March 31, 2001, Carver had net operating loss carryforwards for federal income tax purposes of approximately $5.7 million. These net operating loss carryforwards were fully utilized during fiscal 2002.

Carver's stockholders' equity includes approximately $2.8 million and $4.2 million at March 31, 2003 and 2002, respectively, which has been segregated for federal income tax purposes as a bad debt reserve. The use of this amount for purposes other than to absorb losses on loans may result in taxable income for federal income taxes at the then current tax rate.

The tax effects of existing temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at March 31 of the years indicated as follows:

	2003	2002
	(In thousands)	
Deferred tax assets		
Income from affiliate	$ 2,050	$ -
Allowance for loan losses	1,414	1,235
Deferred loan fees	287	607
Compensation and benefit plans	281	132
Reserves for losses on other assets	22	38
Non-accrual loan interest	194	-
Contributions carryforward	1	95
Total deferred tax assets before valuation allowance	4,249	2,107
Valuation allowance	-	-
Total deferred tax assets	4,249	2,107
Deferred tax liabilities		
Unrealized gain on available-for-sale securities	616	100
Identifiable Intangibles	71	168
Depreciation	283	315
Total deferred tax liabilities	970	583
Net deferred tax assets	$ 3,279	$ 1,524

Management believes it is more likely than not that the results of future operations will generate sufficient future taxable income to realize the deferred tax asset. Therefore, a valuation allowance against the deferred tax assets at March 31, 2003 and 2002 was not considered necessary.

NOTE 10. EARNINGS PER COMMON SHARE

The following table reconciles the earnings (loss) available to common shareholders (numerator) and the weighted average common stock outstanding (denominator) for both basic and diluted earnings per share for the periods presented:

	Year Ended March 31,		
	2003	2002	2001
		(In thousands)	
Net income (loss)	$ 3,831	$ 4,713	$ (389)
Preferred stock dividends	(197)	(197)	(197)
Net income (loss) – basic	3,634	4,516	(586)
Impact of potential conversion of convertible preferred stock to common stock	197	197	197
Net income (loss) – diluted	$ 3,831	$ 4,713	$ (389)
Weighted average common shares outstanding – basic	2,291	2,277	2,256
Effect of dilutive securities convertible preferred stock and options	235	218	208
Weighted average common shares outstanding – diluted	2,526	2,495	2,464

NOTE 11. STOCKHOLDERS' EQUITY

Conversion and Stock Offering. On October 24, 1994, the Bank issued in an initial public offering 2,314,375 shares of common stock (par value $0.01) at a price of $10 per share resulting in net proceeds of $21.5 million. As part of the initial public offering, the Bank established a liquidation account at the time of conversion, in an amount equal to the surplus and reserves of the Bank at September 30, 1994. In the unlikely event of a complete liquidation of the Bank (and only in such event), eligible depositors who continue to maintain accounts shall be entitled to receive a distribution from the liquidation account. The total amount of the liquidation account may be decreased if the balances of eligible deposits decreased as measured on the annual determination dates. The balance of the liquidation account was approximately $2.1 million (unaudited), and $2.5 million (unaudited) at March 31, 2003 and 2002, respectively, based on an assumed decrease of 15.25% of eligible deposits per annum. On October 17, 1996, the Bank completed the Reorganization and became the wholly owned subsidiary of the Holding Company. Pursuant to an Agreement and Plan of Reorganization, dated May 21, 1996, each share of the Bank's outstanding common stock was exchanged for one share of the Holding Company's common stock. In connection with the Reorganization, a shareholder of the Bank exercised appraisal rights and 100 shares of the Bank's common stock were purchased from such shareholder in the fourth fiscal quarter of 1997. Accordingly, 2,314,275 shares of the Holding Company's common stock were outstanding. The Bank is not permitted to pay dividends to the Holding Company on its capital stock if the effect thereof would cause its net worth to be reduced below either: (i) the amount required for the liquidation account or (ii) the amount required for the Bank to comply with applicable minimum regulatory capital requirements.

Convertible Preferred Stock. On January 11, 2000, the Holding Company sold, pursuant to a Securities Purchase Agreement, dated January 11, 2000, in a private placement 40,000 shares of Series A Convertible Preferred Stock (the "Series A Preferred Stock") to Morgan Stanley & Co. Incorporated ("MSDW") and 60,000 Shares of Series B Convertible Preferred Stock (the "Series B Preferred Stock") to Provender Opportunities Fund L.P. ("Provender"). In addition, Carver entered into a Registration Rights Agreement, dated January 11, 2000, with MSDW and Provender. The gross proceeds from the private placement were $2.5 million.

The Series A Preferred Stock and Series B Preferred Stock (collectively the "Preferred Stock") accrue annual dividends at $1.97 per share. Dividends are payable semi-annually on June 15 and December 15 of each year. Each share of Preferred Stock is convertible at the option of the holder, at any time, into 2.08333 shares of Carver's Common Stock, subject to certain antidilution adjustments. The Holding Company may redeem the Preferred Stock beginning January 15, 2004. In the event of any liquidation, dissolution or winding up of Carver, whether voluntary or involuntary, the holders of the shares of Preferred Stock shall be entitled to receive $25 per share of Preferred Stock plus all dividends accrued and unpaid thereon. Each share of Preferred Stock is entitled to one vote for each share of Common Stock into which the Preferred Stock can be converted.

At March 31, 2003 unpaid accrued dividends related to the Preferred Stock amounted to $57,000.

Regulatory Capital. The operations and profitability of the Bank are significantly affected by legislation and the policies of the various regulatory agencies. The Office of Thrift Supervision ("OTS") has promulgated capital requirements for financial institutions consisting of minimum tangible and core capital ratios of 1.5% and 3.0%, respectively, of the institution's adjusted total assets and a minimum risk-based capital ratio of 8.0% of the institution's risk weighted assets. Although the minimum core capital ratio is 3.0%, the Federal Deposit Insurance Corporation Improvement Act, as amended ("FDICIA"), stipulates that an institution with less than 4.0% core capital is deemed undercapitalized. At March 31, 2003 and 2002, the Bank exceeded all of its regulatory capital requirements.

The following is a summary of the Bank's actual capital amounts and ratios as of March 31, 2003 and 2002, compared to the OTS requirements for minimum capital adequacy and for classification as a well-capitalized institution:

	Bank Actual		Minimum Capital Adequacy		Classification as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
March 31, 2003						
Tangible capital	$ 39,725	7.8 %	$ 7,628	1.5 %	N/A	N/A
Leverage capital	39,725	7.8	20,341	4.0	$ 25,426	5.0 %
Risk-based capital:						
Tier I	39,725	12.8	N/A	N/A	18,633	6.0
Total	43,610	14.0	24,844	8.0	31,055	10.0
March 31, 2002						
Tangible capital	$ 36,442	8.1 %	$ 6,744	1.5 %	N/A	N/A
Leverage capital	36,442	8.1	17,984	4.0	$ 22,480	5.0 %
Risk-based capital:						
Tier I	36,442	17.0	N/A	N/A	12,865	6.0
Total	39,140	18.3	17,153	8.0	21,442	10.0

The following table reconciles the Bank's stockholders' equity at March 31, 2003, in accordance with accounting principles generally accepted in the U.S. to regulatory capital requirements:

	Regulatory Capital Requirements			
	GAAP Capital	Tangible Capital	Leverage Capital	Risk-Based Capital
	(In thousands)			
Stockholders' Equity at March 31, 2003 (1)	$ 40,653	$ 40,653	$ 40,653	$ 40,653
Add:				
General valuation allowances		–	–	3,885
Deduct:				
Unrealized loss(gain) on securities available for sale, net		(750)	(750)	(750)
Excess of cost over net assets acquired		(178)	(178)	(178)
Regulatory Capital		39,725	39,725	43,610
Minimum Capital requirement		7,628	20,341	24,844
Regulatory Capital Excess		$ 32,097	$ 19,384	$ 18,766

(1) Reflects Bank only.

Comprehensive Income. Comprehensive income represents net income and certain amounts reported directly in stockholders' equity, such as the net unrealized gain or loss on securities available for sale. The Holding Company has reported its comprehensive income for fiscal 2003, 2002 and 2001 in the consolidated statements of changes in stockholders' equity and comprehensive income. Carver's other comprehensive income or loss (other than net income), which is attributable to unrealized gains and losses on securities available-for-sale, for the year ended March 31, 2003 and 2002 was $750,000 and $116,000, respectively. Included in the March 31, 2003 amount is $464,000 relating to an unrealized gain on available-for-sale securities that were transferred during fiscal 2003 to held-to-maturity. This unrealized gain is an unrealized gain reported as a separate component of stockholders' equity and is amortized over the remaining lives of the securities as an adjustment to yield. There was no other comprehensive income or loss for the year ended March 31, 2001.

NOTE 12. EMPLOYEE BENEFIT AND STOCK COMPENSATION PLANS

Pension Plan. Carver has a non-contributory defined benefit pension plan covering all eligible employees. The benefits are based on each employee's term of service. Carver's policy is to fund the plan with contributions which equal the maximum amount deductible for federal income tax purposes. The plan was curtailed during the fiscal year ended March 31, 2002.

The following table sets forth the plan's changes in benefit obligation, changes in plan assets and funded status and amounts recognized in Carver's consolidated financial statements at March 31:

	2003	2002
	(In thousands)	
Change in projected benefit obligation during the year		
Projected benefit obligation at the beginning of year	$ 2,623	$ 2,527
Interest cost	178	182
Actuarial loss	182	154
Benefits paid	(231)	(240)
Projected benefit obligation at end of year	$ 2,752	$ 2,623
Change in fair value of plan assets during the year		
Fair value of plan assets at beginning of year	$ 3,369	$ 3,594
Actual return on plan assets	(231)	15
Benefits paid	(231)	(240)
Fair value of plan assets at end of year	$ 2,907	$ 3,369
Funded status	$ 155	$ 746
Unrecognized (gain) / loss	93	(600)
Accrued pension cost	$ 248	$ 146

Net periodic pension benefit included the following components for the years ended March 31 are:

	2003	2002	2001
		(In thousands)	
Service cost	$ –	$ –	$ 121
Interest cost	178	182	207
Expected return on plan assets	(260)	(279)	(298)
Amortization of:			
Unrecognized transition obligation	–	–	36
Unrecognized gain	(19)	(56)	(96)
Unrecognized past service liability	–	–	2
Curtailment credit	–	–	(84)
Net periodic pension benefit	$ (101)	$ (153)	$ (112)

Significant actuarial assumptions used in determining plan benefits for the years ended March 31 are:

	2003	2002	2001
Annual salary increase (1)	N/A	N/A	4.75%
Long-term return on assets	8.00%	8.00%	8.00%
Discount rate used in measurement of benefit obligations	6.50%	7.00%	7.25%

(1) The annual salary increase rate is not applicable as the plan is frozen.

Savings Incentive Plan. Carver has a savings incentive plan, pursuant to Section 401(k) of the Code, for all eligible employees of the Bank. Through December 31, 2000, employees had the option to elect to defer up to the lesser of 15% or the maximum amount allowed under law of their compensation and receive a 50% matching contribution from Carver up to the maximum allowed by law. Effective January 1, 2001, the plan was modified. In connection with this modification, Carver will make an annual non-elective contribution to the 401(k) plan on behalf of each eligible employee equal to 2% of the employee's annual pay, subject to IRS limitations. This 2% Carver contribution will be made regardless of whether or not the employee makes a contribution to the 401(k) plan. To be eligible for the 2% Carver contribution, the employee must have completed at least one year of service and be employed as of the last day of the plan year or December 31 of each year. In addition, effective January 1, 2001, Carver matches contributions to the plan equal to 100% of the pre-tax contributions made by each employee up to a maximum of 4% of their pay. All such matching contributions to the plan will be fully vested and non-forfeitable at all times regardless of the years of service. However, the one-year to five-year vesting schedule that previously applied to matching contributions will apply to the new 2% Carver contribution. Total incentive plan expenses for the years ended March 31, 2003, 2002 and 2001 were $127,000, $60,000 and $45,000, respectively.

Directors' Retirement Plan. Concurrent with the conversion to the stock form of ownership, Carver adopted a retirement plan for non-employee directors. The plan was curtailed during the fiscal year ended March 31, 2001. The benefits are payable based on the term of service as a director. The following table sets forth the plan's changes in benefit obligation, changes in plan assets and funded status and amounts recognized in Carver's consolidated financial statements at March 31:

	2003	2002
	(In thousands)	
Change in projected benefit obligation during the year		
Projected benefit obligation at beginning of year	$ 264	$ 296
Interest cost	17	19
Actuarial (gain) / loss	(38)	–
Benefits paid	(43)	(51)
Projected benefit obligation at end of year	$ 200	$ 264
Change in fair value of plan assets during the year		
Employer contributions	$ 43	$ 51
Benefits paid	(43)	(51)
Fair value of plan assets at end of year	$ –	$ –
Funded Status	$ (200)	$ (264)
Contributions	–	–
Unrecognized (gain) / loss	(17)	21
Accrued pension cost	$ (217)	$ (243)

Net periodic pension cost for the years ended March 31, 2003, 2002 and 2001 included the following:

	2003	2002	2001
		(In thousands)	
Service cost	$ –	$ –	$ –
Interest cost	17	19	35
Expected return on plan assets	–	–	–
Amortization of:			
Unrecognized gain	–	–	4
Unrecognized past service liability	–	–	23
Curtailment credit	–	–	(179)
Net periodic pension cost	$ 17	$ 19	$ (117)

The actuarial assumptions used in determining plan benefits include a discount rate of 6.5%, 7.25% and 7.25% for the years ended March 31, 2003, 2002 and 2001, respectively.

Management Recognition Plan. The MRP provides for automatic grants of restricted stock to certain employees as of the September 12, 1995 adoption of the MRP. In addition, the MRP provides for additional discretionary grants of restricted stock to those employees selected by the committee established to administer the MRP. Awards generally vest in three to five equal annual installments commencing on the first anniversary date of the award, provided the recipient is still an employee of the Holding Company or the Bank on such date. Awards will become 100% vested upon termination of service due to death or disability. When shares become vested and are distributed, the recipients will receive an amount equal to any accrued dividends with respect thereto Pursuant to the MRP, the Bank recognized $79,000, $119,000 and $0 as expense for the years ended March 31, 2003, 2002 and 2001, respectively.

Employee Stock Ownership Plan. Effective upon conversion, an ESOP was established for all eligible employees. The ESOP used $1,821,320 in proceeds from a term loan obtained from a third-party institution to purchase 182,132 shares of Bank common stock in the initial public offering. The term loan principal is payable over forty equal quarterly installments through September 2004. Interest on the term loan is payable quarterly, at a rate of 3.00% over the average federal funds rate. On May 20, 2002, the term loan was modified to provide for interest at a fixed rate of 4% per annum. Each year, the Bank intends to make discretionary contributions to the ESOP, which will be equal to principal and interest payments required on the term loan less any dividends received by the ESOP on unallocated shares.

Shares purchased with the loan proceeds were initially pledged as collateral for the term loan and are held in a suspense account for future allocation among the participants on the basis of compensation, as described by the Plan, in the year of allocation.

Accordingly, the ESOP shares pledged as collateral are reported as unearned ESOP shares in the consolidated statements of financial condition. As shares are committed to be released from collateral, the Bank reports compensation expense equal to the current market price of the shares, and the shares become outstanding for net income per common share computations. ESOP compensation expense was $172,000, $174,000 and $298,000 for the years ended March 31, 2003, 2002 and 2001, respectively.

The ESOP shares at March 31 are as follows:

	2003	2002
	(In thousands)	
Allocated shares	163	149
Unreleased shares	19	33
Total ESOP shares	182	182
Fair value of unreleased shares	$261	$374

Stock Option Plan. During 1995, the Holding Company adopted the 1995 Stock Option Plan (the "Plan") to advance the interests of the Bank through providing select key employees and directors of the Bank and its affiliates. The number of shares reserved for issuance under the plan is 338,862. At March 31, 2003, there were 192,176 options outstanding and 106,020 were exercisable. Options are granted at the fair market value of Carver common stock at the time of the grant for a period not to exceed ten years. Under the Plan, as amended, option grants generally vest on an annual basis ratably over either three or five years, commencing after one year of service. In some instances, portions of option grants vest at the time of the grant. All options are exercisable immediately upon a participant's disability, death or a change in control, as defined in the Plan.

Information regarding stock options as of and for the years ended March 31 follows:

	2003		2002		2001	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	134,767	$ 9.10	112,963	$ 9.17	58,463	$ 9.57
Granted	65,142	12.05	59,767	9.86	56,000	8.94
Exercised	(333)	9.93	(2,500)	6.75	–	–
Forfeited	(7,400)	10.14	(35,463)	10.61	(1,500)	16.13
Outstanding, end of year	192,176	$ 10.07	134,767	$ 9.10	112,963	$ 9.17
Exercisable at year end	106,020	–	65,600	–	89,663	–

The following table summarizes information about stock options at March 31, 2003:

Range of Exercise Prices		Options Outstanding			Options Exercisable	
		Shares	Weighted Average Remaining Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$ 8.00	$ 8.99	68,000	7 years	$ 8.24	59,000	$ 8.20
9.00	9.99	48,767	8 years	9.83	27,020	9.85
10.00	10.99	10,000	8 years	10.49	4,000	10.48
11.00	11.99	2,500	10 years	11.28	–	–
12.00	12.99	61,909	9 years	12.08	15,000	12.06
13.00	13.99	1,000	5 years	13.81	1,000	13.81
Total		192,176			106,020	

NOTE 13. COMMITMENTS AND CONTINGENCIES

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 primarily include commitments to extend credit and to sell loans. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of financial condition. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies making commitments as it does for on-balance-sheet instruments.

The Bank has outstanding various loan commitments as follows:

	March 31, 2003	March 31, 2002
	(In thousands)	
Commitments to originate mortgage loans	$ 10,643	$ 14,723
Consumer loans	2,464	2,877
Total	$ 13,107	$ 17,600

At March 31, 2003, of the $10.6 million in outstanding commitments to originate mortgage loans, $2.1 million represented commitments to originate non-residential mortgage loans at fixed rates within a range of 6.75% to 7.25%, $1.7 million represented the balance of all other real estate loans at fixed rates between 4.75% to 7.00% and $6.8 million represented construction loans at an average rate of 5.96%.

At March 31, 2003, undisbursed funds from approved consumer lines of credit, primarily credit cards, totaled $2.5 million. Such lines consist of unsecured and secured lines of credit of $2.2 million and $242,000 respectively. All such lines carry adjustable rates. At March 31, 2003, undisbursed funds from approved unsecured commercial lines of credit totaled $45,000. At March 31, 2003, the Bank maintains one letter of credit in the amount of $1.9 million.

Commitments to extend credit are agreements to lend to a customer as long as 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 some 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 counter-party.

Collateral held consists primarily of residential real estate, but may include income-producing commercial properties.

Rentals, including real estate taxes, under long-term operating leases for certain branch offices aggregated approximately $186,000, $142,000, and $191,000 for the years ended March 31, 2003, 2002 and 2001, respectively. As of March 31, 2003, minimum rental commitments under all noncancellable leases with initial or remaining terms of more than one year and expiring through 2012 are as follows:

Year Ending March 31,	Minimum Rental
	(In Thousands)
2004	218
2005	222
2006	227
2007	144
2008	131
Thereafter	499
	1,441

The Bank also has, in the normal course of business, commitments for services and supplies. Management does not anticipate losses on any of these transactions.

Legal Proceedings. From time to time, Carver Federal is a party to various legal proceedings incident to its business. Certain claims, suits, complaints and investigations involving Carver Federal, arising in the ordinary course of business, have been filed or are pending. The Company is of the opinion, after discussion with legal counsel representing the Bank in these proceedings, that the aggregate liability or loss, if any, arising from the ultimate disposition of these matters would not have a material adverse effect on the Company's consolidated financial position or results of operations. At March 31, 2003, except as set forth below, there were no material legal proceedings to which the Company or its subsidiaries was a party or to which any of their property was subject.

On or about April 29, 1999, plaintiff Reginald St. Rose ("St. Rose") filed suit against Carver Federal in the Supreme Court of the State of New York, County of New York (the "St. Rose Action"). St. Rose is a former Carver Federal employee. On or about January 12, 1999, Carver Federal and St. Rose entered into an agreement (the "Agreement") providing that St. Rose would resign from Carver Federal on the terms and conditions set forth in the Agreement. In the St. Rose Action, St. Rose alleged the following causes of action, which relate to the Agreement and St. Rose's separation from Carver Federal: (1) breach of contract; (2) promissory estoppel; and (3) fraudulent misrepresentation. St. Rose seeks damages in an amount not less than $50,000 with respect to the breach of contract cause of action and seeks undisclosed damages with respect to the promissory estoppel and fraudulent misrepresentation causes of action.

On or about August 18, 1999, Carver Federal moved to dismiss St. Rose's fraudulent misrepresentation cause of action. By decision dated November 23, 1999, the Court granted Carver Federal's motion to dismiss and entered an order embodying that decision on January 26, 2000. Carver Federal has not filed an answer in the St. Rose Action. By written stipulation of the parties, Carver Federal's time to file an answer to St. Rose's complaint has been extended without date. Carver Federal has unasserted counterclaims against St. Rose for, among other claims, payment of certain financial obligations to Carver Federal (including, but not limited to, automobile loans, unsecured loans, lines of credit and credit card debts), which obligations remain outstanding as of the date of this Form 10-K. Since January 2000, the St. Rose Action has been largely inactive. The parties have had intermittent settlement discussions but have not reached an agreement. If the parties do not reach a settlement, Carver Federal intends to continue to defend this Action vigorously.

Carver Federal is also a defendant in an action brought by Ralph Williams (the "Williams Action") and an action brought by Janice Pressley (the "Pressley Action" and, together with the Williams Action, the "Actions") both of which arise out of events concerning the Northeastern Conference Federal Credit Union ("Northeastern"). Plaintiff Williams is a former member of the Board of Directors of Northeastern and plaintiff Pressley is a former treasurer of Northeastern.

Northeastern was a federal credit union and it maintained accounts with Carver Federal and with other banks in the New York metropolitan area. Plaintiffs' complaints (which are virtually identical) allege that the National Credit Union Administration (the "NCUA") acted improperly when it placed Northeastern into conservatorship and subsequent liquidation. On or about November 22, 2000, Williams filed his *pro se* complaint in the United States District Court, District of Columbia against the NCUA, Carver Federal, JPMorgan Chase (formerly Chase Manhattan Bank) ("Chase"), Astoria Federal Savings and Loan Association and Reliance Federal Savings Bank (Carver Federal with the last three defendants, collectively the "Bank Defendants") seeking damages in the amount of $1 million plus certain additional unspecified amounts. On or about November 22, 2000, plaintiff Pressley filed her *pro se* action in the United States District Court, District of Columbia against the same defendants seeking unspecified compensatory and punitive damages. Williams seeks damages for the allegedly "unauthorized" or "invalid" actions of the NCUA Board in taking control of Northeastern as well as damages for discrimination and civil rights violations. Pressley seeks damages based on identical allegations except that she also alleges certain claims of employment discrimination. While the bulk of both complaints relate to the action of the NCUA Board of Directors, the plaintiffs advance two allegations against the Bank Defendants, including Carver Federal. First, plaintiffs allege that the Bank Defendants "collaborated with the NCUA Board of Directors" in violating unspecified constitutional and privacy rights. Second, plaintiffs allege that the Bank Defendants engaged in discrimination.

On or about December 15, 2000, defendant Chase moved to consolidate the Actions. In anticipation of that consolidation, the Bank Defendants filed a joint motion to dismiss both complaints arguing that both Actions are barred by principles of *res judicata* and both complaints fail to state claims on which relief can be granted. The Bank Defendants' motion to dismiss was denied without prejudice insofar as it applied to the Williams Action solely for the reason that it was a motion addressed to both Actions prior to the issuance of an order consolidating these cases. The Bank Defendants have refiled their motion to dismiss the Williams Action and it is *sub judice*. If the motion to dismiss is not granted, Carver Federal intends to defend the Williams Action vigorously. On September 20, 2001, the Court granted the Bank Defendants' motion to dismiss the Pressley Action. Pressley has appealed the dismissal. Carver Federal is vigorously opposing the appeal.

On or about December 28, 2000, plaintiff Thomas L. Clark ("Clark") filed suit against Carver Federal and individual defendants in the Supreme Court of the State of New York, County of New York. Clark is the former President and Chief Executive Officer of Carver Federal. Clark claimed that the defendants should be forced to obtain approval from the OTS to pay severance benefits that Clark believes Carver Federal owes him under an employment agreement. Carver Federal sought injunctive relief and assert claims for breach of contract, equitable estoppel and estoppel by contract. On or about March 30, 2001, Carver Federal and the individual defendants moved to dismiss the complaint in its entirety based on documentary evidence and for failure to state a cause of action. By Decision and Order entered November 27, 2001, the Court granted that motion to the extent of dismissing the first cause of action for breach of contract against all of the individual defendant and dismissing the second cause of action based on estoppel theories as against all the defendants. Carver Federal appealed the Decision and Order insofar as it did not dismiss the complaint in its entirety. On September 26, 2002, the Appellate Division of the Supreme Court reversed the lower court and granted Carver Federals motion in its entirety. Clark did not appeal that decision and his time to do so has expired.

On or about November 2001, Monique Barrow filed an action against Carver Federal in the United States District Court for the Southern District of New York alleging that Carver Federal's termination of her employment constituted a violation of the federal Family and Medical Leave Act, 29 U.S.C. § 2601, *et seq.*, the New York State Human Rights Law, N.Y. Executive §296 *et seq.*, and the New York City Human Rights Law, N.Y.C. Administrative Code § 8-101 *et seq.* Ms. Barrow seeks back pay, front pay and benefits with interest in an amount not less than $5 million, and punitive, liquidated and other compensatory damages in an amount not less than $10 million. Carver Federal has answered the complaint denying any liability. Carver Federal obtained an order providing for expedited discovery on liability issues. Carver Federal has completed its discovery and has requested permission to make a motion for summary judgment. Carver Federal intends to make that motion as soon as permission is received.

NOTE 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. Significant estimations were used by the Bank for the purpose of this disclosure. Estimated fair values have been determined by the Bank using the best available data and estimation methodology suitable for each category of financial instrument. For those loans and deposits with floating interest rates, it is presumed that estimated fair values generally approximate their recorded book balances. The estimation methodologies used and the estimated fair values and carrying values of the Bank's financial instruments are set forth below:

Cash and cash equivalents and accrued interest receivable

The carrying amounts for cash and cash equivalents and accrued interest receivable approximate fair value because they mature in three months or less.

Securities

The fair values for securities available-for-sale, mortgage-backed securities held-to-maturity and investment securities held-to-maturity are based on quoted market or dealer prices, if available. If quoted market or dealer prices are not available, fair value is estimated using quoted market or dealer prices for similar securities.

Loans receivable

The fair value of loans receivable is estimated by discounting future cash flows, using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities of such loans.

Deposits

The fair value of demand, savings and club accounts is equal to the amount payable on demand at the reporting date. The fair value of certificates of deposit is estimated using rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by deposit liabilities compared to the cost of borrowing funds in the market.

Borrowings

The fair values of advances from the Federal Home Loan Bank of New York, securities sold under agreement to repurchase and other borrowed money are estimated using the rates currently available to the Bank for debt with similar terms and remaining maturities.

Commitments

The fair market value of unearned fees associated with financial instruments with off-balance sheet risk at March 31, 2003 approximates the fees received. The fair value is not considered material.

The carrying amounts and estimated fair values of the Bank's financial instruments at March 31, 2003 and 2002 are as follows:

	At March 31,			
	2003		2002	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$ 23,160	$ 23,160	$ 34,851	$ 34,851
Investment securities available-for-sale	$ 38,187	$ 38,772	$ 39,663	$ 39,401
Mortgage backed securities held-to-maturity	$ 36,530	$ 37,543	$ 15,643	$ 15,716
Mortgage backed securities available-for-sale	$ 89,966	$ 90,283	$ 49,942	$ 50,420
Loans receivable	$ 292,738	$ 316,073	$ 289,114	$ 300,251
Accrued interest receivable	$ 3,346	$ 3,346	$ 2,804	$ 2,804
Financial Liabilities:				
Deposits	$ 347,164	$ 349,317	$ 324,954	$ 324,982
Advances from FHLB of New York	$ 108,789	$ 112,443	$ 75,262	$ 74,375
Other borrowed money	$ 207	$ 215	$ 389	$ 384

Limitations

The fair value estimates are made at a discrete point in time based on relevant market information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no quoted market value exists for a significant portion of the Bank'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.

In addition, the fair value estimates are based on existing off balance sheet financial instruments without attempting to value anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial assets and liabilities include premises and equipment and advances from borrowers for taxes and insurance. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Finally, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates which must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies introduces a greater degree of subjectivity to these estimated fair values.

NOTE 15. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of unaudited quarterly financial data for the fiscal years ended March 31, 2003 and 2002:

	Three Months Ended			
	June 30	September 30	December 31	March 31
	(In thousands, except per share data)			
Fiscal 2003				
Interest income	$ 6,730	$ 6,746	$ 6,777	$ 7,125
Interest expense	(2,338)	(2,210)	(2,219)	(2,216)
Net interest income	4,392	4,536	4,558	4,909
Provision for loan losses	-	-	-	-
Non-interest income	952	716	751	742
Non-interest expense	(3,755)	(3,520)	(3,555)	(3,862)
Income tax expense	(714)	(797)	(807)	(715)
Net income	$ 875	$ 935	$ 947	$ 1,074
Earnings per common share				
Basic	0.36	0.39	0.39	0.45
Diluted	0.35	0.37	0.38	0.42
Fiscal 2002				
Interest income	$ 7,049	$ 7,024	$ 7,162	$ 7,020
Interest expense	(3,387)	(3,233)	(2,959)	(2,469)
Net interest income	3,662	3,791	4,203	4,551
Provision for loan losses	(225)	(225)	(225)	(225)
Non-interest income	1,420	476	1,976	613
Non-interest expense	(3,419)	(3,438)	(3,836)	(3,505)
Income tax expense	(273)	(115)	(402)	(91)
Net income	$ 1,165	$ 489	$ 1,716	$ 1,343
Earnings per common share				
Basic	0.49	0.19	0.73	0.57
Diluted	0.47	0.19	0.69	0.53

NOTE 16. CARVER BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF FINANCIAL CONDITION

	AS OF MARCH 31,	
	2003	2002
	(Dollars in thousands)	
ASSETS		
Cash on deposit with the Bank	$ 87	$ 439
Investment in the Bank	41,055	37,567
Total assets	$ 41,142	$ 38,006
LIABILITIES		
Accounts payable to the Bank	$ 1	$ 14
Other liabilities	68	1,250
Total liabilities	69	1,264
Stockholders' equity	41,073	36,742
Total liabilities and stockholders' equity	$ 41,142	$ 38,006

CONDENSED STATEMENTS OF OPERATIONS

	YEAR ENDED MARCH 31,		
	2003	2002	2001
	(Dollars in thousands)		
INCOME			
Equity in net income from the Bank	$ 7,320	$ 6,247	$ 624
Interest income from deposit with the Bank	6	33	48
Total income	7,326	6,280	672
EXPENSES			
Salaries and employee benefits	52	82	64
Legal expense	102	236	233
Shareholder expense	248	296	510
Other	60	72	156
Total expense	462	686	963
Income (loss) before income taxes	6,864	5,594	(291)
Income tax expense	3,033	881	98
Net income (loss)	$ 3,831	$ 4,713	$ (389)

CONDENSED STATEMENTS OF CASH FLOWS

	YEAR ENDED MARCH 31,		
	2003	**2002**	**2001**
	(Dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 3,831	$ 4,713	$ (389)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Equity in net (income) of the Bank	(7,320)	(6,247)	(624)
Income taxes from the Bank	3,033	-	-
Decrease in accounts receivable	-	-	3
Decrease in promissory note receivable	-	-	50
(Decrease) increase in accounts payable to Bank	(13)	(104)	45
(Decrease) increase in other liabilities	(1,182)	976	(802)
Allocation of ESOP Stock and MRP activity	-	206	203
Other, net	1,664	(844)	(203)
Net cash provided by (used in) operating activities	13	(1,300)	(1,717)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the disposition of Alhambra Building	-	-	2,136
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of treasury stock, net	(52)	(77)	(61)
Dividends paid	(313)	(312)	(298)
Net cash used in financing activities	(365)	(389)	(359)
Net (decrease) increase in cash	(352)	(1,689)	60
Cash and cash equivalents – beginning	439	2,128	2,068
Cash and cash equivalents - ending	$ 87	$ 439	$ 2,128

NOTE 17. RECENT ACCOUNTING PRONOUNCEMENTS

GUARANTOR'S ACCOUNTING AND DISCLOSURE REQUIREMENTS FOR GUARANTEES, INCLUDING INDIRECT GUARANTEES OF INDEBTNESS OF OTHERS

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 45, "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtness of Others*" ("FIN 45"), which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. FIN 45 also requires the recognition of a liability by a guarantor at the inception of certain guarantees.

FIN 45 requires the guarantor to recognize a liability for the non-contingent component of the guarantee; this is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements.

The Company will adopt the disclosure requirements of FIN 45 and will apply the recognition and measurement provisions for all guarantees entered into or modified after March 31, 2003. As of March 31, 2003 the Company maintains one letter of credit in the amount of $1.9 million and therefore management does not anticipate that the adoption of this interpretation will have a significant effect on the Company's earnings or financial position.

ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS

In October 2001, the FASB issued Statement No. 144 (SFAS No. 144), *"Accounting for the Impairment or Disposal of Long-Lived Assets."* SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in that Opinion). This statement also amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary.

SFAS No. 144 improves financial reporting by requiring that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and by broadening the presentation of discontinued operations to include more disposal transactions. Carver Federal adopted SFAS No. 144 on January 1, 2002. The adoption of SFAS No. 144 was not material to Carver Federal's financial condition or results of operations.

ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES

In June 2002, the FASB issued SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities."* The Statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by this standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing or other exit or disposal activity. Previous accounting guidance was provided by Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 replaces EITF Issue No. 94-3. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

ACCOUNTING FOR STOCK-BASED COMPENSATION – TRANSITION AND DISCLOSURE

In December 2002, the FASB issued Statement No. 148 (SFAS No. 148), *"Accounting for Stock-Based Compensation — Transition and Disclosure"* — an amendment of FASB Statement No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation". SFAS No. 148 amends SFAS No.123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

SFAS No. 148 requires disclosure of comparable information for all companies regardless of whether, when, or how an entity adopts the fair value based method of accounting. This statement improves the prominence and clarity of the pro forma disclosures required by SFAS No. 123 by prescribing a specific tabular format and by requiring disclosure in the "Summary of

Significant Accounting Policies" or its equivalent. In addition, this statement improves the timeliness of those disclosures by requiring their inclusion in financial reports for interim periods.

The annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. Carver Federal adopted the annual disclosure provisions of SFAS No. 148 on December 31, 2002. Prior year disclosures have been amended in the accompanying financial statement footnotes to conform with the new disclosure requirements.

ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY

On May 15, 2003 the FASB issued Statement No. 150, *"Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity"*. The statement requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding financial instruments that embody obligations for the issuer.

Generally, the statement is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. Carver Federal will adopt the provisions of the statement on July 1, 2003.

CORPORATE INFORMATION

Board of Directors

Frederick O. Terrell
Chairman, Carver Bancorp, Inc.
Managing Partner and
Chief Executive Officer
Provender Capital Group, LLC

Deborah C. Wright
President and Chief Executive Officer
Carver Bancorp, Inc.

Carol Baldwin Moody
Managing Director
TCW/Latin America Partners, L.L.C.

David L. Hinds
Former Managing Director
Deutsche Bank

Robert Holland, Jr.
Former Chairman and
Chief Executive Officer
Workplace Integrators

Pazel G. Jackson, Jr.
Former Senior Vice President
Chase Manhattan Bank

Edward B. Ruggiero
Vice President, Corporate Finance
AOL Time Warner

Strauss Zelnick
Founder
Zelnick Media LLC

Executive Officers

Catherine A. Papayiannis
Executive Vice President and
Chief Operating Officer

James Bason
Senior Vice President and
Chief Lending Officer

Frank Deaton
Senior Vice President and Chief Auditor

Linda J. Dunn
Senior Vice President, General Counsel
and Secretary

William Gray
Senior Vice President and
Chief Financial Officer

Brian J. Maher
Senior Vice President and
Chief Credit Officer

Margaret D. Peterson
Senior Vice President and
Chief Human Resources Officer

Devon Woolcock
Senior Vice President and
Chief of Retail Banking

Offices

75 West 125th Street
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Brooklyn, NY

1281 Fulton Street
Brooklyn, NY

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St. Albans, NY

General Information

INDEPENDENT AUDITORS
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757 Third Avenue
New York, NY 10017

EXTERNAL COUNSEL
Thacher Proffitt & Wood
11 West 42nd Street
New York, NY 10036

TRANSFER AGENT
American Stock Transfer serves as Transfer Agent and Registrar. Stockholders wishing to change the name, address or ownership of stock, to report lost certificates or to consolidate accounts should contact:

American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10038
Stockholders Services: 1-800-937-5449
(NY Stockholders: 212-936-5100)

ANNUAL MEETING
The 2003 Annual Meeting of Stockholders will be held on September 22, 2003 at 10:00 a.m. at The Studio Museum in Harlem, 144 West 125th Street, New York, NY 10027.

ANNUAL REPORT ON FORM 10-K
The Company has filed an annual report on Form 10-K for its fiscal year ended March 31, 2003 with the SEC. Stockholders and other interested parties may obtain, free of charge, a copy of such annual report (excluding exhibits) and additional information by writing to William Gray, Senior Vice President and Chief Financial Officer, Carver Bancorp, Inc., 75 West 125th Street, New York, NY 10027, or telephoning (212) 876-4747 ext. 163.

CREDITS
Thanks to: *Patane Press, Inc.*

ABOUT THE COVER
Carver's new logo was designed by Blur Advertising, Inc. It is the image of two "C"s connected at their respective centers. This depiction represents the inextricable link between Carver and the communities it serves. The logo is a modern treatment of the ancient African symbol for unity and symbolizes the evolution of Carver.

CARVER BANCORP, INC.

Corporate Headquarters:
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New York, NY 10027

Please visit our website at: **www.carverbank.com**